
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in China Fortune Financial Group Limited (the “Company”), you should at once hand this circular accompanying with the form of proxy to the purchaser or transferee, or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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China Fortune Financial Group Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 290)

Website: <http://www.290.com.hk>

**(1) AMENDED PROPOSAL FOR SUBSCRIPTION
OF CONVERTIBLE BONDS
UNDER SPECIFIC MANDATE
AND CONNECTED TRANSACTION,
(2) PROPOSED CAPITAL REORGANISATION
AND
(3) NOTICE OF EXTRAORDINARY GENERAL MEETING**

Financial adviser to the Company



Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders



A notice convening the EGM of the Company to be held at 35th Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wan Chai, Hong Kong, on Thursday, 5 January 2017 at 11:30 a.m. is set out on pages EGM-1 to EGM-5 of this circular.

A letter from the Board is set out on pages 9 to 44 of this circular.

A letter from the Independent Board Committee to the Independent Shareholders containing its recommendation in respect of the Cinda Subscription Agreement, the Subscription Agreement (as amended and supplemented by the Supplemental Agreement) and the Riverhead Subscription Agreement is set out on pages 45 to 46 of this circular.

A letter from First Shanghai containing its advice to the Independent Board Committee and the Independent Shareholders in respect of the Cinda Subscription Agreement, the Subscription Agreement (as amended and supplemented by the Supplemental Agreement) and the Riverhead Subscription Agreement is set out on pages 47 to 87 of this circular.

Whether or not you intend to attend and vote in person at the EGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar and transfer office in Hong Kong, Union Registrars Limited at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong as soon as practicable but in any event not later than 48 hours before the time appointed for holding the EGM 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 EGM or any adjournment thereof (as the case may be) should you so wish and in such event, the instrument appointing a proxy shall be deemed to be revoked.

13 December 2016

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EXPECTED TIMETABLE

Set out below is the expected timetable for the Capital Reorganisation which is indicative only:

Event **2016**

Despatch of the circular (including the notice
of the EGM and the related form of proxy) Tuesday, 13 December

2017

Latest time for lodging the form of proxy
for the EGM 11:30 a.m. on Tuesday,
3 January

EGM 11:30 a.m. on Thursday, 5 January

Publication of an announcement of the result
of the EGM. Thursday, 5 January

The following events are conditional on the results of the EGM and the approval from the Court and therefore the dates are tentative:

Expected date of registration of a copy of
the order from the Court confirming the
Capital Reduction and the minutes approved After 4:00 p.m. on Friday, 17 March
by the Court pursuant to the Companies Law but before 9:00 a.m. on Monday, 20 March

Expected effective date of the Capital Reduction After 4:00 p.m. on Friday, 17 March
but before 9:00 a.m. on Monday, 20 March

First day of the free exchange of the existing
Share certificates for the new share
certificates for the New Share. Monday, 20 March

Commencement of the dealings in the New Shares 9:00 a.m. on Monday, 20 March

Last day for the free exchange of the existing
share certificates for the new share certificates. Friday, 28 April

Note: All times and dates in this circular refer to Hong Kong local times and dates.

Dates or times specified in this circular for events in the timetable for (or otherwise in relation to) the Capital Reduction is indicative only and may be excluded or varied due to the timetable and availability of the Court, additional time required for compliance with the regulatory requirements in the Cayman Islands and/or with any requirements imposed by the Court or varied by the Company. Any change to the expected timetable for the Capital Reduction will be published as and when appropriate.

DEFINITIONS

The following terms have the following meanings in this circular unless the context otherwise requires:

“2018 Performance Target”

both (a) the consolidated total assets of the Group as of 31 March 2018 (prepared on the basis of Hong Kong Financial Reporting Standards that have been consistently applied by the Group but giving pro forma effect to (x) the issuance and subscription of the convertible bonds under the Cinda Subscription Agreement, the Riverhead Subscription Agreement (as to the Tranche 1 Bonds and the Tranche 2 Bonds only) and the Subscription Agreement (as amended and supplemented and the Supplemental Agreement) and (y) the exclusion of the cash loan provided by China Cinda (HK) Asset Management Co., Ltd in favour of the Company under the Cinda Subscription Agreement) represents an increase of 30% or more as compared to the consolidated total assets of the Group as of 31 March 2017 prepared on the same basis and (b) the revenue of the Group for the year ending 31 March 2018 (prepared on the basis of Hong Kong Financial Reporting Standards that have been consistently applied by the Group but excluding extraordinary items and any fair value changes regarding any issued an outstanding convertible bonds of the Company) represents a growth rate of not less than 30% when compared to the revenue of the Group (prepared on the same basis) for the financial year ending 31 March 2017

“2019 Performance Target”

both (a) the consolidated total assets of the Group as of 31 March 2019 (prepared on the basis of Hong Kong Financial Reporting Standards that have been consistently applied by the Group but giving pro forma effect to (x) the issuance and subscription of the convertible bonds under the Cinda Subscription Agreement, the Riverhead Subscription Agreement (as to the Tranche 1 Bonds, the Tranche 2 Bonds and the Tranche 3 Bonds (if any) only) and the Subscription Agreement (as amended and supplemented by the Supplemental Agreement) and (y) the exclusion of the cash loan provided by China Cinda (HK) Asset Management Co., Ltd in favour of the Company under the Cinda Subscription Agreement) represents an increase of 30% or more as compared to the consolidated total assets of the Group as of 31 March 2018 prepared on the same basis and (b) the revenue of the Group for the year ending 31 March 2019 (prepared on the basis of Hong Kong Financial Reporting Standards that have been consistently applied by the Group but excluding extraordinary items and any fair value changes regarding any issued and outstanding convertible bonds of the Company) represents a growth rate of not less than 30% when compared to the revenue of the Group (prepared on the same basis) for the financial year ending 31 March 2018

DEFINITIONS

“Best Fortress”	Best Fortress Limited, a company incorporated in the BVI and is owned as to 90% by Mr. Yip and as to 10% by Mr. Chung
“Board”	the board of Directors
“Business Day(s)”	any day (excluding Saturday, Sunday or public holiday) on which licensed banks in Hong Kong are generally open for business in Hong Kong
“BVI”	British Virgin Islands
“Capital Reduction”	the reduction of the issued share capital of the Company by cancelling the paid-up capital of each issued Share to the extent of HK\$0.09 per issued Share, thereby reducing the nominal value of each issued Share from HK\$0.10 to HK\$0.01 and the reduction of the nominal value of each authorized but unissued Share from HK\$0.10 to HK\$0.01, such that the authorized share capital of the Company shall be reduced from HK\$500,000,000 comprising 5,000,000,000 shares of a nominal or par value of HK\$0.10 each to HK\$50,000,000 comprising 5,000,000,000 shares of a nominal or par value of HK\$0.01 each, details of which are set out in the Previous Circular
“Capital Reorganisation”	the proposed capital reorganisation of the Company comprising (i) the Capital Reduction; and (ii) the Increase in Authorised Share Capital
“China Cinda”	China Cinda Asset Management Co., Ltd., a joint stock limited company established in the PRC whose shares are listed on the Main Board of the Stock Exchange (stock code: 1359) and is a substantial shareholder of the Company as at the Latest Practicable Date
“Cinda Convertible Bonds”	the 3-year 2% coupon convertible bonds in the principal amount of HK\$110,754,000 to be issued by the Company to Mankind Investment pursuant to the Cinda Subscription Agreement
“Cinda Loan”	the cash loan under a two-year term loan agreement to be entered into between the Company and China Cinda (HK) Asset Management Co., Ltd in relation to an unconditional and irrevocable cash loan of HK\$800,000,000 at an interest rate of 6% per annum available for drawdown by the Company within a specified period which shall not be less than 24 months

DEFINITIONS

“Cinda Subscription”	the subscription of the Cinda Convertible Bonds by Mankind Investment pursuant to the terms of the Cinda Subscription Agreement
“Cinda Subscription Agreement”	the subscription agreement dated 22 November 2016 entered into between the Company and Mankind Investment in relation to the subscription and issue of the Cinda Convertible Bonds
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)
“Company”	China Fortune Financial Group Limited, a company incorporated in the Cayman Islands with limited liability and the Shares of which are listed on the Stock Exchange
“connected person(s)”	has the meaning ascribed to it in the Listing Rules
“Conversion Price”	HK\$0.06 per Conversion Share (subject to adjustments)
“Conversion Rights”	the right of the holder of the New Convertible Bonds to convert all (but not part) of the outstanding principal amount of the New Convertible Bonds into such number of New Shares credited as fully paid
“Conversion Share(s)”	the New Share(s) which may fall to be allotted and issued upon the exercise of the conversion rights attaching to the New Convertible Bonds had the Capital Reorganisation become effective
“Convertible Bond(s)”	the 3-year 2% convertible bonds in the aggregate principal amount of HK\$390,000,000 to be issued by the Company to the Subscriber pursuant to the Previous CB Subscription Agreement
“Court”	the Grand Court of Cayman Islands
“Directors”	directors of the Company
“EGM”	the extraordinary general meeting to be held by the Company to consider and, if thought fit, approve, among other things, (i) the Cinda Subscription Agreement, the Subscription Agreement (as amended and supplemented by the Supplemental Agreement), the Riverhead Subscription Agreement and the transactions respectively contemplated thereunder, (ii) the grant of the Specific Mandate; and (iii) the Capital Reorganisation

DEFINITIONS

“First Closing Date”	the fifth (5th) Business Day following the date on which the conditions of the Riverhead Subscription Agreement in respect of the Tranche 1 Bonds are fulfilled or, if applicable, waived (or such later date as the parties may agree)
“First Shanghai” or “Independent Financial Adviser”	First Shanghai Capital Limited, a licensed corporation permitted to carry out business in type 6 (advising on corporate finance) regulated activity as defined under the SFO and the independent financial adviser approved to advise the Independent Board Committee and Independent Shareholders in respect of the Cinda Subscription Agreement, the Subscription Agreement (as amended and supplemented by the Supplemental Agreement) and the Riverhead Subscription Agreement and the Specific Mandate
“Fourth Closing Date”	the fifth (5th) Business Day following the date on which the conditions of the Riverhead Subscription Agreement in respect of the Tranche 4 Bonds are fulfilled or, if applicable, waived (or such later date as the parties may agree but in any event no later than one month after the publication of the annual results announcement of the Company for the year ending 31 March 2019)
“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
“Increase in Authorised Share Capital”	the proposed increase in the authorised share capital of the Company to HK\$200,000,000 divided into 20,000,000,000 New Shares by the creation of an additional 15,000,000,000 New Shares
“Independent Board Committee”	the independent committee of the Board comprising all the independent non-executive Directors, to be formed for the purpose of advising the Independent Shareholders in relation to the Cinda Subscription Agreement, the Subscription Agreement (as amended and supplemented by the Supplemental Agreement) and the Riverhead Subscription Agreement and the Specific Mandate
“Independent Shareholders”	Shareholders other than Mankind Investment and its associates (as defined in the Listing Rules)

DEFINITIONS

“Latest Practicable Date”	8 December 2016, being the Latest Practicable Date prior to the publication of this circular for the purpose of ascertaining certain information contained in this circular
“Last Trading Day”	22 November 2016, being the last day on which the Shares were traded on the Stock Exchange prior to the date of the Cinda Subscription Agreement, the Subscription Agreement (as amended and supplemented by the Supplemental Agreement) and the Riverhead Subscription Agreement
“Listing Committee”	the listing committee of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Long Stop Date”	31 March 2017 or such other date as the Company and Mankind Investment or the Subscriber or Riverhead Capital (as the case may be) may agree in writing
“Mankind Investment”	Mankind Investment Limited, an indirect wholly-owned subsidiary of China Cinda and the subscriber of the Cinda Convertible Bonds which is interested in approximately 11.43% of the entire issued share capital of the Company as at the Latest Practicable Date
“Mr. Chung”	Mr. Chung Chi Shing
“Mr. Xie”	Mr. Xie Zhichun
“Mr. Yip”	Mr. Yip Sum Yin
“New Convertible Bonds”	the aggregate of the Cinda Convertible Bonds, the PAL Convertible Bonds and the Riverhead Convertible Bonds
“New Shares”	ordinary share(s) with par value of HK\$0.01 each in the share capital of the Company immediately after the Capital Reduction becoming effective
“New Subscription”	the Cinda Subscription, the PAL Subscription and the Riverhead Subscription I
“New Subscription Completion”	completion of the Cinda Subscription Agreement, the Subscription Agreement (as amended and supplemented by the Supplemental Agreement) and the Riverhead Subscription I in accordance with their respective terms and conditions

DEFINITIONS

“New Subscription Completion Date”	the date on which New Subscription Completion takes place
“PAL Convertible Bonds”	the 3-year 2% coupon convertible bonds in the principal amount of HK\$153,585,000 to be issued by the Company to the Subscriber pursuant to the Subscription Agreement (as amended and supplemented by the Supplemental Agreement)
“PAL Subscription”	the subscription of the PAL Convertible Bonds by the Subscriber pursuant to the terms of the Subscription Agreement (as amended and supplemented by the Supplemental Agreement)
“PRC”	the People’s Republic of China, and for the purpose of this circular only, excludes Hong Kong, Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Previous Announcement”	the announcement of the Company dated 21 September 2016
“Previous CB Subscription Agreement”	the subscription agreement dated 21 September 2016 and entered into between the Company and the Subscriber in relation to the subscription and issue of the Convertible Bonds
“Previous Circular”	the circular of the Company dated 7 October 2016
“Previous Subscription”	the subscription of the Convertible Bonds pursuant to the terms of the Previous CB Subscription Agreement
“Previous Subscription Last Trading Day”	20 September 2016, being the last day on which the Shares were traded on the Stock Exchange prior to the date of the Previous CB Subscription Agreement
“Registrar”	Union Registrars Limited, the Hong Kong branch share registrar and transfer office of the Company
“Riverhead Capital”	Riverhead Capital (International) Management Co., Ltd., a company incorporated in the Cayman Islands and is owned as to 80% by Mr. Xie and 20% by Ms. Xie Juhan
“Riverhead Convertible Bonds”	the 3-year 2% coupon convertible bonds in the principal amount of HK\$305,661,000 to be issued by the Company to Riverhead Capital pursuant to the Riverhead Subscription Agreement
“Riverhead Subscription Agreement”	the subscription agreement dated 22 November 2016 entered into between the Company and Riverhead Capital in relation to the subscription and issue of the Riverhead Convertible Bonds

DEFINITIONS

“Riverhead Subscription I”	the subscription of the Tranche 1 Bonds by Riverhead Capital pursuant to the terms of the Riverhead Subscription Agreement
“Riverhead Subscription II”	the subscription of the Tranche 2 Bonds, the Tranche 3 Bonds and the Tranche 4 Bonds by Riverhead Capital pursuant to the terms of the Riverhead Subscription Agreement
“Second Closing Date”	three months following the date on which the conditions of the Riverhead Subscription Agreement in respect of the Tranche 2 Bonds are fulfilled or, if applicable, waived (or such later date as the parties may agree)
“SFC”	the Securities and Futures Commission
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended from time to time
“Share(s)”	ordinary share(s) with par value of HK\$0.10 each in the share capital of the Company prior to the Capital Reduction becoming effective
“Shareholders”	holders of the ordinary shares in the share capital of the Company
“Specific Mandate”	the mandate to be sought from the Shareholders at the EGM to allot and issue the Conversion Shares upon exercise of the conversion rights under the Cinda Convertible Bonds, the PAL Convertible Bonds and the Riverhead Convertible Bonds
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber”	Pacific Alliance Limited, a company incorporated in the BVI with limited liability and is wholly owned by Best Fortress
“Subscription Agreement”	the subscription agreement dated 21 September 2016 and entered into between the Company and the Subscriber in relation to the subscription and issue of the PAL Convertible Bonds (as amended and supplemented by the Supplemental Agreement)
“Supplemental Agreement”	the supplemental agreement dated 22 November 2016 entered into between the Company and the Subscriber to amend and supplement certain terms of the Previous CB Subscription Agreement
“Takeovers Code”	the Codes on Takeovers and Mergers and Share Buybacks

DEFINITIONS

“Third Closing Date”	the fifth (5th) Business Day following the date on which the conditions of the Riverhead Subscription Agreement in respect of the Tranche 3 Bonds are fulfilled or, if applicable, waived (or such later date as the parties may agree but in any event no later than one month after the publication of the annual results announcement of the Company for the year ending 31 March 2018)
“Tranche 1 Bonds”	the first tranche of the Riverhead Convertible Bonds in principal amount of HK\$125,661,000 to be issued by the Company under the Riverhead Subscription Agreement
“Tranche 1 Closing”	completion of the subscription of the Tranche 1 Bonds
“Tranche 2 Bonds”	the second tranche of the Riverhead Convertible Bonds in principal amount of HK\$60,000,000 to be issued by the Company under the Riverhead Subscription Agreement
“Tranche 2 Closing”	completion of the subscription of the Tranche 2 Bonds
“Tranche 3 Bonds”	the third tranche of the Riverhead Convertible Bonds in principal amount of HK\$60,000,000 to be issued by the Company under the Riverhead Subscription Agreement
“Tranche 3 Closing”	completion of the subscription of the Tranche 3 Bonds
“Tranche 4 Bonds”	the fourth tranche of the Riverhead Convertible Bonds in principal amount of HK\$60,000,000 to be issued by the Company under the Riverhead Subscription Agreement
“Tranche 4 Closing”	completion of the subscription of the Tranche 4 Bonds
“%”	per cent.

LETTER FROM THE BOARD



China Fortune Financial Group Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 290)

Website: <http://www.290.com.hk>

Executive Directors:

Mr. WONG Kam Choi MH (*Chairman*)
Mr. HON Chun Yu
Ms. FU Wan Sheung

Registered Office:

P.O. Box 309, Umland House
Grand Cayman, KY1-1104
Cayman Islands

Non-executive Director

Mr. TANG Baoqi
Mr. WU Ling

Independent Non-Executive Directors:

Mr. CHAN Kin Sang
Mr. NG Kay Kwok
Mr. TAM B Ray Billy

13 December 2016

To the Shareholders

Dear Sir or Madam,

**(1) AMENDED PROPOSAL FOR SUBSCRIPTION
OF CONVERTIBLE BONDS
UNDER SPECIFIC MANDATE
AND CONNECTED TRANSACTION,
(2) PROPOSED CAPITAL REORGANISATION
AND
(3) NOTICE OF EXTRAORDINARY GENERAL MEETING**

INTRODUCTION

References are made to (i) the Previous Announcement and the Previous Circular in relation to, among others, Previous CB Subscription Agreement entered by the Company and the Subscriber in relation to the subscription and issue of the Convertible Bonds on 21 September 2016 (after trading hours); and (ii) the announcement of the Company dated 22 November 2016 in relation to, among others, (a) the Cinda Subscription Agreement entered into by the Company and Mankind Investment in relation to the subscription and issue of the Cinda Convertible Bonds, (b) the Subscription Agreement (as

LETTER FROM THE BOARD

amended and supplemented by the Supplemental Agreement) entered into by the Company and Subscriber to amend and supplement certain terms of the Previous CB Subscription Agreement, and (c) the Riverhead Subscription Agreement entered by the Company and Riverhead Capital in relation to the subscription and issue of the Riverhead Convertible Bonds.

The Conversion Shares, upon conversion of the Cinda Convertible Bonds, PAL Convertible Bonds and Riverhead Convertible Bonds, will be allotted and issued under the Specific Mandate to be sought for approval from the Shareholders at the EGM.

The purpose of this circular is to provide you with, among other things, (i) further information on the Cinda Subscription Agreement, the Subscription Agreement (as amended and supplemented by the Supplemental Agreement) and the Riverhead Subscription Agreement; (ii) further information on the Capital Reorganisation; and (iii) the notice of EGM.

AMENDED PROPOSAL FOR SUBSCRIPTION OF CONVERTIBLE BONDS

As disclosed in the Previous Circular, it is expected that the introduction of the strategic investors under the Previous Subscription is a valuable opportunity for the expansion of the scale of business of the Company. In light of Mr. Xie's strong background, expertise and renowned status in the financial services industry in the PRC and his valuable contribution to the Company in the future, China Cinda, a substantial shareholder of the Company, which as at the Latest Practicable Date, through Mankind Investment, was interested in approximately 11.43% shareholding interests in the Company, has expressed its interest to the Board to commit further funding to the Company and to increase its shareholding interests in the Company.

After arm's length negotiation among the Company, China Cinda and the Subscriber (a company that is currently wholly owned by Best Fortress which in turn is owned as to 90% by Mr. Yip and 10% by Mr. Chung), certain terms and structure of the Previous Subscription have been amended and the total principal amount of the Convertible Bonds of HK\$390,000,000 has been reallocated among China Cinda (through Mankind Investment), the Subscriber and Riverhead Capital (a company which is owned as to 80% by Mr. Xie and 20% by Ms. Xie Juhan) under the Cinda Subscription, the PAL Subscription and the Riverhead Subscription I, respectively. In addition to the original principal amount of HK\$390,000,000, pursuant to the Riverhead Subscription Agreement, Riverhead Capital also agreed to enter into the Riverhead Subscription II.

As a result, on 22 November 2016, the Company entered into:

- (i) the Cinda Subscription Agreement with Mankind Investment, an indirect wholly-owned subsidiary of China Cinda, in respect of the issue of the Cinda Convertible Bonds in the principal amount of HK\$110,754,000;
- (ii) the Supplemental Agreement with the Subscriber to amend and supplement the terms and structure of the Previous Subscription. Under the amended structure, the Subscriber will subscribe for the PAL Convertible Bonds in the principal amount of HK\$153,585,000; and

LETTER FROM THE BOARD

- (iii) as part of the amendment to the Previous Subscription, the Riverhead Subscription Agreement with Riverhead Capital in respect of the issue of the Riverhead Convertible Bonds in the principal amount of HK\$305,661,000 which will be issued in four tranches in the principal amount of HK\$125,661,000, HK\$60,000,000, HK\$60,000,000 and HK\$60,000,000 respectively subject to certain terms and conditions of the Riverhead Subscription Agreement

The Conversion Shares in respect of the New Subscription, upon conversion of the New Convertible Bonds, will be allotted and issued under the Specific Mandate to be sought for approval from the Shareholders at the EGM.

Details of the Cinda Subscription Agreement, the Subscription Agreement (as amended and supplemented by the Supplemental Agreement), the Riverhead Subscription Agreement and the terms of the New Convertible Bonds are set out below.

THE CINDA SUBSCRIPTION AGREEMENT

Date: 22 November 2016

Parties:

Issuer: the Company

Subscriber: Mankind Investment, a substantial shareholder of the Company which as at the Latest Practicable Date held approximately 11.43% shareholding interests in the Company

Principal Terms and Conditions of the Cinda Convertible Bonds

The principal terms and conditions of the Cinda Convertible Bonds are summarised as follows:

Issuer: the Company

Holder: Mankind Investment

Principal Amount: HK\$110,754,000

Issue Price: 100% at the full face value of the Cinda Convertible Bonds

Status: The Cinda Convertible Bonds constitute a direct unconditional, unsubordinated and unsecured obligations of the Company and shall at all times rank *pari passu* and *raably* without preference (with the exception of obligations in respect of taxes and certain other statutory exceptions) equally with all other unsecured and unsubordinated obligations of the Company. The payment obligations of the Company under the Cinda Convertible Bonds shall, save for such exceptions as may be provided by applicable legislation, rank at least equally with all its other present and future unsecured and unsubordinated obligations.

LETTER FROM THE BOARD

Form and Denomination: The Cinda Convertible Bonds will be issued in registered form in denomination of HK\$1,000 each. The certificate will be issued to Mankind Investment in respect of its registered holding of the Cinda Convertible Bonds.

Interest: 2% per annum (on the basis of a 365-day year, or a 366-day in a leap year) on the outstanding principal amount of the Cinda Convertible Bonds which shall be payable on the maturity date of the Cinda Convertible Bonds.

Interest Period: The period of three years commencing from (and including) the date of issue of the Cinda Convertible Bonds to (but excluding) the maturity date of the Cinda Convertible Bonds.

Maturity Date: The date falling on the third (3rd) anniversary of the date of issue of the Cinda Convertible Bonds.

Conversion Price: HK\$0.06 per Conversion Share, subject to adjustments as set out and in accordance with the terms and conditions of the Cinda Convertible Bonds.

The initial Conversion Price of HK\$0.06 per Conversion Share was determined after arm's length negotiations between the Company and Mankind Investment with reference to the prevailing market price of the Shares, and represents:

1. a discount of approximately 63.0% to the closing price of HK\$0.1620 per Share, based on the closing price as quoted on the Stock Exchange on the date of the Previous CB Subscription Agreement;
2. a discount of approximately 63.9% to the average closing price of HK\$0.1664 per Share, based on the average of the closing prices as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Previous Subscription Last Trading Day;
3. a discount of approximately 63.7% to the average closing price of HK\$0.1654 per Share, based on the average of the closing prices as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Previous Subscription Last Trading Day;

LETTER FROM THE BOARD

4. a discount of approximately 82.9% to the closing price of HK\$0.3500 per Share, based on the closing price as quoted on the Stock Exchange on the Last Trading Day;
5. a discount of approximately 81.4% to the average closing price of HK\$0.3220 per Share, based on the average of the closing prices as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;
6. a discount of approximately 81.2% to the average closing price of HK\$0.3190 per Share, based on the average of the closing prices as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day;
7. a discount of approximately 80.6% to the closing price of HK\$0.3100 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and
8. a premium of approximately 105.5% over HK\$0.0292 per Share, based on the consolidated net asset value attributable to the owners of the Company of HK\$108,665,000 as at 31 March 2016 as extracted from the annual report of the Group for the year ended 31 March 2016 (based on the number of issued Shares as at the Last Trading Day).

Assuming conversion of the Cinda Convertible Bonds into Conversion Shares in full at the initial Conversion Price, the net price per Conversion Share is HK\$0.059.

Under the New Subscription, the structure of the subscription pursuant to the Previous CB Subscription Agreement (i.e. the allocation of the principal amount among the subscribers) has been amended, while the gross proceeds of HK\$390,000,000 and the corresponding use of proceeds remain unchanged. In view that China Cinda will bring in additional benefit as mentioned in the section headed “Reasons For The New Subscription And Use of Proceeds” of this circular and the New Subscription is also in line with the expected contribution from Mr. Xie to the business expansion of the Group under the original proposal, the Directors consider that it is fair and reasonable to maintain the Conversion Price of the Cinda Convertible Bonds, the PAL Convertible Bonds and the Riverhead Convertible Bonds at HK\$0.06 per Conversion Share under the New Subscription.

Adjustment events: The Conversion Price is subject to adjustments in accordance with the terms and conditions set out in the Cinda Convertible Bonds if any of the following specific events occurs:

LETTER FROM THE BOARD

- (a) where there is an alteration to the nominal amount of a New Share by reason of any consolidation or subdivision;
- (b) where the Company issues (other than in lieu of a cash dividend) any New Shares credited as fully paid by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve fund);
- (c) where the Company makes (whether on a reduction of capital or otherwise except pursuant to any purchase by the Company of its own New Shares which is permitted by law and by the rules of the Stock Exchange and in accordance with the provisions of the Company's memorandum and articles of association) any capital distribution (including distributions in cash or specie, and any dividend charged or provided for in the accounts for any financial period) to the Shareholders (in their capacity as such) or grants to the Shareholders rights to acquire for cash assets of the Company or any of its subsidiaries;
- (d) where the Company offers to the Shareholders New Shares for subscription by way of rights, or grants to the Shareholders any options or warrants to subscribe for New Shares at a price per New Share which is less than 90% of the market price (as defined in the Cinda Convertible Bonds) as at the date of the announcement of the terms of the offer or grant;
- (e) where the Company or any other company issues wholly for cash any securities which by their terms are convertible into or exchangeable for or carrying rights of conversion for New Shares, and the total effective consideration (as defined in the Cinda Convertible Bonds) per New Share initially receivable for such securities is less than 90% of the market price (as defined in the Cinda Convertible Bonds) as at the date of the announcement of the terms of issue of such securities;
- (f) where the rights of conversion or exchange attached to any such securities as mentioned in sub-paragraph (e) above are modified so that the total effective consideration (as defined in the Cinda Convertible Bonds) per New Share initially receivable for such securities shall be less than 90% of the market price (as defined in the Cinda Convertible Bonds) as at the date of announcement of the proposal to modify such rights of conversion or exchange;
- (g) where the Company issues wholly for cash any New Shares at a price per New Share which is less than 90% of the market price as at the date of the announcement of the terms of such issue; or

LETTER FROM THE BOARD

- (h) where the Company shall be permitted by law and, by the rules of the Stock Exchange and in accordance with the provisions of its memorandum and articles of association, purchases and makes an offer or invitation to Shareholders to tender for sale to the Company any New Shares or if the Company purchases any New Shares or securities convertible into New Shares or any rights to acquire New Shares (excluding any such purchase made on the Stock Exchange, or any recognised stock exchange, being a stock exchange recognised for this purpose by the SFC or equivalent authority and the Stock Exchange).

Notwithstanding the specific adjustment events set out above, in any circumstances where the Directors shall consider that an adjustment to the Conversion Price provided for under the relevant provisions set out in the terms of Cinda Convertible Bonds 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 such relevant provisions set out in the Cinda Convertible Bonds or that such adjustment shall take effect on a different date or at a different time from that provided under such relevant provisions, the Company shall appoint an approved merchant bank or the auditors of the Company to consider whether for any reason whatsoever 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 such approved merchant bank or the auditors of the Company 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 takes effect on a different date and/or time as shall be certified by such approved merchant bank or the auditors of the Company to be in its opinion appropriate.

Whenever the Conversion Price is adjusted, the Company will give notice to the holders of the Cinda Convertible Bonds (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) and will at all times until conversion date make available for inspection by them, among other things, a signed certificate of the auditors of the Company or (as the case may be) of the relevant approved merchant bank and a certificate signed by a Director setting out brief particulars of 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. The Company will make announcement(s) on any adjustment to the Conversion Price.

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- Conversion Rights:** Holder of the Cinda Convertible Bonds will have the right, during the period commencing on the date of issue of the Cinda Convertible Bonds and ending on the third (3rd) Business Day prior to the maturity date of the Cinda Convertible Bonds, to convert the Cinda Convertible Bonds in whole or in part of the outstanding principal amount of the Cinda Convertible Bonds into Conversion Shares, provided that the exercise of the Conversion Rights will not result in:
- (a) any mandatory offer obligation under Rule 26.1 of the Takeovers Code being triggered by the holder of the Cinda Convertible Bonds and/or parties acting in concert (as defined in the Takeovers Code) with such holder;
 - (b) the Company being in breach of any provision of the Listing Rules, including the requirement to maintain any prescribed minimum percentage of the issued share capital of the Company held by the public; or
 - (c) the holder of the Cinda Convertible Bonds exercising the Conversion Right, by itself or together with the parties acting in concert with it, holding 20% or more of the enlarged issued share capital of the Company upon conversion of the Cinda Convertible Bonds being converted by such holder of the Cinda Convertible Bonds.
- Conversion Shares:** 1,845,900,000 Conversion Shares would be in issue on full conversion of the Cinda Convertible Bonds, had the Capital Reorganisation become effective (subject to adjustments to the Conversion Price).
- Redemption:** The Company shall redeem the Cinda Convertible Bonds by repaying the holder(s) of the Cinda Convertible Bonds all outstanding principal amount and accrued interests of the Cinda Convertible Bonds on the maturity date of the Cinda Convertible Bonds. No interest shall be paid on the amount of the Cinda Convertible Bonds which has been converted into Conversion Shares prior to the maturity date of the Cinda Convertible Bonds.
- Transferability:** The Cinda Convertible Bonds are transferable except that no Cinda Convertible Bonds shall be transferred to any person who:
- (a) is not independent of the Group or the connected persons of the Company (unless otherwise permitted with prior written consent of the Company); or

LETTER FROM THE BOARD

- (b) is a party acting in concert (as defined in the Takeovers Code) with any person or Shareholder to the effect that any transfer of the Cinda Convertible Bonds to such transferee(s) and/or the exercise by such transferee(s) of any conversion right attaching to the Cinda Convertible Bonds subject to such transfer will trigger the mandatory offer obligation under Rule 26.1 of the Takeovers Code.

During the period of twelve months commencing from the date of issuance of the Cinda Convertible Bonds, the holder of the Cinda Convertible Bonds shall not dispose of or transfer or enter into any agreement to dispose of or otherwise create any options, rights, interest or encumbrances in respect of any of the Conversion Shares issued pursuant to the exercise of any conversion right to dispose of or otherwise any of the Conversion Shares issued pursuant to the exercise of any conversion rights by that holder of the Cinda Convertible Bonds. After the abovementioned 12-month period, the Conversion Shares shall be transferable provided that the transfers of the Conversion Shares are in compliance with all rules and requirements under the Listing Rules and laws and regulations applicable to the Company and/or registered holder(s) of the Conversion Shares.

Ranking of Conversion Shares: The Conversion Shares allotted and issued upon conversion of the Cinda Convertible Bonds will in all respects rank *pari passu* in all respects with the New Shares already in issue on the conversion date.

Listing: No application will be made by the Company for the listing of the Cinda Convertible Bonds on the Stock Exchange. An application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares that may be issued upon the conversion of the Cinda Convertible Bonds.

The principal amount of the Cinda Convertible Bonds and the initial Conversion Price were determined by the Company and Mankind Investment after arm's length negotiations by reference to, among other things, the initial Conversion Price of the Previous Subscription, the liquidity, the historical trading prices of the Shares, the consolidated net asset value and the financial performance of the Group for the year ended 31 March 2016.

Conditions Precedent

Completion of the Cinda Subscription Agreement is conditional upon the fulfilment (or otherwise waived by the Company or Mankind Investment (as the case may be) in writing, to the extent such conditions precedent may be waived) of the following conditions precedent:

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- (a) to the extent not waived or consented to by or the requisite approval or ruling not obtained from the relevant regulatory or governmental authorities, compliance by each of the Company and Mankind Investment of all applicable laws and regulations, including but not limited to those under the Listing Rules, (if applicable) the Takeovers Code, the Companies Ordinance and the laws and regulations of each party's jurisdiction of incorporation;
- (b) the conditions precedent of the Subscription Agreement (as amended and supplemented by the Supplemental Agreement) are all satisfied, or waived (if applicable) (other than the fulfilment of any condition in the Subscription Agreement (as amended and supplemented by the Supplemental Agreement) requiring the fulfilment of the conditions precedent of the Cinda Subscription Agreement);
- (c) the conditions precedent of the Riverhead Subscription Agreement are all satisfied, or waived (if applicable) (other than the fulfilment of any condition in the Riverhead Subscription Agreement requiring the fulfilment of the conditions precedent of the Cinda Subscription Agreement);
- (d) the passing by the requisite majority of Shareholders or independent Shareholders (as appropriate) of the Company in the EGM of all resolutions required under relevant laws and regulations, including but not limited to the Listing Rules and the applicable laws of the transactions contemplated thereunder, including, without limitation, the Capital Reorganisation, the Specific Mandate and the Cinda Subscription Agreement and the transactions contemplated thereunder;
- (e) the granting of the approval for the listing of, and permission to deal in the Conversion Shares by the Listing Committee;
- (f) the entering into of a two-year term loan agreement by China Cinda (HK) Asset Management Co., Ltd in favour of the Company in relation to an unconditional and irrevocable cash loan of HK\$800,000,000 at an interest rate of 6% per annum available for drawdown by the Company within a specified period which shall not be less than 24 months; and the fulfilment of all conditions precedent to the completion of such loan agreement;
- (g) all license, permit, consent, authorisation, permission, clearance, warrant, confirmation, certificate or approval of any competent governmental, administrative, supervisory, regulatory, judicial, determinative, disciplinary, enforcement or tax raising body, authority, agency, board, department, court or tribunal of any jurisdiction (including the Stock Exchange, the SFC or any relevant securities exchange) and whether supranational, national, regional or local or any other person which are required for the Cinda Subscription and all matters contemplated thereunder having been obtained or made, if any;
- (h) all the representations and warranties contained in the Cinda Subscription Agreement in relation to the Company and Mankind Investment remain true, accurate and not misleading when made, and being true, accurate and not misleading on and as of the date of the completion of the Cinda Subscription;

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- (i) no material adverse change having occurred in respect of the business, assets, financial position, performance, operations, properties or conditions (financial or otherwise) of the Group; and
- (j) the Capital Reorganisation becoming effective.

The Company shall use its reasonable endeavours to procure the satisfaction of the above conditions precedent (except for paragraph (f) above and unless otherwise waived by Mankind Investment). Mankind Investment shall use its reasonable endeavours to procure the satisfaction of the conditions precedent set out in paragraphs (a), (g) and (h) above (in all cases, with respect to Mankind Investment) (unless otherwise waived by the Company).

The conditions precedent in paragraphs (h) (in respect of the Company) and (i) above may be waived by Mankind Investment (in whole or in part) and the conditions precedent in paragraphs (h) (in respect of Mankind Investment) may be waived by the Company (in whole or in part). No other conditions precedent may be unilaterally waived by the Company or Mankind Investment.

If the above conditions precedent are unfulfilled or, if applicable, waived on or prior to the Long Stop Date, all obligations of the Company and Mankind Investment shall cease and determine immediately on the Long Stop Date and none of the Company and Mankind Investment (nor any of their respective affiliates) shall have any claim against the other (or any of their respective affiliates) except in respect of any rights and liabilities which have accrued prior to termination.

As at the Latest Practicable Date, the Company had no intention to waive any of the above conditions precedent and none of the above conditions precedent has been satisfied or waived (as the case may be).

Completion of the Cinda Subscription

Completion shall take place in Hong Kong on the fifth (5th) Business Day following the date on which the conditions precedent set out in the Cinda Subscription Agreement are fulfilled and/or waived (or such other date as the parties may agree).

LETTER FROM THE BOARD

THE SUBSCRIPTION AGREEMENT

Date: 22 November 2016

Parties:

Issuer: the Company

Subscriber: the Subscriber

To the best of the Board's knowledge, information and belief, having made all reasonable enquiries, the Subscriber and its ultimate beneficial owner(s) are third parties independent of and are not connected with the Company under the Listing Rules. The Subscriber is a company incorporated in the BVI and is principally engaged in investment holding.

The principal terms of the PAL Convertible Bonds are set out below:

Issuer: the Company

Holder: the Subscriber

Principal Amount: HK\$153,585,000

Issue Price: 100% at the full face value of the PAL Convertible Bonds

Conversion Rights: Holder of the PAL Convertible Bonds will have the right, during the period commencing on the date of issue of the PAL Convertible Bonds up to and ending on the third (3rd) Business Day prior to the maturity date of the PAL Convertible Bonds, to convert the PAL Convertible Bonds in whole or in part of the outstanding principal amount of the PAL Convertible Bonds into Conversion Shares, provided that the exercise of the Conversion Rights will not result in:

- (a) any mandatory offer obligation under Rule 26.1 of the Takeovers Code being triggered by the holder of the PAL Convertible Bonds and/or parties acting in concert (as defined in the Takeovers Code) with such holder; or
- (b) the Company being in breach of any provision of the Listing Rules, including the requirement to maintain any prescribed minimum percentage of the issued share capital of the Company held by the public.

Conversion Price: HK\$0.06 per Conversion Share, subject to adjustments as set out and in accordance with the terms and conditions of the PAL Convertible Bonds.

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Assuming conversion of the PAL Convertible Bonds into Conversion Shares in full at the initial Conversion Price, the net price per Conversion Share is HK\$0.059.

Under the New Subscription, the structure of the subscription pursuant to the Previous CB Subscription Agreement (i.e. the allocation of the principal amount among the subscribers) has been amended, while the gross proceeds of HK\$390,000,000 and the corresponding use of proceeds remain unchanged. In view that China Cinda will bring in additional benefit as mentioned in the section headed “Reasons For The New Subscription And Use of Proceeds” of this circular and the New Subscription is also in line with the expected contribution from Mr. Xie to the business expansion of the Group under the original proposal, the Directors consider that it is fair and reasonable to maintain the Conversion Price of the Cinda Convertible Bonds, the PAL Convertible Bonds and the Riverhead Convertible Bonds at HK\$0.06 per Conversion Share under the New Subscription.

Conversion Shares: 2,559,750,000 Conversion Shares would be in issue on full conversion of the PAL Convertible Bonds, had the Capital Reorganisation become effective (subject to adjustments to the Conversion Price).

The principal amount of the PAL Convertible Bonds and the initial Conversion Price were determined by the Company and the Subscriber after arm’s length negotiations by reference to, among other things, the initial Conversion Price of the Previous Subscription, the liquidity, the historical trading prices of the Shares, the consolidated net asset value and the financial performance of the Group for the year ended 31 March 2016.

Save for the above, the principal terms of the PAL Convertible Bonds are the same as the Cinda Convertible Bonds.

Conditions Precedent

Completion of the Subscription Agreement (as amended and supplemented by the Supplemental Agreement) is conditional upon the fulfilment (or otherwise waived by the Company or the Subscriber (as the case may be) in writing, to the extent such conditions precedent may be waived) of the following conditions precedent:

- (a) to the extent not waived or consented to by or the requisite approval or ruling not obtained from the relevant regulatory or governmental authorities, compliance by each party of all applicable laws and regulations, including but not limited to those under the Listing Rules, (if applicable) the Takeovers Code, the Companies Ordinance and the laws and regulations of each party’s jurisdiction of incorporation;

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- (b) the conditions precedent of the Cinda Subscription Agreement are all satisfied, or waived (if applicable) (other than the fulfilment of any condition in the Cinda Subscription Agreement requiring the fulfilment of the conditions precedent of the Subscription Agreement);
- (c) the conditions precedent of the Riverhead Subscription Agreement are all satisfied, or waived (if applicable) (other than the fulfilment of any condition in the Riverhead Subscription Agreement requiring the fulfilment of the conditions precedent of the Subscription Agreement);
- (d) the passing by the requisite majority of Shareholders or independent Shareholders (as appropriate) of the Company in a general meeting of all resolutions required under relevant laws and regulations, including but not limited to the Listing Rules and the applicable laws of the transactions contemplated hereunder, including without limitation, the Capital Reorganisation and the Specific Mandate;
- (e) the granting of the approval for the listing of, and permission to deal in the Conversion Shares by the Listing Committee;
- (f) all license, permit, consent, authorisation, permission, clearance, warrant, confirmation, certificate or approval of any competent governmental, administrative, supervisory, regulatory, judicial, determinative, disciplinary, enforcement or tax raising body, authority, agency, board, department, court or tribunal of any jurisdiction (including the Stock Exchange, the SFC or any relevant securities exchange) and whether supranational, national, regional or local or any other person which are required for the PAL Subscription and all matters contemplated thereunder having been obtained or made, if any;
- (g) all the representations and warranties contained in the Subscription Agreement (as amended and supplemented by the Supplemental Agreement) in relation to the Company and the Subscriber remain true, accurate in all material respects and not misleading when made, and being true, accurate in all material respects and not misleading on and as of the date of the completion of the Subscription Agreement (as amended and supplemented by the Supplemental Agreement);
- (h) no material adverse change having occurred in respect of the business, assets, financial position, performance, operations, properties or conditions (financial or otherwise) of the Group; and
- (i) the Capital Reorganisation becoming effective.

The Company shall use its reasonable endeavours to procure the satisfaction of the above conditions precedent (unless otherwise waived by the Subscriber). The Subscriber shall use its reasonable endeavours to procure the satisfaction of the conditions precedent set out in paragraphs (a), (f) and (g) above (unless otherwise waived by the Company).

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The conditions precedent in paragraphs (g) (in respect of the Company) and (h) above may be waived by the Subscriber (in whole or in part) and the conditions precedent in paragraph (g) (in respect of the Subscriber) may be waived by the Company (in whole or in part). No other conditions may be unilaterally waived by the Company or the Subscriber.

If the above conditions precedent are unfulfilled or, if applicable, waived on or prior the Long Stop Date, all obligations of the Company and the Subscriber shall cease and determine immediately on the Long Stop Date and none of the Company and the Subscriber (nor any of their respective affiliates) shall have any claim against the other (or any of their respective affiliates) except in respect of any rights and liabilities which have accrued prior to termination.

As at the Latest Practicable Date, the Company had no intention to waive any of the above conditions precedent and none of the above conditions precedent has been satisfied or waived (as the case may be).

Pursuant to the Subscription Agreement, no PAL Convertible Bonds shall be converted by the Subscriber during the first twenty-four (24) months from the date of issue of the PAL Convertible Bonds.

Completion of the PAL Subscription

Completion shall take place in Hong Kong on the fifth (5th) Business Day following the date on which the conditions precedent set out in the Subscription Agreement (as amended and supplemented by the Supplemental Agreement) are fulfilled and/or waived (or such other date the parties may agree).

THE RIVERHEAD SUBSCRIPTION AGREEMENT

Date: 22 November 2016

Parties:

Issuer: the Company

Subscriber: Riverhead Capital

To the best of the Board's knowledge, information and belief, having made all reasonable enquiries, Riverhead Capital and its ultimate beneficial owner(s) are third parties independent of and are not connected with the Company under the Listing Rules. Riverhead Capital is a company incorporated in the Cayman Islands and is principally engaged in investment holding.

Principal Terms and Conditions of the Riverhead Convertible Bonds

The principal terms and conditions of the Riverhead Convertible Bonds are summarised as follows:

Issuer: the Company

Holder: Riverhead Capital

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- Aggregate Principal Amount: an aggregate principal amount of up to HK\$305,661,000, comprising four tranches with a principal amount of HK\$125,661,000 for the Tranche 1 Bonds, a principal amount of HK\$60,000,000 for the Tranche 2 Bonds, a principal amount of HK\$60,000,000 for the Tranche 3 Bonds and a principal amount of HK\$60,000,000 for the Tranche 4 Bonds
- Issue Price:
- (a) 100% at the full face value of the Tranche 1 Bonds (i.e. HK\$125,661,000);
 - (b) 100% at the full face value of the Tranche 2 Bonds (i.e. HK\$60,000,000);
 - (c) 100% at the full face value of the Tranche 3 Bonds (i.e. HK\$60,000,000); and
 - (d) 100% at the full face value of the Tranche 4 Bonds (i.e. HK\$60,000,000).
- Conversion Rights: Holder of the Riverhead Convertible Bonds will have the right, during the period commencing on the date of issue of each tranche of the Riverhead Convertible Bonds up to and ending on the third (3rd) Business Day prior to their respective maturity dates, to convert the Riverhead Convertible Bonds in whole or in part of the outstanding principal amount of the Riverhead Convertible Bonds into Conversion Shares, provided that the exercise of the Conversion Rights will not result in:
- (a) any mandatory offer obligation under Rule 26.1 of the Takeovers Code being triggered by the holder of the Riverhead Convertible Bonds and/or parties acting in concert (as defined in the Takeovers Code) with such holder; or
 - (b) the Company being in breach of any provision of the Listing Rules, including the requirement to maintain any prescribed minimum percentage of the issued share capital of the Company held by the public.
- Conversion Price: HK\$0.06 per Conversion Share, subject to adjustments as set out and in accordance with the terms and conditions of the Riverhead Convertible Bonds.
- Assuming conversion of the Riverhead Convertible Bonds into Conversion Shares in full at the initial Conversion Price, the net price per Conversion Share is HK\$0.059.

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Under the New Subscription, the structure of the subscription pursuant to the Previous CB Subscription Agreement (i.e. the allocation of the principal amount among the subscribers) has been amended, while the gross proceeds of HK\$390,000,000 and the corresponding use of proceeds remain unchanged. In view that China Cinda will bring in additional benefit as mentioned in the section headed “Reasons For The New Subscription And Use of Proceeds” of this circular and the New Subscription is also in line with the expected contribution from Mr. Xie to the business expansion of the Group under the original proposal, the Directors consider that it is fair and reasonable to maintain the Conversion Price of the Cinda Convertible Bonds, the PAL Convertible Bonds and the Riverhead Convertible Bonds at HK\$0.06 per Conversion Share under the New Subscription.

Conversion Shares: 5,094,350,000 Conversion Shares would be in issue on full conversion of the Riverhead Convertible Bonds, had the Capital Reorganisation become effective (subject to adjustments to the Conversion Price).

Restriction to the transfer of Conversion Shares: During the period of twelve months commencing from the date of issuance of the Riverhead Convertible Bonds, the holder of the Riverhead Convertible Bonds shall not dispose of or transfer or enter into any agreement to dispose of or otherwise create any options, rights, interest or encumbrances in respect of any of the Conversion Shares issued pursuant to the exercise of any conversion right by that holder of the Riverhead Convertible Bonds. After the abovementioned 12-month period, the Conversion Shares shall be transferable provided that the transfers of the Conversion Shares are in compliance with all rules and requirements under the Listing Rules and laws and regulations applicable to the Company and/or registered holder(s) of the Conversion Shares.

The principal amount of the Riverhead Convertible Bonds and the initial Conversion Price were determined by the Company and Riverhead Capital after arm’s length negotiations by reference to, among other things, the initial Conversion Price of the Previous Subscription, the liquidity, the historical trading prices of the Shares, the consolidated net asset value and the financial performance of the Group for the year ended 31 March 2016.

Save for the above, the principal terms of the Riverhead Convertible Bonds are the same as the Cinda Convertible Bonds.

Conditions Precedent

Completion of the Riverhead Subscription Agreement is conditional upon the fulfilment (or otherwise waived by the Company or Riverhead Capital (as the case may be) in writing, to the extent such conditions precedent may be waived) of the following conditions precedent:

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- (a) to the extent not waived or consented to by or the requisite approval or ruling not obtained from the relevant regulatory or governmental authorities, compliance by each party of all applicable laws and regulations, including but not limited to those under the Listing Rules, (if applicable) the Takeovers Code, the Companies Ordinance and the laws and regulations of each party's jurisdiction of incorporation on the Tranche 1 Closing, the Tranche 2 Closing, the Tranche 3 Closing or the Tranche 4 Closing (as the case may be);
- (b) the conditions precedent of the Subscription Agreement (as amended and supplemented by the Supplemental Agreement) are all satisfied, or waived (if applicable) (other than the fulfilment of any condition in the Subscription Agreement (as amended and supplemented by the Supplemental Agreement) requiring the fulfilment of the conditions precedent of the Riverhead Subscription Agreement);
- (c) the conditions precedent of the Cinda Subscription Agreement are all satisfied, or waived (if applicable) (other than the fulfilment of any condition in the Cinda Subscription Agreement requiring the fulfilment of the conditions precedent of the Riverhead Subscription Agreement);
- (d) the passing by the requisite majority of Shareholders or independent Shareholders (as appropriate) of the Company in a general meeting of all resolutions required under relevant laws and regulations, including but not limited to the Listing Rules and the applicable laws of the transactions contemplated hereunder, including without limitation, the Capital Reorganisation and the Specific Mandate;
- (e) the granting of the approval for the listing of, and permission to deal in the Conversion Shares to be issued upon the conversion of the Tranche 1 Bonds, the Tranche 2 Bonds, the Tranche 3 Bonds and the Tranche 4 Bonds (as the case may be) by the Listing Committee;
- (f) all license, permit, consent, authorisation, permission, clearance, warrant, confirmation, certificate or approval of any competent governmental, administrative, supervisory, regulatory, judicial, determinative, disciplinary, enforcement or tax raising body, authority, agency, board, department, court or tribunal of any jurisdiction (including the Stock Exchange, the SFC or any relevant securities exchange) and whether supranational, national, regional or local or any other person which are required for the issue of the Tranche 1 Bonds, the Tranche 2 Bonds, the Tranche 3 Bonds or the Tranche 4 Bonds (as the case may be) and all matters contemplated thereunder having been obtained or made, if any;
- (g) all the representations and warranties contained in the Riverhead Subscription Agreement in relation to the Company and Riverhead Capital remain true, accurate in all material respects and not misleading when made, and being true, accurate in all material respects and not misleading on and as of the Tranche 1 Closing, the Tranche 2 Closing, the Tranche 3 Closing or the Tranche 4 Closing (as the case may be);
- (h) no material adverse change having occurred in respect of the business, assets, financial position, performance, operations, properties or conditions (financial or otherwise) of the Group from the date of the Riverhead Subscription Agreement until the Tranche 1 Closing, the Tranche 2 Closing, the Tranche 3 Closing or the Tranche 4 Closing (as the case may be);

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- (i) the Capital Reorganisation becoming effective;
- (j) in respect of the Tranche 2 Bonds only, completion of the Tranche 1 Bonds in accordance with the terms and conditions of the Riverhead Subscription Agreement;
- (k) in respect of the Tranche 3 Bonds only, (i) completion of the Tranche 2 Bonds in accordance with the terms and conditions of the Riverhead Subscription Agreement; (ii) both (a) the consolidated total assets of the Group as of 31 March 2018 (prepared on the basis of Hong Kong Financial Reporting Standards that have been consistently applied by the Group but giving pro forma effect to (x) the issuance and subscription of the convertible bonds under the Cinda Subscription Agreement, the Riverhead Subscription Agreement (as to the Tranche 1 Bonds and the Tranche 2 Bonds only) and the Subscription Agreement (as amended and supplemented and the Supplemental Agreement) and (y) the exclusion of the cash loan provided by China Cinda (HK) Asset Management Co., Ltd in favour of the Company under the Cinda Subscription Agreement) represents an increase of 30% or more as compared to the consolidated total assets of the Group as of 31 March 2017 prepared on the same basis and (b) the revenue of the Group for the year ending 31 March 2018 (prepared on the basis of Hong Kong Financial Reporting Standards that have been consistently applied by the Group but excluding extraordinary items and any fair value changes regarding any issued an outstanding convertible bonds of the Company) represents a growth rate of not less than 30% when compared to the revenue of the Group (prepared on the same basis) for the financial year ending 31 March 2017; and (iii) the compliance with all applicable requirements under the Listing Rules by the Company;
- (l) in respect of the Tranche 4 Bonds only, (i) completion of the Tranche 2 Bonds in accordance with the terms and conditions of the Riverhead Subscription Agreement; (ii) both (a) the consolidated total assets of the Group as of 31 March 2019 (prepared on the basis of Hong Kong Financial Reporting Standards that have been consistently applied by the Group but giving pro forma effect to (x) the issuance and subscription of the convertible bonds under the Cinda Subscription Agreement, the Riverhead Subscription Agreement (as to the Tranche 1 Bonds, the Tranche 2 Bonds and the Tranche 3 Bonds (if any) only) and the Subscription Agreement (as amended and supplemented by the Supplemental Agreement) and (y) the exclusion of the cash loan provided by China Cinda (HK) Asset Management Co., Ltd in favour of the Company under the Cinda Subscription Agreement) represents an increase of 30% or more as compared to the consolidated total assets of the Group as of 31 March 2018 prepared on the same basis and (b) the revenue of the Group for the year ending 31 March 2019 (prepared on the basis of Hong Kong Financial Reporting Standards that have been consistently applied by the Group but excluding extraordinary items and any fair value changes regarding any issued and outstanding convertible bonds of the Company) represents a growth rate of not less than 30% when compared to the revenue of the Group (prepared on the same basis) for the financial year ending 31 March 2018; and (iii) the compliance with all applicable requirements under the Listing Rules by the Company; and
- (m) the appointment of Mr. Xie as a Director and chairman of the Board.

LETTER FROM THE BOARD

The Company shall use its reasonable endeavours to procure the satisfaction of the above conditions precedent (unless otherwise waived by Riverhead Capital) on each of the First Closing Date, the Second Closing Date, the Third Closing Date and the Fourth Closing Date. Riverhead Capital shall use its reasonable endeavours to procure the satisfaction of the above conditions precedent (a), (f) and (g) (unless otherwise waived by the Company) on each of the First Closing Date, the Second Closing Date, the Third Closing Date and the Fourth Closing Date.

The conditions precedent (g) (in respect of the Company) and (h) may be waived by Riverhead Capital (in whole or in part) and the conditions precedent (g) (in respect of Riverhead Capital) may be waived by the Company (in whole or in part). No other conditions may be unilaterally waived by the Company and Riverhead Capital. For the avoidance of doubt, the waiver of conditions precedent in respect of the Tranche 1 Bonds shall not be an implied waiver of conditions precedent in respect of the Tranche 2 Bonds, the Tranche 3 Bonds or the Tranche 4 Bonds. The waiver of conditions precedent in respect of the Tranche 1 Bonds or the Tranche 2 Bonds shall not be an implied waiver of conditions precedent in respect of the Tranche 3 Bonds or the Tranche 4 Bonds. The waiver of conditions precedent in respect of the Tranche 1 Bonds, the Tranche 2 Bonds or the Tranche 3 Bonds shall not be an implied waiver of conditions precedent in respect of the Tranche 4 Bonds.

If the above conditions precedent in respect of Tranche 1 Bonds are unfulfilled or, if applicable, waived on or prior to the Long Stop Date, all obligations of the Company and Riverhead Capital shall cease and determine immediately on the Long Stop Date and none of the Company and Riverhead Capital (nor any of their respective affiliates) shall have any claim against the other (or any of their respective affiliates) except in respect of any rights and liabilities which have accrued prior to termination.

As at the Latest Practicable Date, the Company had no intention to waive any of the above conditions precedent and none of the above conditions precedent has been satisfied or waived (as the case may be).

Completion of the Riverhead Subscription

The completion of the Tranche 1 Bonds, the Tranche 2 Bonds, the Tranche 3 Bonds and the Tranche 4 Bonds shall take place on the First Closing Date, the Second Closing Date, the Third Closing Date and the Fourth Closing Date, respectively.

One of the conditions precedent of completion of each of the Cinda Subscription Agreement, the Subscription Agreement (as amended and supplemented by the Supplemental Agreement) and the Riverhead Subscription Agreement is the Capital Reorganisation (which includes the Capital Reduction) becoming effective. The Capital Reduction has to be approved by the Court. The Board is given to understand that it would normally take two to three months after the EGM to obtain the approval of the Court for the Capital Reduction. The Board has made reference to similar cases and takes into account the Christmas/New Year Court vacation in estimating the time required to schedule a hearing before the Court for the Capital Reduction. Hence, the Long Stop Date was fixed at 31 March 2017, which is approximately four months after the date of each of the Cinda Subscription Agreement, the Subscription Agreement (as amended and supplemented by the Supplemental Agreement) and the Riverhead Subscription Agreement, allowing time for the despatch of this circular for the EGM, giving notice for the EGM (which will include a special resolution requiring at least 21 clear days notice) and to schedule a hearing with the Court for approval of the Capital Reduction.

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The Board (including the independent non-executive Directors) considers that the Cinda Subscription Agreement, the Subscription Agreement (as amended and supplemented by the Supplemental Agreement), the Riverhead Subscription Agreement and the transactions respectively contemplated thereunder are on normal commercial terms determined after arm's length negotiation among the parties, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Specific Mandate

The Cinda Subscription Agreement, the Subscription Agreement (as amended and supplemented by the Supplemental Agreement) and the Riverhead Subscription Agreement and the transactions contemplated thereunder, including the allotment and issue of the Conversion Shares under the Specific Mandate, are subject to the approval of the Shareholders at the EGM.

Application will be made by the Company to the Stock Exchange for the grant of listing of and permission to deal in the Conversion Shares.

Appointment of Executive Director and Chairman of the Board

Given Mr. Xie's strong background, extensive experience and renowned status in the financial services industry in the PRC as disclosed below, the Board is of the view that the appointment of Mr. Xie as an executive Director and the chairman of the Board allows the Company to further leverage the management expertise from and the well-established network and expertise of Mr. Xie, thereby enhancing the business operation and management efficiency of the Company and the future business development of the Group as a whole. Therefore, one of the conditions precedent to the completion of the Riverhead Subscription Agreement is the appointment of Mr. Xie as an executive Director and the chairman of the Board. Subject to approval by the Shareholders at the EGM, the Board proposes to appoint Mr. Xie as an executive Director and the chairman of the Board.

Set out below are the brief biographical details of Mr. Xie:

Mr. Xie, aged 58, has extensive experience and high standing status in banking, securities and investment fields. Mr. Xie is currently the vice chairman of the consultation committee of Shenzhen Qianhai Shekou Free Trade Zone and Qianhai Shenzhen Hong Kong Cooperation Zone. He is also a distinguished professor of China Center for Special Economic Zone Research at Shenzhen University and post-graduate supervisor of PBC School of Finance at Tsinghua University. Mr. Xie has been an independent non-executive director of China Taiping Insurance Holdings Company Limited, a company listed on the Stock Exchange (Stock Code: 966), and Sun Life Hong Kong Limited under Sun Life Financial Services of Canada since 2015.

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Mr. Xie has held various key positions in certain banks, securities firms and insurance companies in the PRC and listed companies in Singapore, and has extensive experience in management of financial institutions. Mr. Xie acted as a deputy general manager of China Investment Corporation (“CIC”) (中國投資有限責任公司), a state-owned company with registered capital of RMB200,000,000,000 and an executive director and general manager of Central Huijin Investment Ltd. (中央滙金投資有限公司), a subsidiary of CIC which makes equity investment in key state-owned financial institutions in the PRC, from 2014 to 2015. From 2008 to 2014, Mr. Xie acted as an executive director and deputy general manager of China Everbright Group Limited and chairman of the board of directors of Sun Life Everbright Life Insurance Co., Ltd. and chairman of the board of directors of Sun Life Everbright Asset Management Co., Ltd. From 2006 to 2008, he acted as the vice president and director of reorganisation and listing office of China Everbright Bank Company Limited. From 2001 to 2006, Mr. Xie acted as a director and president of Everbright Securities Company Limited, an executive director of China Everbright Group, an executive director of China Everbright Limited, a company listed on the Stock Exchange (Stock Code: 165), a vice chairman (unattending) of China Enterprises Association (Singapore), a director of Shenyin & Wanguo Securities Co., Ltd., a director of Everbright Pramerica Fund Management Co., Ltd. and a vice chairman (unattending) of Securities Association of China.

From 1997 to 2001, he acted as an executive director and president of China Everbright Asia-Pacific Company Limited, a company listed on the Singapore Stock Exchange, a director of Shenyin & Wanguo Securities Co., Ltd, the chairman of the board of directors of China Everbright Asia-Pacific (New Zealand) Company, the chairman of the board of directors of China Everbright (South Africa) Company, a director of China Everbright Asia-Pacific Industrial Investment Fund Management Company (中國光大亞太工業投資基金管理公司) and a director of Thailand Sunflower Company (泰國向日葵公司). From 1992 to 1999, Mr. Xie was a director and vice president of Everbright Securities Company Limited, a director of China Everbright Financial Holding Company (Hong Kong) (中國光大金融控股公司 (香港)), a general manager of northern head office of Everbright Securities Company Limited, a director of Da Cheng Investment Fund Management Company, a deputy director of preparation team and deputy president of China Everbright Bank, Dalian Branch and a general manager of the international business department of China Everbright Bank, Heilongjiang Branch.

Save as disclosed above, Mr. Xie has not held any directorships in the last three years in any other public companies the securities of which are listed on any securities market in Hong Kong or overseas.

Mr. Xie does not hold any position in the Group and has no relationship with any directors, senior management or substantial or controlling shareholders of the Company. As at the Latest Practicable Date, save as the New Shares which may be issued upon the exercise of the conversion rights attaching to the Riverhead Convertible Bonds, Mr. Xie does not have any interest in the Shares within the meaning of Part XV of SFO.

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Subject to Shareholders' approval at the EGM, the Company will enter into a service contract with Mr. Xie for a term of two years, subject to retirement and re-election at the general meeting of the Company in accordance with the articles of association of the Company. Mr. Xie's annual remuneration will be determined by the Board with reference to his responsibilities, experience and market rate. The Company will disclose the amount of the director's fee (if any) in the next annual report. The terms of the Riverhead Convertible Bonds do not contain any clause in respect of the call for early redemption by Riverhead Capital upon the removal of Mr. Xie as a Director and/or chairman of the Board. On the other hand, the Company does not have any obligations to maintain Mr. Xie as a Director and/or chairman of the Board.

Save as disclosed above, there is no further information regarding Mr. Xie that needs to be disclosed pursuant to Rule 13.51(2) of the Listing Rules; and there are no other matters concerning Mr. Xie that need to be brought to the attention of the Shareholders.

FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

Save for the following equity fund raising activities, the Company did not carry out any equity fund raising activities during the past 12 months prior to the Latest Practicable Date:

Date of Announcement	Fund raising activity	Net proceeds	Intended use of proceeds	Actual use of proceeds as at the Latest Practicable Date
27 June 2016	Issue of convertible bonds	Approximately HK\$32,000,000	Settlement of previous debt owed to the subscriber of relevant convertible bonds	Used as intended
18 March 2016	Issue of convertible bonds	Approximately HK\$40,000,000	Settlement of previous debt owed to the subscriber of relevant convertible bonds	Used as intended

INFORMATION OF CHINA CINDA

China Cinda is a joint stock limited company established in the PRC whose shares are listed on the Main Board of the Stock Exchange (stock code: 1359). It is a leading asset management company in the PRC. Its principal business segments include (i) distressed asset management business; (ii) financial investment and asset management business and (iii) financial services business. As at the Latest Practicable Date, China Cinda (through Mankind Investment) is interested in approximately 11.43% of the entire issued share capital of the Company.

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As at the Latest Practicable Date, China Cinda did not have any agreement or arrangement or understanding with Riverhead Capital and/or the Subscriber.

INFORMATION OF MANKIND INVESTMENT

Mankind Investment is a limited liability company incorporated in the BVI and an indirect wholly-owned subsidiary of China Cinda. It is an investment holding company.

INFORMATION OF THE SUBSCRIBER

The Subscriber is a limited liability company incorporated in the BVI. On 21 November 2016, Riverhead Capital transferred its entire shareholding interest in the Subscriber to Best Fortress upon which the Subscriber is wholly-owned by Best Fortress, a company incorporated in the BVI which is in turn owned as to 90% by Mr. Yip and as to 10% by Mr. Chung. The Subscriber is an investment holding company.

Mr. Chung, aged 51, has more than 25 years of experience in the investment industry. Currently, he is a non-executive director of Value Convergence Holdings Limited, a company listed on the Stock Exchange (Stock Code: 821), an executive director of China Nuclear Energy Technology Corporation Limited (formerly known as China Nuclear Industry 23 International Corporation Limited), a company listed on the Stock Exchange (Stock Code: 611), and a general manager of several subsidiaries of GCL New Energy Holdings Limited (formerly known as Same Time Holdings Limited (“STHL”)) (“GCL New Energy”), a company listed on the Stock Exchange (Stock Code: 451). He was an executive director of GCL New Energy from 4 July 2011 to 8 May 2014. He was a director of Vega Science & Technology (HK) Co. Limited (a manufacturer of printed circuit board drilling machines) from 2007 to 2012. He was a director of a trading company of chemical products from 2005 to 2006 and an executive director and chief executive officer of Central China Enterprises Limited, a company listed on the Stock Exchange (Stock Code: 351), from 2000 to 2004.

Mr. Yip, aged 66, is one of the co-founders of STHL, which was founded in 1982. He has over 40 years of experience in the electronics industry and was responsible for GCL New Energy’s business activities which include the sale and manufacture of printed circuit boards. He had been the chairman of the board of directors of STHL since 1992 and resigned as chairman with effect from 9 May 2014 when STHL was renamed as GCL New Energy Holdings Limited. He also resigned as an executive director of GCL New Energy with effect from 23 June 2016. He is currently a director of several subsidiaries of GCL New Energy.

INFORMATION OF RIVERHEAD CAPITAL

Riverhead Capital is a limited liability company incorporated in the Cayman Islands and is owned as to 80% by Mr. Xie and as to 20% by Ms. Xie Juhan, who is the daughter of Mr. Xie. Riverhead Capital is an investment holding company. For more information of Mr. Xie, please refer to the section headed “Appointment of Executive Director and Chairman of the Board” in this circular.

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REASONS FOR THE NEW SUBSCRIPTION AND USE OF PROCEEDS

The Group is principally engaged in provision of brokerage and margin financing, proprietary trading, corporate finance, money lending and factoring, and consultancy and insurance brokerage.

As disclosed in the Previous Circular, it is expected that the introduction of the strategic investors under the Previous Subscription is a valuable opportunity for the expansion of the scale of business of the Company. In light of Mr. Xie's strong background, extensive experience and renowned status in the financial services industry in the PRC and his contribution to the Company, China Cinda, a substantial shareholder of the Company, which as at the Latest Practicable Date, through Mankind Investment is interested in approximately 11.43% shareholding interests in the Company, is confident that with the leadership and business network of Mr. Xie, the Group will be en route for rapid business expansion and China Cinda has expressed its interest to the Board to commit further funding to the Company by way of subscription of convertible bonds and to increase its shareholding interests in the Company.

After arm's length negotiation between the Company, China Cinda, the Subscriber, certain terms and structure of the Previous Subscription have been amended and it has been agreed among the Company, China Cinda, the Subscriber and Riverhead Capital (a company that is owned as to 80% by Mr. Xie and 20% by Ms. Xie Juhan) that each of China Cinda (through Mankind Investment), the Subscriber and Riverhead Capital will subscribe for the Cinda Convertible Bonds, the PAL Convertible Bonds and the Riverhead Convertible Bonds, respectively, with the same maturity and Conversion Price under the Previous Subscription. In anticipation of the contribution to the future business expansion of the Group from each of the subscribers under the New Subscription, it has been agreed among Best Fortress and Riverhead Capital (which were originally the shareholders of the Subscriber holding as to 55% equity interests and 45% equity interests in the Subscriber respectively prior to the New Subscription) and China Cinda, to reallocate the total principal amount of the convertible bonds of HK\$390,000,000 pursuant to the Previous CB Subscription Agreement such that out of the convertible bonds in the principal amount of HK\$390,000,000 under the Previous CB Subscription Agreement, convertible bonds in the principal amount of HK\$110,754,000 has been reallocated to China Cinda, while the remaining balance of the convertible bonds in the principal amount of HK\$279,246,000 (the "**Remaining Balance**") has been split between Best Fortress and Riverhead Capital proportionately as to HK\$153,585,000 (representing approximately 55% of the Remaining Balance) as the principal amount of the PAL Convertible Bonds to be subscribed by Best Fortress through the Subscriber (now being wholly owned by Best Fortress after entering into of the New Subscription) and as to HK\$125,661,000 (representing approximately 45% of the Remaining Balance) as the principal amount of the first tranche of the Riverhead Convertible Bonds to be subscribed by Riverhead Capital. China Cinda has also committed to provide its financial support to the Company by granting an unconditional and irrevocable cash loan of HK\$800,000,000 at a favorable interest rate of 6% per annum for the future expansion of the Group's business. In view that the availability of the Cinda Loan represents the financial support from China Cinda for the future expansion of the Group's businesses, it has been agreed between the Company and China Cinda to include the entering into of the Cinda Loan as a condition precedent for the issuance of the Cinda Convertible Bonds to China Cinda such that the Company could secure the Cinda Loan when issuing the Cinda Convertible Bonds to China Cinda in order to align the interests between the Company and China Cinda. For the ease of operation of the day to day use of the proceeds drawn down from the loan, the Board has designated a sub-committee for the approval of such use of the proceeds. The sub-committee will comprise four committee members of which one of them will be Mr. Xie, one of

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them will be the Director to be appointed by China Cinda and the other two members will be appointed by the Company. The use of the Cinda Loan is subject to an unanimous approval of the sub-committee. The Board believes that with the financial resources from China Cinda and the leadership from Mr. Xie, the New Subscription will bring about valuable opportunities to the Company for the expansion of its business scale and to tap into the PRC financial services market to capture the vast business opportunities through expansion of its capital base. The New Subscription will provide the Company with the opportunity to forge a closer business relationship with China Cinda, the Subscriber and Mr. Xie and pave the way for future business co-operations.

Further, with the continuing expansion of commercial banks and financial institutions into brokerage and related businesses in Hong Kong as well as acquisitions and mergers of local securities firms by/with Chinese and overseas investors and securities firms, the financial services market continues to consolidate and become increasingly dominated by China and foreign securities firms with substantial financial backings. The Board believes that in order to compete successfully against the financial powerhouses, it is imperative for local securities firms, like the Company, to expand its business scale and to tap into the PRC financial services market to capture the vast business opportunities through expansion of its capital base.

Upon the New Subscription Completion, gross proceeds from the New Subscription will continue to be HK\$390,000,000 before expenses, and the estimated net proceeds of the New Subscription will be approximately HK\$385,000,000 after deduction of the estimated expenses to be incurred in relation to the New Subscription. The Company intends to apply the net proceeds from the New Subscription in the same way as disclosed in the Previous Circular as follows:

- (i) *approximately HK\$180,000,000 for the injection of capital to a wholly-owned subsidiary (the “Securities Subsidiary”) of the Company and expanding its margin financing and underwriting businesses*

As the Securities Subsidiary is a licensed corporation licensed to carry out type 1 regulated activities (dealing in securities) under the SFO, it is the intention of the Company to increase its capital so as to enable it to be eligible to be a partner in a joint venture to be formed in the PRC (the “JV Company”) with third parties independent of the Company to carry out securities services business in the PRC. The capital to be injected into the Securities Subsidiary will be used to finance the expansion of its margin financing and underwriting businesses.

The margin financing lent out amount of the Group during the period from 1 January 2016 to the Latest Practicable Date amounted to approximately HK\$64,000,000. The Group has recently been approached by existing clients and other new clients seeking margin financing facilities in aggregate for more than HK\$60,000,000. In view of the increasing trend of this business segment in light of the booming and promising securities markets arising from the stock connect systems among Hong Kong, Shanghai, Shenzhen and London, the Group intends to expand its brokerage business so as to capture the business opportunities in the near term. As a licensed corporation, the Group is subject to the financial resources requirement (i.e. minimum capital requirement) and without the necessary capital, it is not in a position to expand its margin financing business despite the availability of such business.

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Furthermore, the relatively small capital of the Securities Subsidiary also restricts the number of underwritings that it can engage in as certain level of liquid capital is required to be maintained under the SFO as liquid capital of the Group. With the increase in capital, the Securities Subsidiary has more flexibility in taking up underwriting business as well as margin financing business which will enable it to earn more revenue.

With the increase in capital of the Securities Subsidiary, it will also meet the net asset value requirement for Hong Kong substantial shareholder of the JV Company under the Closer Economic Partnership Arrangement. One of the conditions for the establishment of the JV Company is that the Hong Kong substantial shareholder is required to have a net asset value of more than RMB200,000,000 (equivalent to approximately HK\$240,000,000). Currently, the Securities Subsidiary has a net asset value of approximately RMB100,000,000 (equivalent to approximately HK\$120,000,000). The injection of the additional funds by way of capital injection will enable the Securities Subsidiary to meet the net asset value requirement and to expand its margin financing and underwriting businesses at the same time. As stated in the announcement of the Company dated 30 September 2016, the Company is in discussions in relation to the formation of the JV Company. As at the Latest Practicable Date, the Company has not identified any specific partner in the PRC for the formation of the JV Company and there is no specific timeframe for the establishment of the JV Company. However, without the necessary capital, the Company is simply not an eligible partner for the JV Company and not in a position to approach any potential business partner for co-operation. Therefore, if the Company is to expand its financial services platform into the PRC and capture the business opportunities in the vast PRC market, it is a pre-requisite that the Securities Subsidiary meets the net asset value requirement.

(ii) *approximately HK\$150,000,000 for expanding its money lending business*

From 1 January 2016 to the Latest Practicable Date, the Group has successfully lent out loans in the amount of approximately HK\$45,900,000 and loans in the amount of approximately HK\$3,225,000 are currently under review. The loan portfolio of the Group includes share-back financing and mortgage financing. It is expected that the money lending market in Hong Kong will continue to grow in the near future. As disclosed in the Monthly Statistical Bulletin published by the Hong Kong Monetary Authority in September 2016, the total loans and advances of all authorised money lending institutions in Hong Kong increased from approximately HK\$2,468,000,000,000 in 2006 to approximately HK\$7,534,000,000,000 in 2015, representing a compound annual growth rate of approximately 13.2%. The increasing trend of total loans and advances indicates a rising demand in the money lending market in Hong Kong. The Group can only further tap into this blooming market with sufficient cash resources. Due to the loan cycles, the Group requires a strong cash base to support the growth of its lending business pending maturity of the loans. As the Hong Kong Monetary Authority restricts licensed banks from providing loans to money lenders and financial institutions for funding their mortgage financing business, the Group has to identify separate fund source for its money lending business in order to expand the business and capture market opportunities on a timely basis.

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- (iii) *approximately HK\$12,000,000 for engaging in private equity investments*

The Group has obtained approval for the establishment of a private equity company in Qianhai, the PRC, with a registered capital of approximately RMB10,000,000 (equivalent to approximately HK\$12,000,000). The Qianhai entity is set up for investing in non-listed private companies under the asset management business segment of the Group.

- (iv) *approximately HK\$9,000,000 for strengthening the capital base of its asset management, wealth management and corporate financing business; and*

The Group intends to allocate approximately HK\$5,000,000 for proprietary trading of securities under the asset management business; approximately HK\$2,000,000 for investment under its wealth management business and approximately HK\$2,000,000 for the corporate financing business; and

- (v) *the remaining balance of approximately HK\$34,000,000 for the general working capital of the Group which includes staff costs, rental, professional fee, marketing expenses etc.*

The working capital requirement of the Group for the year ended 31 March 2016 was approximately HK\$84,000,000 which included staff costs of approximately HK\$40,000,000, rental of approximately HK\$17,000,000, professional fee of approximately HK\$5,800,000, marketing expenses of approximately HK\$3,300,000 and others of approximately HK\$18,000,000. It is envisaged that with the implementation of the business expansion plan, the administrative cost of the Group, including staff costs, rental, marketing expenses will increase at the initial stage. The Group needs to have sufficient working capital to fund the growing of its business before it can reap the profits of the expansion plan.

Further, as disclosed in the section headed “The Riverhead Subscription Agreement”, the Riverhead Convertible Bonds comprises four tranches. The gross proceeds of the Tranche 1 Bonds in the principal amount of HK\$125,661,000 will form part of the gross proceeds of HK\$390,000,000 of the New Subscription upon issuance on the New Subscription Completion Date together with the Cinda Convertible Bonds and the PAL Convertible Bonds.

The gross proceeds from the Riverhead Subscription II will be HK\$180,000,000 in aggregate and the net proceeds will be approximately HK\$180,000,000. The Company intends to apply the net proceeds as follows:

- (i) in respect of the Tranche 2 Bonds in the principal amount of HK\$60,000,000, as to approximately HK\$50,000,000 for further expanding its margin financing business and approximately HK\$10,000,000 for its underwriting business;
- (ii) in respect of the Tranche 3 Bonds in the principal amount of HK\$60,000,000, as to approximately HK\$36,000,000 for strengthening the capital base of its proprietary trading business in order to provide financial returns to the Shareholders; as to approximately HK\$12,000,000 for its private equity investment business such as pre-IPO investment and as to approximately HK\$12,000,000 for its asset management business to be used as seed money to its existing fund and/or new funds; and

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- (iii) in respect of the Tranche 4 Bonds in the principal amount of HK\$60,000,000, as to approximately HK\$36,000,000 for further strengthening the capital base of its proprietary trading business; as to approximately HK\$12,000,000 for its private equity investment business and as to approximately HK\$12,000,000 for its asset management business for further contribution to its existing fund or as seed money of new funds.

Since the issuance of the Tranche 3 Bonds and Tranche 4 Bonds are conditional on whether the Company could achieve the 2018 Performance Target and the 2019 Performance Target respectively, the Board is of the view that the Riverhead Subscription II could align the interests of the Shareholders and Riverhead Capital for the achievement of the long-term business expansion of the Group.

To the extent that the proceeds are not immediately required, the Group will seek potential business opportunities in the securities and financial markets so as to maximise the efficiency and return of such idle funds, broaden the income source and improve the financial position of the Group.

The Board is of the view that the New Subscription and the Riverhead Subscription II, coupled with the commitment of China Cinda and Mr. Xie in terms of the Cinda Loan and the 2018 Performance Target and the 2019 Performance Target, will not only provide the Company with a substantial amount of funding for business expansion, but would also put together the resources of China Cinda and Mr. Xie and align the interests with those of the Company. From this perspective, the Directors consider the New Subscription and the Riverhead Subscription II are fair and reasonable and are in the interest of the Company and the Shareholders as a whole.

Further, in view that the completion of the New Subscription shall be subject to conditionality of the Cinda Subscription Agreement, the Subscription Agreement (as amended and supplemented by the Supplemental Agreement) and the Riverhead Subscription Agreement under the amended proposal, the Board has considered alternative ways of fund raising such as placing and preemptive issues such as rights issue or open offer.

The senior management of the Company has approached a total of four securities firms and two fund houses to discuss the possibility of underwriting a rights issue by the Company. However, given the fund raising size and the thin trading volume of the Shares, the Company was not able to identify a suitable underwriter for the preemptive issues, in addition to the high commission rates demanded by some of the securities firms approached by the Company. In the circumstances, the Board considered that it may have difficulty in finding an independent underwriter in Hong Kong which is interested to fully underwrite a rights issue or an open offer of the Company to raise the proposed amount of funds within the timeframe that would allow the Company to implement the business expansion plan and to capture the business opportunities envisaged. The Board considered that even if such an independent underwriter was identified, the rights issue or open offer would incur costly underwriting commission and the process would be relatively more time-consuming than debt financing.

Having considered the above factors and the implementation of the expansion plan depends highly on both the availability of the funding; and the support and leadership from Mr. Xie, the Board is of the view that the New Subscription and the Riverhead Subscription II will provide the Company with the necessary funding to implement the business expansion plan at a reasonable cost and bring about valuable opportunities from Mr. Xie. Hence, the Board considers that fund raising through the New Subscription and the Riverhead Subscription II is in the interest of the Company and the Shareholders as a whole.

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PROPOSED CAPITAL REORGANISATION

As at the Latest Practicable Date, the authorised share capital of the Company is HK\$500,000,000 comprising 5,000,000,000 Shares of HK\$0.10 each, of which 4,036,728,859 Shares have been issued and are fully paid or credited as fully paid. The Board proposes to reorganise the share capital of the Company in the following manner:

(A) Capital Reduction

The Board proposes that the issued share capital of the Company be reduced from HK\$403,672,885.90 to HK\$40,367,288.59 by:

- (i) the cancellation of HK\$0.09 paid up capital on each issued Share so that each issued Share shall be treated as one fully paid up Share of HK\$0.01 each in the capital of the Company; and
- (ii) the reduction of the par value of each unissued Share from HK\$0.10 to HK\$0.01, such that the authorised share capital of the Company shall be reduced from HK\$500,000,000 comprising 5,000,000,000 Shares of par value of HK\$0.10 each to HK\$50,000,000 comprising 5,000,000,000 New Shares of par value of HK\$0.01 each.

As at the Latest Practicable Date, 4,036,728,859 Shares have been issued and are fully paid or credited as fully paid. Assuming that the paid-up capital of each of the 4,036,728,859 issued Shares will be reduced from HK\$0.10 to HK\$0.01 per issued Share by cancelling the paid-up capital to the extent of HK\$0.09 per issued Share by way of a reduction of capital, so as to form New Shares with par value of HK\$0.01 each, the Company's existing issued share capital of HK\$403,672,885.90 will be reduced by HK\$363,305,597.31 to HK\$40,367,288.59.

The credit arising from the Capital Reduction in the amount of HK\$363,305,597.31 be credited towards offsetting the accumulated losses of the Company as at the effective date of the Capital Reduction, thereby reducing the accumulated losses of the Company.

As at the Latest Practicable Date, the Company has no outstanding share options, warrants or convertible bonds.

Conditions for the Capital Reduction

The Capital Reduction is conditional on the following conditions being fulfilled:

- (i) the passing of a special resolution by the Shareholders to approve the Capital Reduction at the EGM;
- (ii) the approval of the Capital Reduction by the Court;
- (iii) the compliance with any conditions which the Court may impose in relation to the Capital Reduction;

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- (iv) the registration by the Registrar of Companies of the Cayman Islands of the order of the Court confirming the Capital Reduction and the minutes approved by the Court containing the particulars required under the Companies Law with respect to the Capital Reduction; and
- (v) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the New Shares arising from the Capital Reduction.

Reasons for and Effects of the Capital Reduction

Upon the Capital Reduction becoming effective, the credit arising from the Capital Reduction of approximately HK\$363,305,597.31 will be credited towards offsetting the accumulated losses of the Company as at the effective date of the Capital Reduction, thereby reducing the accumulated losses of the Company. As set out in the annual report of the Company for the year ended 31 March 2016, the accumulated losses of the Company was approximately HK\$675,900,000. The Board is of the view that the elimination of the Company's accumulated losses will therefore facilitate any dividend payment by the Company, subject to the Company's performance and when the Board considers that it is appropriate to do so in the future. In addition, the Board considers that the Capital Reduction will enable the nominal or par value of the Shares to be reduced from HK\$0.10 to HK\$0.01 each, thus giving greater flexibility to the Company in future fund raising to accommodate its future expansion and growth, should the Board consider it prudent or advisable to do so, through the issue of New Shares in the future given that the Company is not permitted, pursuant to its articles of association, to issue new shares in the share capital of the Company below their nominal or par value.

Save for the expenses to be incurred by the Company in implementing the Capital Reduction, the Board considers that the Capital Reduction will have no impact on the underlying assets, business operations, management or financial position of the Group or the proportionate interests of the Shareholders and their respective voting rights. Further, the Capital Reduction does not involve the diminution of any liability in respect of any unpaid capital of the Company nor does it involve the repayment to the Shareholders of any paid up capital of the Company. The Board considers that the Capital Reduction will not have any material adverse effect on the financial position of the Company.

In view of the above, the Board considers that the Capital Reduction is in the interests of the Company and the Shareholders at a whole.

Upon approval by the Shareholders of the Capital Reduction at the EGM, the legal advisers to the Company (as to the Cayman Islands law) will apply to the Court for hearing date(s) to confirm the Capital Reduction and further announcement(s) will be made by the Company on the progress of the Capital Reduction as and when appropriate.

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(B) Increase in Authorised Share Capital

The current authorised share capital of the Company is HK\$500,000,000 divided into 5,000,000,000 Shares of HK\$0.10 each, of which 4,036,728,859 Shares are in issue and are fully paid or credited as fully paid.

In order to facilitate the issue of Conversion Shares upon the exercise of the conversion rights attached to the Convertible Bonds and to accommodate future expansion and growth of the Group and subject to the Capital Reduction becoming effective, the Board proposes to increase the authorised share capital of the Company from HK\$50,000,000 divided into 5,000,000,000 New Shares to HK\$200,000,000 divided into 20,000,000,000 New Shares of HK\$0.01 each, by the creation of an additional 15,000,000,000 New Shares, which will rank pari passu in all respects with the New Shares in issue. The Increase in Authorised Share Capital is subject to the approval of the Shareholders by way of an ordinary resolution at the EGM.

Immediately after the completion of Increase in Authorised Share Capital and assuming no Shares are issued or repurchased, the authorised share capital of the Company will be HK\$200,000,000 divided into 20,000,000,000 New Shares, with 4,036,728,859 New Shares being in issue and 15,963,271,141 New Shares remaining unissued.

EFFECTS OF THE CAPITAL REORGANISATION

Assuming there will be no change in the issued share capital of the Company from the Latest Practicable Date up to the date on which the Capital Reorganisation becomes effective, the share capital structure of the Company will be as follows:

	As at the Latest Practicable Date	Immediately upon the Capital Reorganisation taking effect
Nominal or par value	HK\$0.10 per Share	HK\$0.01 per New Share
Amount of the authorised share capital	HK\$500,000,000	HK\$200,000,000
Number of authorised shares	5,000,000,000 Shares	20,000,000,000 New Shares
Number of issued shares	4,036,728,859 Shares	4,036,728,859 New Shares
Amount of the issued share capital	HK\$403,672,885.90	HK\$40,367,288.59

LETTER FROM THE BOARD

EFFECTS ON SHAREHOLDING STRUCTURE OF THE COMPANY

For illustrative purpose only, set out below is the shareholding structure of the Company (a) as at the Latest Practicable Date; (b) immediately after the Capital Reorganisation becoming effective; (c) immediately upon full conversion of the Cinda Convertible Bonds, the PAL Convertible Bonds and the Tranche 1 Bonds of the Riverhead Convertible Bonds (without adjustment); and (d) immediately upon full conversion of the Cinda Convertible Bonds, the PAL Convertible Bonds and all four tranches of the Riverhead Convertible Bonds, assuming there being no other change in the issued share capital and shareholding structure of the Company since the Latest Practicable Date:

Shareholder	As at the Latest Practicable Date		Immediately after the Capital Reorganisation becoming effective		Immediately upon full conversion of the Cinda Convertible Bonds, the PAL Convertible Bonds and the Tranche 1 Bonds of the Riverhead Convertible Bonds (without adjustment) (Note 3)		Immediately upon full conversion of the Cinda Convertible Bonds, the PAL Convertible Bonds and all four tranches of the Riverhead Convertible Bonds (Note 3)	
	Number of Shares	Approximately %	Number of New Shares	Approximately %	Number of New Shares	Approximately %	Number of New Shares	Approximately %
Jadehero Limited (Note 1)	800,000,000	19.81	800,000,000	19.81	800,000,000	7.59	800,000,000	5.91
Mankind Investment (Note 2)	461,430,000	11.43	461,430,000	11.43	2,307,330,000	21.90	2,307,330,000	17.05
Flying Bridge Investment Limited	310,650,884	7.70	310,650,884	7.70	310,650,884	2.95	310,650,884	2.29
Riverhead Capital	-	-	-	-	2,094,350,000	19.88	5,094,350,000	37.63
The Subscriber	-	-	-	-	2,559,750,000	24.29	2,559,750,000	18.91
Other public shareholders	2,464,647,975	61.06	2,464,647,975	61.06	2,464,647,975	23.39	2,464,647,975	18.21
Total	4,036,728,859	100.00	4,036,728,859	100.00	10,536,728,859	100.00	13,536,728,859	100.00

Notes:

- Jadehero, a company incorporated in the BVI with limited liability, beneficially held 800,000,000 Shares. Jadehero is owned as to 80% by Southlead Limited and as to 20% by Marvel Steed Limited. Southlead Limited is wholly owned by Wachen Investments Limited which is in turn wholly owned by Mr. Zhao Xu Guang. Mr. Wong Kam Fat Tony, who is the former chairman of the Company and the former executive Director, is the sole beneficial owner of the entire equity interests in Marvel Steed Limited.
- Mankind Investment beneficially held 461,430,000 Shares. Mankind Investment is wholly-owned by China Cinda (HK) Asset Management Co., Limited (“China Cinda (HK) Asset Management”) which is in turn wholly-owned by China Cinda (HK) Holdings Company Limited (formerly known as Well Kent International Investment Company Limited) (“China Cinda (HK) Holdings”). China Cinda (HK) Holdings is wholly-owned by China Cinda Asset Management Co., Limited (“China Cinda Asset Management”). For the purpose of the SFO, China Cinda (HK) Asset Management, China Cinda (HK) Holdings and China Cinda Asset Management are deemed or taken to be interested in the Shares held by Mankind Investment.

LETTER FROM THE BOARD

3. For illustrative purposes only, the New Convertible Bonds are subject to restrictions such that the conversion of which would (a) not trigger a mandatory offer obligation under Rule 26.1 of the Takeovers Code on the part of the Subscriber and parties acting in concert with it (as defined in the Takeovers Code) or (b) cause the Company to be unable to meet the minimum public float requirement under the Listing Rules. Due to the above conversion restrictions on the New Convertible Bonds, full conversion of the New Convertible Bonds into the Conversion Shares by the Subscriber as the holder of the New Convertible Bonds is unlikely to come about under the existing terms of the New Convertible Bonds.

IMPLICATIONS UNDER THE LISTING RULES

As at the Latest Practicable Date, Mankind Investment held approximately 11.43% of the entire issued share capital of the Company and is thus a substantial shareholder of the Company. Accordingly, Mankind Investment is a connected person of the Company under the Listing Rules and the Cinda Subscription constitutes a connected transaction of the Company and is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Moreover, as the Cinda Subscription Agreement, the Subscription Agreement (as amended and supplemented by the Supplemental Agreement) and the Riverhead Subscription Agreement are inter-conditional amongst each other, Best Fortress and Riverhead Capital are deemed connected persons to the Company pursuant to Rule 14A.20(b) of the Listing Rules. Therefore, the transactions contemplated under the Subscription Agreement (as amended and supplemented by the Supplemental Agreement) and the Riverhead Subscription Agreement also constitute connected transactions of the Company and are subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As Mr. Tang Baoqi, a non-executive Director, has material interest in the Cinda Subscription Agreement, the Subscription Agreement (as amended and supplemented by the Supplemental Agreement) and the Riverhead Subscription Agreement (which are inter-conditional amongst each other) and the transactions contemplated thereunder as his directorship of the Company was nominated by China Cinda, he had abstained from voting on the relevant board resolutions of the Company. Save for Mr. Tang Baoqi, none of the Directors has a material interest in the Cinda Subscription Agreement, the Subscription Agreement (as amended and supplemented by the Supplemental Agreement) and the Riverhead Subscription Agreement and was required to abstain from voting on the relevant board resolutions.

Mankind Investment held 461,430,000 Shares, representing approximately 11.43% of the issued shares of the Company as at the Latest Practicable Date, and is required to abstain from voting in the resolution to approve the Cinda Subscription Agreement, the Subscription Agreement (as amended and supplemented by the Supplemental Agreement) and the Riverhead Subscription Agreement in the EGM by way of poll under the Listing Rules. Save as aforesaid, to the best of the knowledge, information and belief of the Directors, no Shareholder has a material interest in the resolutions to be proposed at the EGM.

LETTER FROM THE BOARD

FREE EXCHANGE OF CERTIFICATES FOR NEW SHARES

Subject to the Capital Reduction becoming effective, Shareholders may, during the period from Monday, 20 March 2017 to Friday, 28 April 2017 on every business day from 9:00 a.m. to 4:00 p.m. (both days inclusive), submit their existing certificates for the Shares in yellow colour to the Company's branch share registrar and transfer office in Hong Kong, Union Registrars Limited, at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong, for exchange, at the expense of the Company, for new certificates in beige colour for the New Shares. Thereafter, certificates for the Shares will be accepted for exchange only on payment of a fee of HK\$2.50 (or such higher amount as may from time to time be allowed by the Stock Exchange) by the Shareholders for each certificate issued or cancelled, whichever is higher. All existing certificates of the Shares will continue to be evidence of title to such Shares and be valid for delivery, trading and settlement purpose.

EGM

The EGM will be held to consider and, if thought fit, pass the requisite resolutions to approve, among other things: (i) the Cinda Subscription Agreement, the Subscription Agreement (as amended and supplemented by the Supplemental Agreement) and the Riverhead Subscription Agreement and the transactions contemplated thereunder; and (ii) the grant of the Specific Mandate; and (iii) the Capital Reorganisation by way of poll. The Subscriber and its associates do not currently hold any Shares and accordingly will not vote on any of the resolutions.

A notice convening the EGM to be held at 35th Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong on Thursday, 5 January 2017 at 11:30 a.m. is set out on pages EGM-1 to EGM-5 of this circular. A form of proxy for use at the EGM is enclosed with this circular. Whether or not you intend to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar and transfer office in Hong Kong, Union Registrars Limited at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

Pursuant to Rule 13.39(4) of the Listing Rules, all votes for the Shareholders at a general meeting must be taken by poll. As such, all resolutions to be proposed at EGM will be put to vote by way of poll.

As completion of the issue of the New Convertible Bonds under the Cinda Subscription Agreement, the Subscription Agreement (as amended and supplemented by the Supplemental Agreement) and the Riverhead Subscription Agreement is subject to the satisfaction of the conditions precedent therein and may or may not proceed, Shareholders and potential investors are advised to exercise caution when dealing in the Shares.

LETTER FROM THE BOARD

RECOMMENDATION

The Board (including the independent non-executive Directors) considers that the resolutions to be proposed at the EGM are in the best interests of the Company and the Shareholders as a whole and recommends the Shareholders to vote in favour of such resolutions at the EGM.

By order of the Board
China Fortune Financial Group Limited
WONG Kam Choi MH
Chairman



China Fortune Financial Group Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 290)

Website: <http://www.290.com.hk>

13 December 2016

To the Independent Shareholders

Dear Sir or Madam,

**AMENDED PROPOSAL FOR SUBSCRIPTION
OF CONVERTIBLE BONDS
UNDER SPECIFIC MANDATE
AND CONNECTED TRANSACTION**

We refer to this circular dated 13 December 2016 issued by the Company, of which this letter forms part. Terms defined in this circular shall bear the same meanings when used herein unless the context requires otherwise.

We have been appointed to constitute the Independent Board Committee to consider the terms of the Cinda Subscription Agreement, the Subscription Agreement (as amended and supplemented by the Supplemental Agreement) and the Riverhead Subscription Agreement and to advise you as to whether, in our opinion, the terms of the Cinda Subscription Agreement, the Subscription Agreement (as amended and supplemented by the Supplemental Agreement) and the Riverhead Subscription Agreement are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole and as to its acceptance. First Shanghai has been appointed as the independent financial adviser to advise us in this respect. Details of its advice and the principal factors and reasons taken into consideration in arriving at its advice are set out in the letter from First Shanghai set out on pages 47 to 87 of this circular.

We also wish to draw your attention to the letter from the Board set out on pages 9 to 46 of this circular.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Taking into account the terms of the Cinda Subscription Agreement, the Subscription Agreement (as amended and supplemented by the Supplemental Agreement) and the Riverhead Subscription Agreement and the independent advice from First Shanghai, we consider that the terms of the Cinda Subscription Agreement, the Subscription Agreement (as amended and supplemented by the Supplemental Agreement) and the Riverhead Subscription Agreement are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the Cinda Subscription Agreement, the Subscription Agreement (as amended and supplemented by the Supplemental Agreement) and the Riverhead Subscription Agreement. Independent Shareholders are recommended to read the full text of the letter from the First Shanghai set out in this circular.

Yours faithfully,

For and on behalf of

Independent Board Committee

Mr. CHAN Kin Sang
*Independent non-executive
Director*

Mr. NG Kay Kwok
*Independent non-executive
Director*

Mr. TAM B Ray Billy
*Independent non-executive
Director*

LETTER FROM FIRST SHANGHAI

The following is the full text of the letter of advice to the Independent Board Committee and the Independent Shareholders from First Shanghai dated 13 December 2016 setting out their opinion regarding the New Subscription pursuant to each of the Cinda Subscription Agreement, the Subscription Agreement (as amended and supplemented by the Supplemental Agreement) and the Riverhead Subscription Agreement (collectively, the “New Subscription Agreements”) under the Specific Mandate for the purpose of inclusion in this circular.



First Shanghai Capital Limited

19th Floor

Wing On House

71 Des Voeux Road Central

Hong Kong

13 December 2016

*To the Independent Board Committee and
the Independent Shareholders*

China Fortune Financial Group Limited
35th Floor, Office Tower
Convention Plaza
1 Harbour Road
Wanchai
Hong Kong

Dear Sirs,

AMENDED PROPOSAL FOR SUBSCRIPTION OF CONVERTIBLE BONDS UNDER SPECIFIC MANDATE AND CONNECTED TRANSACTION

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the New Subscription pursuant to each of the New Subscription Agreements and the transactions contemplated thereunder, details of which are set out in the “Letter from the Board” contained in the circular of the Company to the Shareholders dated 13 December 2016 (the “**Circular**”), of which this letter forms part. Capitalized terms used in this letter shall have the same meanings as those defined in the Circular unless otherwise specified.

LETTER FROM FIRST SHANGHAI

AMENDED PROPOSAL FOR SUBSCRIPTION OF CONVERTIBLE BONDS

As disclosed in the Previous Circular, it is expected that the introduction of the strategic investors under the Previous Subscription is a valuable opportunity for the expansion of the scale of business of the Company. In light of Mr. Xie's strong background, extensive experience and renowned status in the financial services industry in the PRC and his contribution to the Company, China Cinda, a substantial shareholder of the Company, which as at the Latest Practicable Date, through Mankind Investment, was interested in approximately 11.43% shareholding interests in the Company, has expressed its interest to the Board to commit further funding to the Company and to increase its shareholding interests in the Company.

After arm's length negotiation among the Company, China Cinda and the Subscriber (a company that is currently wholly owned by Best Fortress which in turn is owned as to 90% by Mr. Yip and 10% by Mr. Chung), certain terms and structure of the Previous Subscription have been amended and the total principal amount of the Convertible Bonds of HK\$390,000,000 has been reallocated among China Cinda (through Mankind Investment), the Subscriber and Riverhead Capital (a company which is owned as to 80% by Mr. Xie and 20% by Ms. Xie Juhan) under the Cinda Subscription, the PAL Subscription and the Riverhead Subscription I, respectively. In addition to the original principal amount of HK\$390,000,000, pursuant to the Riverhead Subscription Agreement, Riverhead Capital also agreed to enter into the Riverhead Subscription II.

As a result, on 22 November 2016, the Company entered into:

- (i) the Cinda Subscription Agreement with Mankind Investment, a wholly-owned subsidiary of China Cinda, in respect of the issue of the Cinda Convertible Bonds in the principal amount of HK\$110,754,000;
- (ii) the Supplemental Agreement with the Subscriber to amend and supplement the terms and structure of the Previous Subscription. Under the amended structure, the Subscriber will subscribe for the PAL Convertible Bonds in the principal amount of HK\$153,585,000; and
- (iii) as part of the amendment to the Previous Subscription, the Riverhead Subscription Agreement with Riverhead Capital, a company which is owned as to 80% by Mr. Xie and 20% by Ms. Xie Juhan, in respect of the issue of the Riverhead Convertible Bonds in the principal amount of HK\$305,661,000 which will be issued in four tranches in the principal amount of HK\$125,661,000, HK\$60,000,000, HK\$60,000,000 and HK\$60,000,000 respectively subject to certain terms and conditions of the Riverhead Subscription Agreement.

The Conversion Shares in respect of the New Subscription, upon conversion of the New Convertible Bonds, will be allotted and issued under the Specific Mandate to be sought for approval from the Shareholders at the EGM.

LETTER FROM FIRST SHANGHAI

IMPLICATIONS UNDER THE LISTING RULES

As at the Latest Practicable Date, Mankind Investment held approximately 11.43% of the entire issued share capital of the Company and is thus a substantial shareholder of the Company. Accordingly, Mankind Investment is a connected person of the Company under the Listing Rules and the Cinda Subscription constitutes a connected transaction for the Company and is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Moreover, as the Cinda Subscription Agreement, the Subscription Agreement (as amended and supplemented by the Supplemental Agreement) and the Riverhead Subscription Agreement are inter-conditional amongst each other, Best Fortress and Riverhead Capital are deemed connected persons to the Company pursuant to Rule 14A.20(b) of the Listing Rules. Therefore, the transactions contemplated under the Subscription Agreement (as amended and supplemented by the Supplemental Agreement) and the Riverhead Subscription Agreement also constitute connected transactions of the Company and are subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As Mr. Tang Baoqi, a non-executive Director, has material interest in the Cinda Subscription Agreement, the Subscription Agreement (as amended and supplemented by the Supplemental Agreement) and the Riverhead Subscription Agreement (which are inter-conditional amongst each other) and the transactions contemplated thereunder as his directorship of the Company was nominated by China Cinda, he had abstained from voting on the relevant board resolutions of the Company. Save for Mr. Tang Baoqi, none of the Directors has a material interest in the Cinda Subscription Agreement, the Subscription Agreement (as amended and supplemented by the Supplemental Agreement) and the Riverhead Subscription Agreement and was required to abstain from voting on the relevant board resolutions.

Mankind held 461,430,000 Shares, representing approximately 11.43% of the issued shares of the Company as at the Latest Practicable Date, is required to abstain from voting in the resolution to approve the Cinda Subscription Agreement, the Subscription Agreement (as amended and supplemented by the Supplemental Agreement) and the Riverhead Subscription Agreement in the EGM by way of poll under the Listing Rules. Save as aforesaid, to the best of the knowledge, information and belief of the Directors, no Shareholder has a material interest in the resolutions to be proposed at the EGM.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations provided to us by the Directors, the Company and the management of the Group.

We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were

LETTER FROM FIRST SHANGHAI

reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its management and/or the Directors, which have been provided to us. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, 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 not contained in the Circular, the omission of which would make any statement in the Circular misleading in all material respects.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent verification of the information included in the Circular and provided to us by the Directors and the management of the Group nor have we conducted any form of in-depth investigation into the business and affairs or the future prospects of the Group.

As at the Latest Practicable Date, except for this present appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the New Subscription pursuant to the New Subscription Agreements, First Shanghai had no other current or past business relationship with the Company, parties to the New Subscription Agreements, or a director, subsidiary, holding company or substantial shareholder of the Company or parties to the New Subscription Agreements, which would be reasonably considered to affect our independence in performing the duties as set out in the Listing Rules, or might reasonably give rise to a perception that our independence would be so affected.

THE INDEPENDENT BOARD COMMITTEE

An Independent Board Committee, comprising Mr. Chan Kin Sang, Mr. Ng Kay Kwok and Mr. Tam B Ray Billy, each of them being an independent non-executive Director, has been established to advise the Independent Shareholders as to whether the terms of the New Subscription Agreements, and the transactions contemplated thereunder (including the grant of the Specific Mandate) are fair and reasonable so far as the Independent Shareholders are concerned, conducted on normal commercial terms or better and in the ordinary and usual course of business of the Group, and in the interests of the Company and the Shareholders as a whole; and to give a recommendation to the Independent Shareholders in respect of the voting on the resolutions to be proposed at the EGM.

We, First Shanghai, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders as to (i) whether the terms of the New Subscription Agreements and the transactions contemplated thereunder (including the grant of the Specific Mandate) are fair and reasonable so far as the Independent Shareholders are concerned, on normal commercial terms and in the interests of the Company and the Shareholders as a whole; and (ii) how the Independent Shareholders shall vote in respect of the resolution(s) to be proposed at the EGM.

LETTER FROM FIRST SHANGHAI

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation, we have considered the following principal factors and reasons:

1. Background of the Group

The Company was incorporated in the Cayman Islands as an exempted company with limited liability, the issued Shares of which have been listed on Stock Exchange since 3 May 2001.

The Group is principally engaged in provision of brokerage and margin financing, proprietary trading, corporate finance, money lending and factoring, and consultancy and insurance brokerage.

2. Historical financial information on and prospects of the Group

As extracted from the annual reports of the Company (the “**Annual Report(s)**”) for the past ten financial years ended 31 March 2016 (the “**FY(s)**”) and its interim results announcement for the six months ended 30 September 2016 (the “**Interim Results Announcement**”), the following table summarized the audited/unaudited consolidated results, operating cash flows and financial position of the Group for each of the past ten FYs ended 31 March 2016 and the six months ended 30 September 2016, respectively.

FY ended 31 March/period ended	Revenue <i>HK\$'000</i>	(Loss)/profit before tax <i>HK\$'000</i>	(Loss)/profit attributable to owners of the Company <i>HK\$'000</i>	Operating cash (outflows)/ inflows before movements in working capital <i>HK\$'000</i>	Net asset value (excluding non-controlling interests) <i>HK\$'000</i>
FY 2007	6,504	(12,438)	(13,230)	(16,072)	26,863
FY 2008	12,355	(5,827)	(5,827)	(10,399)	21,036
FY 2009	10,676	15,916	16,224	(10,326)	104,920
FY 2010	80,488	(23,664)	(23,711)	2,307	152,665
FY 2011	75,311	(31,958)	(65,370)	(17,166)	312,608
FY 2012	47,354	(64,009)	(69,602)	(25,465)	359,902
FY 2013	46,810	(71,953)	(69,002)	(42,601)	298,986
FY 2014	51,140	(15,591)	(15,254)	(44,979)	309,653
FY 2015	45,083	(156,736)	(156,732)	(29,091)	154,628
FY 2016	49,207	(42,682)	(42,301)	(47,796)	108,665
Six months ended				N/A	
30/9/2016	20,284	67,060	67,130	(Note)	225,552

Note: The corresponding figure of operating flows before movements in working capital for the six months ended 30 September 2016 has not been disclosed in the Interim Results Announcement.

LETTER FROM FIRST SHANGHAI

Overview

During the past ten FYs, the Group's revenue/turnover had generally been declining from the highest of approximately HK\$80.5 million in the FY 2010 to the lowest at approximately HK\$45.1 million in the FY 2015. Even though there were slight re-bounds in the FYs 2014 and 2016, it did not show a persistent trend. The Group basically had incurred persistent operating losses for at least the past ten FYs from 2007 to 2016, even though net profits attributable to owners of the Company were recorded in the only one single FY 2009. However, if we look into more details of such profit figure in that FY, we may note that a change in fair value of financial assets designated as fair value through profit or loss amounted to approximately HK\$24.8 million was recognised in the FY 2009, excluding which, the Group would have incurred a net loss of approximately HK\$8.6 million. In view of such scenario, we may consider that the Group has not been operating profitably over at least the past ten FYs since the FY 2007.

By another performance indicator, other than the minimal operating cash inflow of approximately HK\$2.3 million recorded in the FY 2010, the Group had never generated meaningful operating cash inflow from its business operations during the past ten FYs. The Group had incurred the largest operating cash outflow of approximately HK\$47.8 million in the latest FY 2016, with an aggregate operating cash outflow of over HK\$240 million up to the FY 2016.

The Group's net asset value had dropped from approximately HK\$359.9 million as at 31 March 2012 to that of HK\$108.7 million as at 31 March 2016, representing a significant decrease of net asset value by approximately 69.8% during the four FYs between the said two year end dates mainly due to the accumulated net losses of approximately HK\$283.3 million. In view of the then adverse financial position, the Company conducted a series of fund-raising exercises over the years its general working capital. Since then, the Group's business operations and operating cash outflow position had not turned around. As a consequence, the net proceeds from such fund-raising exercises were substantially expended thereafter up to the FY 2016.

Owing to the global financial instability and the Group's persistent loss-making situation, availability of fund was tightened and the cost of funding for the Company has increased. The Group was in need to raise additional working capital to finance its operations. The Company has tried to raise additional capital through issuance of convertible bonds and corporate bonds in the stock market, but all of which have not been very helpful due to the then unfavourable market sentiment and only limited amount can be successfully raised.

The Directors considered that the issues of the convertible bonds and corporate bonds were appropriate means in raising additional working capital for the Company, and where appropriate, to strengthen its capital base and to enhance its financial position for the Group's possible future investments and expansion and/or as general working capital. As a consequence, the then convertible loan notes and corporate bonds brought to the Group a relatively higher gearing position of approximately 116.3% and 118.2% as at 31 March 2015 and 2016, respectively, while its net asset value was not adversely affected thereby.

LETTER FROM FIRST SHANGHAI

The Group has been operating in a highly competitive industry with increasing pressure of operating costs. Looking forward, we consider that the prospects and outlook of the Group would remain uncertain and challenging in the absence of further financing support.

FY 2016 versus FY 2015

For the FY 2016, revenue of the Group amounted to approximately HK\$49.2 million, representing an increase of approximately 9.2% from that of approximately HK\$45.1 million for the FY 2015. Net loss attributable to owners of the Company amounted to approximately HK\$42.3 million for the FY 2016, representing a decrease of approximately 73.0% when comparing to that of approximately HK\$156.7 million for the FY 2015. Such obvious decrease in net loss was mainly due to (i) an impairment loss recognised for the FY 2015 in respect of an amount due from a joint venture; (ii) increase in reversal of impairment losses recognised in respect of trade receivables; (iii) decrease in impairment losses recognised in respect of trade receivables; (iv) net gain from disposal of loan receivable; and (v) increase in net gain recorded on listed securities trading, despite there has been a reduction of some segment revenue.

During the FY 2016, the Group mainly financed its operations by cash generated from operating activities and issuance of the then convertible loan notes and corporate bonds.

As at 31 March 2016, the Group's current assets and current liabilities amounted to approximately HK\$349.1 million (2015: approximately HK\$374.3 million) and approximately HK\$232.9 million (2015: approximately HK\$225.6 million) respectively, while the current ratio was about 1.5 times (2015: 1.7 times).

As at 31 March 2015 and 2016, the Group had no bank borrowings.

As at 31 March 2016, the gearing ratio, measured on the basis of interest-bearing borrowings as a percentage of equity attributable to owners of the Company, was approximately 118.2% (2015: approximately 116.3%). The slight increase was mainly due to issuance of corporate bonds during the FY 2016 to repay the then existing convertible loan notes.

FY 2015 versus FY 2014

For the FY 2015, revenue of the Group amounted to approximately HK\$45.1 million, representing a decrease of approximately 11.8% from that of approximately HK\$51.1 million for the FY 2014. Net loss attributable to owners of the Company for the FY 2015 amounted to approximately HK\$156.7 million, representing a significant increase of approximately 9.3 times when comparing with that of approximately HK\$15.3 million. Such huge net loss for the FY 2015 was principally attributable to (i) the loss recorded in proprietary trading of securities by the Group; (ii) a significant decrease in reversal of impairment loss in respect of trade receivables; (iii) a significant increase in impairment loss recognised in respect of trade receivables; (iv) an increase in provision of loan receivables; and (v) impairment loss recognised in respect of the amount due from a joint venture.

LETTER FROM FIRST SHANGHAI

During the FY 2015, the Group mainly financed its operations by cash generated from operating activities and issuance of the then convertible loan notes and corporate bonds. As at 31 March 2015, the Group's current assets and current liabilities amounted to approximately HK\$374.3 million (2014: approximately HK\$465.1 million) and approximately HK\$225.6 million (2014: approximately HK\$182.2 million) respectively, while the current ratio was about 1.7 times (2014: 2.6 times).

As at 31 March 2014 and 2015, the Group had no bank borrowings.

As at 31 March 2015, the gearing ratio, measured on the basis of interest-bearing borrowing as a percentage of equity attributable to the owners of the Company, was approximately 116.3% (2014: approximately 37.9%). The drastic increase was mainly due to issuance of corporate bonds during the FY 2015, which are unsecured and carry interest at fixed rate of 6% to 7% per annum with interest payable annually in arrears, whilst its net asset value conversely dropped by approximately HK\$155.0 million mainly due to the net loss of approximately HK\$156.7 million incurred for the FY 2015.

Six months ended 30 September 2016 versus 30 September 2015

Based on the Interim Results Announcement, revenue of the Group amounted to approximately HK\$20.3 million for the six months ended 30 September 2016, representing a decrease of approximately 30.4% from that of approximately HK\$29.1 million for the corresponding period in the FY 2015. The decrease in revenue was mainly attributable to net loss recorded in proprietary trading, and decrease in revenue contributed from the Group's business of consultancy and insurance brokerage services.

During the six months ended 30 September 2016, the Group recorded a profit of approximately HK\$67.1 million as compared to the loss of approximately HK\$11.8 million for the corresponding period in the FY 2015. Net profit attributable to owners of the Company amounted to approximately HK\$67.1 million for the six months ended 30 September 2016, while the Group recorded net loss of approximately HK\$11.6 million for the corresponding period in the FY 2015. The turnaround from loss to profit was principally attributable to (i) a gain arising from the disposal of shares and benefits related to shareholders loan of Measure Up of approximately HK\$73.0 million; and (ii) an unrealised gain in fair value of the derivative component of convertible loan notes issued by the Company amounted to HK\$31.6 million, recognised during the six months ended 30 September 2016. However, we consider that the Group's operating performance in the ordinary and usual course of business for the six months ended 30 September 2016 could not be regarded as really turnaround by relying on such non-operating gains which are non-recurring in nature.

As at 30 September 2016, the Group's current assets and current liabilities amounted to approximately HK\$481.6 million (31 March 2016: approximately HK\$349.1 million) and approximately HK\$188.6 million (31 March 2016: approximately HK\$232.9 million) respectively, representing a current ratio of about 2.6 times (31 March 2016: 1.5 times).

As at 30 September 2016, the Group had no bank borrowings.

As at 30 September 2016, the gearing ratio, measured on the basis of interest-bearing borrowing as a percentage of equity attributable to the owners of the Company, was approximately 107.1% (31 March 2016: approximately 118.2%). The slight improvement was mainly due to the increase net asset value of the Group derived by the net profit of approximately HK\$67.1 million during the six months ended 30 September 2016.

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Net asset value

According to the Annual Report for the FY 2016, the net asset value of the Group was approximately HK\$108.7 million as at 31 March 2016, representing a decrease of approximately 29.7% from that of approximately HK\$154.6 million as at 31 March 2015 mainly due to the net loss of approximately HK\$42.3 million incurred during the FY 2016. As at 30 September 2016, the net asset value of the Group significantly increased to approximately HK\$225.6 million, mainly due to the net profit of approximately HK\$67.1 million recognised during the six months ended 30 September 2016. In fact, the net asset value of the Group as at 31 March 2016 and 30 September 2016 was far less than that of the Comparables (as defined below) and all other industry peers listed on the Main Board of the Stock Exchange.

Prospects and outlook

As extracted from the Annual Report for the FY 2016, the Directors considered that Shanghai-Hong Kong Stock Connect Scheme (the “**SHK Connect**”) is a key component to an increase of capital going south into the Hong Kong stock market. The SHK Connect has been running smoothly with recognised success since its launch in the year of 2015. Under the SHK Connect, the Hong Kong stock market serves as a good investment outlet for mainland investors to diversify their portfolios, and a gateway for mainland companies to expand their business.

The IPO market in Hong Kong remained active for the year of 2015 and inspired the trust of global investors. According to the statistics from the Stock Exchange, there were 138 companies completed listing on the Stock Exchange representing an increase of approximately 13.1% as compared to that in the year of 2014. The funds raised through IPOs for the year of 2015 were around HK\$263.1 billion with an increase of approximately 13.3% as compared to around HK\$232.5 billion for the year of 2014. This presents Hong Kong still attract various companies to choose Hong Kong as their going public destination.

To capture this huge potential market pool, the Group allocated its resources in order to enhance its corporate finance and financial advisory services at the beginning of 2016. The Group expects this segment business will generate a synergy effect with the other businesses, especially the business of brokerage and margin financing. The Group strongly believes the corporate finance business will reclaim its ranking as the Group’s largest revenue in the near future. Meanwhile, the Group continued to sharpen its focus on the money lending business. The Group enhanced its financial strengths through financing exercises, and significantly expanded its lending capacity. Although the operating environment of money lending market was challenging due to weaker market sentiment and Hong Kong’s slowing economy, the Group anticipates the outlook of money lending shall not further worsen in the long run and non-bank money lenders still enjoy an edge of provision of flexible lending services. The Group will continue to strengthen the risk control on its money lending business and optimise the operation scale.

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Uncertainties conquer in the global economic environment and global market sentiment is likely to remain conservative and cautious in the near future. However, the Directors believe that the market anticipates that the central government of China will launch more measures for stable growth in order to maintain its economic growth. The Group is convinced that investors regain confidence in the prospect of China will bring a gradual improvement in the financial market. Meanwhile, Hong Kong's status as an international financial centre is irreplaceable and its economy will remain resilient as Hong Kong continues its outstanding role as a key fund raising centre for mainland enterprises and as a gateway for accessibility to international markets.

With the Shenzhen-Hong Kong Stock Connect Scheme (“**SZHK Connect**”) commenced on 5 December 2016, the Directors believes that the Hong Kong market has been reacting positively, and it is anticipated that the SZHK Connect will make a turnaround of the negative market sentiment in near term. The Directors expect that all lines of business of the Group will be benefited from the SZHK Connect.

Looking ahead, the Group will continue to concentrate on developing brokerage and margin financing, proprietary trading, corporate finance and money lending as its core businesses. However the Group will constantly explore and evaluate new business opportunities in the capital markets of China with cautiousness and prudence in order to generate quality returns for Shareholders and strengthen the Group's business and financial positions.

Conclusion

In view of the facts that (i) the Group's revenue/turnover had generally been declining from the highest of approximately HK\$80.5 million in the FY 2010 to that of approximately HK\$49.2 million in the FY 2016, despite slight re-bounds in the FYs 2014 and 2016; (ii) the Group had basically incurred persistent operating losses for the past ten FYs since the FY 2007; (iii) the Group had never generated meaningful operating cash inflow (before movements in working capital) from its business operations over the past ten FYs since the FY 2007; (iv) the Group's operating performance in the ordinary and usual course of business for the six months ended 30 September 2016 could not be regarded as really turnaround by relying on such non-operating gains which are non-recurring in nature; (v) the Group had been operating in a highly competitive industry with increasing pressure of operating costs; and (vi) the Group had a relatively higher gearing position of approximately 118.2% as at 31 March 2016 and without obvious improvement as at 30 September 2016, we consider that the prospects and outlook of the Group would remain challenging in the absence of further financing support.

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3. The principal terms and conditions of the New Subscription Agreements

The principal terms and conditions of each of the New Subscription Agreements are summarized as follows:

	Cinda Subscription Agreement	Subscription Agreement (as amended and supplemented by the Supplemental Agreement)	Riverhead Subscription Agreement
Date of the agreement :	22 November 2016	22 November 2016	22 November 2016
Parties to the Agreement :	<p>Issuer: the Company</p> <p>Subscriber: Mankind Investment, a substantial shareholder of the Company which as at the Latest Practicable Date held approximately 11.43% shareholding interests in the Company</p>	<p>Issuer: the Company</p> <p>Subscriber: the Subscriber</p> <p>To the best of the Board's knowledge, information and belief, having made all reasonable enquiries, the Subscriber and its ultimate beneficial owner(s) were originally third parties independent of and are not connected with the Company under the Listing Rules.</p> <p>However, the New Subscription Agreements are inter-conditional amongst each other, the Subscriber and its ultimate beneficial owner(s) are now deemed to be connected persons to the Company pursuant to Rule 14A.20(b) of the Listing Rules.</p>	<p>Issuer: the Company</p> <p>Subscriber: Riverhead Capital</p> <p>To the best of the Board's knowledge, information and belief, having made all reasonable enquiries, Riverhead Capital and its ultimate beneficial owner(s) were originally third parties independent of and are not connected with the Company under the Listing Rules.</p> <p>However, the New Subscription Agreements are inter-conditional amongst each other, Riverhead Capital and its ultimate beneficial owner(s) are now deemed to be connected persons to the Company pursuant to Rule 14A.20(b) of the Listing Rules.</p>

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	Cinda Subscription Agreement	Subscription Agreement (as amended and supplemented by the Supplemental Agreement)	Riverhead Subscription Agreement
Principal amount :	HK\$110,754,000	HK\$153,585,000	<p>An aggregate principal amount of up to HK\$305,661,000, comprising four tranches with a principal amount of</p> <ul style="list-style-type: none"> (i) HK\$125,661,000 for the Tranche 1 Bonds; (ii) a principal amount of HK\$60,000,000 for the Tranche 2 Bonds; (iii) a principal amount of HK\$60,000,000 for the Tranche 3 Bonds; and (iv) a principal amount of HK\$60,000,000 for the Tranche 4 Bonds.
Issue Price :	100% at the full face value of the Cinda Convertible Bonds	100% at the full face value of the PAL Convertible Bonds	<ul style="list-style-type: none"> (i) 100% at the full face value of the Tranche 1 Bonds (i.e. HK\$125,661,000); (ii) 100% at the full face value of the Tranche 2 Bonds (i.e. HK\$60,000,000); (iii) 100% at the full face value of the Tranche 3 Bonds (i.e. HK\$60,000,000); and (iv) 100% at the full face value of the Tranche 4 Bonds (i.e. HK\$60,000,000).

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	Cinda Subscription Agreement	Subscription Agreement (as amended and supplemented by the Supplemental Agreement)	Riverhead Subscription Agreement
Status :	Each of the New Convertible Bonds constitutes a direct unconditional, unsubordinated and unsecured obligations of the Company and shall at all times rank pari passu and rateably without preference (with the exception of obligations in respect of taxes and certain other statutory exceptions) equally with all other unsecured and unsubordinated obligations of the Company. The payment obligations of the Company under each of the New Convertible Bonds shall, save for such exceptions as may be provided by applicable legislation, rank at least equally with all its other present and future unsecured and unsubordinated obligations.		
Form and Denomination :	Each of the New Convertible Bonds will be issued in registered form in denomination of HK\$1,000 each. The certificate will be issued to each subscriber in respect of its registered holding of the New Convertible Bonds.		
Interest :	2% per annum (on the basis of a 365-day year, or a 366-day in a leap year) on the outstanding principal amount of each of the New Convertible Bonds which shall be payable on the maturity date of each of the New Convertible Bonds.		
Interest Period :	The period of three years commencing from (and including) the date of issue of each of the New Convertible Bonds to (but excluding) the maturity date of the New Convertible Bonds.		
Maturity Date :	The date falling on the third (3rd) anniversary of the date of issue of the New Convertible Bonds. We have noted that the maturity date of 36 months from the date of issue of each of the New Convertible Bonds is within the range of 12 months to 60 months, and is slightly longer than the average of approximately 30.3 months of the CB Comparables (as defined hereinafter); and we consider that such maturity period is not unusual for debt securities of similar kind in the market, and therefore is comparable with that of the CB Comparables.		

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Cinda Subscription Agreement	Subscription Agreement (as amended and supplemented by the Supplemental Agreement)	Riverhead Subscription Agreement
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Conversion Price : HK\$0.06 per Conversion Share, subject to adjustments as set out and in accordance with the terms and conditions of each of the New Convertible Bonds.

The initial Conversion Price of HK\$0.06 per Conversion Share was determined after arm's length negotiations between the Company and each of the subscribers for the New Convertible Bonds with reference to the prevailing market price of the Shares, and represents:

- (i) a discount of approximately 63.0% to the closing price of HK\$0.1620 per Share, based on the closing price as quoted on the Stock Exchange on the date of the Previous CB Subscription Agreement;
- (ii) a discount of approximately 63.9% to the average closing price of HK\$0.1664 per Share, based on the average of the closing prices as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Previous Subscription Last Trading Day;
- (iii) a discount of approximately 63.7% to the average closing price of HK\$0.1654 per Share, based on the average of the closing prices as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Previous Subscription Last Trading Day;
- (iv) a discount of approximately 82.9% to the closing price of HK\$0.3500 per Share, based on the closing price as quoted on the Stock Exchange on the Last Trading Day;
- (v) a discount of approximately 81.4% to the average closing price of HK\$0.3220 per Share, based on the average of the closing prices as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;
- (vi) a discount of approximately 81.2% to the average closing price of HK\$0.3190 per Share, based on the average of the closing prices as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day;
- (vii) a discount of approximately 80.6% to the closing price of HK\$0.3100 per Share as quoted on the Stock Exchange as at the Latest Practicable Date; and
- (viii) a premium of approximately 105.5% over HK\$0.0292 per Share, based on the consolidated net asset value attributable to the owners of the Company of HK\$108,665,000 as at 31 March 2016 as extracted from the Annual Report for the FY 2016 (based on the number of issued Shares as at the Last Trading Day).

Assuming conversion of the New Convertible Bonds into Conversion Shares in full at the initial Conversion Price, the net price per Conversion Share is HK\$0.059.

Under the New Subscription, the structure of the subscription pursuant to the Previous CB Subscription Agreement (i.e. the allocation of the principal amount among the subscribers) has been amended, while the gross proceeds of HK\$390,000,000 and the corresponding use of proceeds remain unchanged. In view that China Cinda will bring in additional benefit as mentioned in the section headed "Reasons for the New Subscription and Use of Proceeds" in the "Letter from the Board" of the Circular, and it is also in line with the expected contribution from Mr. Xie to the business expansion of the Group under the original proposal, the Directors consider that the New Subscription is fair and reasonable to maintain the Conversion Price of the Cinda Convertible Bonds, the PAL Convertible Bonds and the Riverhead Convertible Bonds at HK\$0.06 per Conversion Share under the New Subscription.

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	Subscription Agreement (as amended and supplemented by the Supplemental Agreement)	
Cinda Subscription Agreement		Riverhead Subscription Agreement

Adjusting events :

The Conversion Price is subject to adjustments in accordance with the terms and conditions set out in each of the New Convertible Bonds if any of the following specific events occurs:

- (a) where there is an alteration to the nominal amount of a New Share by reason of any consolidation or subdivision;
- (b) where the Company issues (other than in lieu of a cash dividend) any New Shares credited as fully paid by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve fund);
- (c) where the Company makes (whether on a reduction of capital or otherwise except pursuant to any purchase by the Company of its own New Shares which is permitted by law and by the rules of the Stock Exchange and in accordance with the provisions of the Company's memorandum and articles of association) any capital distribution (including distributions in cash or specie, and any dividend charged or provided for in the accounts for any financial period) to the Shareholders (in their capacity as such) or grants to the Shareholders rights to acquire for cash assets of the Company or any of its subsidiaries;
- (d) where the Company offers to the Shareholders New Shares for subscription by way of rights, or grants to the Shareholders any options or warrants to subscribe for New Shares at a price per New Share which is less than 90% of the market price (as defined in the New Convertible Bonds) as at the date of the announcement of the terms of the offer or grant;
- (e) where the Company or any other company issues wholly for cash any securities which by their terms are convertible into or exchangeable for or carrying rights of conversion for New Shares, and the total effective consideration (as defined in the New Convertible Bonds) per New Share initially receivable for such securities is less than 90% of the market price (as defined in the New Convertible Bonds) as at the date of the announcement of the terms of issue of such securities;
- (f) where the rights of conversion or exchange attached to any such securities as mentioned in sub-paragraph (e) above are modified so that the total effective consideration (as defined in the New Convertible Bonds) per New Share initially receivable for such securities shall be less than 90% of the market price (as defined in the New Convertible Bonds) as at the date of announcement of the proposal to modify such rights of conversion or exchange;
- (g) where the Company issues wholly for cash any New Shares at a price per New Share which is less than 90% of the market price as at the date of the announcement of the terms of such issue; or
- (h) where the Company shall be permitted by law and, by the rules of the Stock Exchange and in accordance with the provisions of its memorandum and articles of association, purchases and makes an offer or invitation to Shareholders to tender for sale to the Company any New Shares or if the Company purchases any New Shares or securities convertible into New Shares or any rights to acquire New Shares (excluding any such purchase made on the Stock Exchange, or any recognised stock exchange, being a stock exchange recognised for this purpose by the SFC or equivalent authority and the Stock Exchange).

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Cinda Subscription Agreement	Subscription Agreement (as amended and supplemented by the Supplemental Agreement)	Riverhead Subscription Agreement
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Notwithstanding the specific adjustment events set out above, in any circumstances where the Directors shall consider that an adjustment to the Conversion Price provided for under the relevant provisions set out in the terms of New Convertible Bonds 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 such relevant provisions set out in the New Convertible Bonds or that such adjustment shall take effect on a different date or at a different time from that provided under such relevant provisions, the Company shall appoint an approved merchant bank or the auditors of the Company to consider whether for any reason whatsoever 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 such approved merchant bank or the auditors of the Company 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 takes effect on a different date and/or time as shall be certified by such approved merchant bank or the auditors of the Company to be in its opinion appropriate.

Whenever the Conversion Price is adjusted, the Company will give notice to the holders of the New Convertible Bonds (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) and will at all times until conversion date make available for inspection by them, among other things, a signed certificate of the auditors of the Company or (as the case may be) of the relevant approved merchant bank and a certificate signed by a Director setting out brief particulars of 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. The Company will make announcement(s) on any adjustment to the Conversion Price.

We consider that the adjusting events are typical and normal for debt securities of similar kind in the market and therefore comparable with that of the CB Comparables.

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	Cinda Subscription Agreement	Subscription Agreement (as amended and supplemented by the Supplemental Agreement)	Riverhead Subscription Agreement
Conversion Rights :	<p>Holder of the Cinda Convertible Bonds will have the right, during the period commencing on the date of issue of the Cinda Convertible Bonds and ending on the third (3rd) Business Day prior to the maturity date of the Cinda Convertible Bonds, to convert the Cinda Convertible Bonds in whole or in part of the outstanding principal amount of the Cinda Convertible Bonds into Conversion Shares, provided that the exercise of the Conversion Rights will not result in:</p> <p>(a) any mandatory offer obligation under Rule 26.1 of the Takeovers Code being triggered by the holder of the Cinda Convertible Bonds and/or parties acting in concert (as defined in the Takeovers Code) with such holder;</p> <p>(b) the Company being in breach of any provision of the Listing Rules, including the requirement to maintain any prescribed minimum percentage of the issued share capital of the Company held by the public; or</p>	<p>Holder of the PAL Convertible Bonds will have the right, during the period commencing on the date of issue of the PAL Convertible Bonds up to and ending on the third (3rd) Business Day prior to the maturity date of the PAL Convertible Bonds, to convert the PAL Convertible Bonds in whole or in part of the outstanding principal amount of the PAL Convertible Bonds into Conversion Shares, provided that the exercise of the Conversion Rights will not result in:</p> <p>(a) any mandatory offer obligation under Rule 26.1 of the Takeovers Code being triggered by the holder of the PAL Convertible Bonds and/or parties acting in concert (as defined in the Takeovers Code) with such holder; or</p> <p>(b) the Company being in breach of any provision of the Listing Rules, including the requirement to maintain any prescribed minimum percentage of the issued share capital of the Company held by the public.</p>	<p>Holder of the Riverhead Convertible Bonds will have the right, during the period commencing on the date of issue of each tranche of the Riverhead Convertible Bonds up to and ending on the third (3rd) Business Day prior to their respective maturity dates, to convert the Riverhead Convertible Bonds in whole or in part of the outstanding principal amount of the Riverhead Convertible Bonds into Conversion Shares, provided that the exercise of the Conversion Rights will not result in:</p> <p>(a) any mandatory offer obligation under Rule 26.1 of the Takeovers Code being triggered by the holder of the Riverhead Convertible Bonds and/or parties acting in concert (as defined in the Takeovers Code) with such holder; or</p> <p>(b) the Company being in breach of any provision of the Listing Rules, including the requirement to maintain any prescribed minimum percentage of the issued share capital of the Company held by the public.</p>

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Cinda Subscription Agreement	Subscription Agreement (as amended and supplemented by the Supplemental Agreement)	Riverhead Subscription Agreement
<p>(c) the holder of the Cinda Convertible Bonds exercising the Conversion Right, by itself or together with the parties acting in concert with it, holding 20% or more of the enlarged issued share capital of the Company upon conversion of the Cinda Convertible Bonds being converted by such holder of the Cinda Convertible Bonds.</p>		

We consider that the Conversion Rights under each of the New Convertible Bonds are typical and normal for debt securities of similar kind in the market and therefore comparable with that of the CB Comparables.

Conversion Shares :	<p>1,845,900,000 Conversion Shares would be in issue on full conversion of the Cinda Convertible Bonds, had the Capital Reorganisation become effective (subject to adjustments to the Conversion Price).</p>	<p>2,559,750,000 Conversion Shares would be in issue on full conversion of the PAL Convertible Bonds, had the Capital Reorganisation become effective (subject to adjustments to the Conversion Price).</p>	<p>5,094,350,000 Conversion Shares would be in issue on full conversion of the Riverhead Convertible Bonds, had the Capital Reorganisation become effective (subject to adjustments to the Conversion Price).</p>
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Redemption :	<p>The Company shall redeem the New Convertible Bonds by repaying the holder(s) of the New Convertible Bonds all outstanding principal amount and accrued interests of the New Convertible Bonds on the maturity date of the New Convertible Bonds. No interest shall be paid on the amount of the New Convertible Bonds which has been converted into Conversion Shares prior to the maturity date of the New Convertible Bonds.</p>
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We consider that the redemption arrangement under each of the New Convertible Bonds is typical and not unusual for debt securities of similar kind in the market and therefore comparable with that of the CB Comparables.

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	Subscription Agreement (as amended and supplemented by the Supplemental Agreement)	Riverhead Subscription Agreement
Cinda Subscription Agreement		

Transferability :

Each of the Convertible Bonds are transferable except that no New Convertible Bonds shall be transferred to any person who:

- (a) is not independent of the Group or the connected persons of the Company (unless otherwise permitted with prior written consent of the Company); or
- (b) is a party acting in concert (as defined in the Takeovers Code) with any person or Shareholder to the effect that any transfer of the New Convertible Bonds to such transferee(s) and/or the exercise by such transferee(s) of any conversion right attaching to the New Convertible Bonds subject to such transfer will trigger the mandatory offer obligation under Rule 26.1 of the Takeovers Code.

During the period of twelve months commencing from the date of issuance of the New Convertible Bonds, the holder of the New Convertible Bonds shall not dispose of or transfer or enter into any agreement to dispose of or otherwise create any options, rights, interest or encumbrances in respect of any of the Conversion Shares issued pursuant to the exercise of any conversion right to dispose of or otherwise any of the Conversion Shares issued pursuant to the exercise of any conversion rights by that holder of the New Convertible Bonds. After the abovementioned 12-month period, the Conversion Shares shall be transferable provided that the transfers of the Conversion Shares are in compliance with all rules and requirements under the Listing Rules and laws and regulations applicable to the Company and/or registered holder(s) of the Conversion Shares.

We consider that the right of transferability under each of the New Convertible Bonds is not unusual for debt securities of similar kind in the market and therefore comparable with that of the CB Comparables; while the lock-up arrangement would increase the devotion of the subscribers for the New Convertible Bonds to the Company for at least 12 months, and therefore is in the interests of the Company and the Shareholders as a whole.

Ranking of Conversion :

The Conversion Shares allotted and issued upon conversion of the New Convertible Bonds will in all respects rank pari passu in all respects with the New Shares already in issue on the conversion date.

We consider that the ranking of the Conversion Shares upon conversion under each of the New Convertible Bonds is normal and not unusual for debt securities of similar kind in the market and therefore comparable with that of the CB Comparables.

Listing :

No application will be made by the Company for the listing of the New Convertible Bonds on the Stock Exchange. An application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares that may be issued upon the conversion of the New Convertible Bonds.

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The principal amount of the New Convertible Bonds and the initial Conversion Price were determined by the Company and each of the subscribers for the New Convertible Bonds after arm's length negotiations by reference to, among other things, the initial Conversion Price of the Previous Subscription, the liquidity, the historical trading prices of the Shares, the consolidated net asset value and the financial performance of the Group for the year ended 31 March 2016.

Conditions Precedent

Completion of each of the New Subscription Agreements is conditional upon the fulfilment (or otherwise waived by the Company or any subscribers for the New Convertible Bonds (as the case may be) in writing, to the extent such conditions precedent may be waived) of the conditions precedent as set out in the "Letter from the Board" of the Circular.

Specific to the Cinda Subscription Agreement, the entering into of a two-year term loan agreement by China Cinda (HK) Asset Management Co., Ltd. in favour of the Company in relation to an unconditional and irrevocable cash loan of HK\$800,000,000 at an interest rate of 6% per annum available for drawdown by the Company within a specified period which shall not be less than 24 months; and the fulfillment of all conditions precedent to the completion of such loan agreement, which we consider is specific for the Cinda Subscription Agreement and is actually beneficial to the Group.

Only applicable to the Riverhead Subscription Agreement, the issuance of the Tranche 3 Bonds and Tranche 4 Bonds thereunder are conditional on whether the Company could achieve the 2018 Performance Target and the 2019 Performance Target respectively, details of which are set out in the "Letter from the Board" of the Circular; whilst the other conditions precedent thereto are typical and not unusual for debt securities of similar kind in the market and therefore comparable with that of the CB Comparables.

As at the Latest Practicable Date, the Company had no intention to waive any of the above conditions precedent and none of the above conditions precedent has been satisfied or waived (as the case may be).

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Historical price performance of the Shares

The monthly highest and lowest closing prices and the monthly average daily closing price of the Shares as quoted on the Stock Exchange during the period commencing from 1 November 2015 to 22 November 2016 (i.e. for a period of at least 12 complete calendar months) up to and including the Last Trading Day (the “**Review Period**”) are shown as follows:

	Highest closing price HK\$	Lowest closing price HK\$	Average daily closing price HK\$	Number of trading days in each month
2015				
November	0.142	0.122	0.134	21
December	0.121	0.112	0.117	22
2016				
January	0.115	0.098	0.106	20
February	0.127	0.108	0.118	18
March	0.152	0.119	0.138	21
April	0.167	0.139	0.150	20
May	0.185	0.139	0.154	21
June	0.200	0.126	0.157	21
July	0.156	0.134	0.145	20
August	0.190	0.146	0.164	22
September	0.228	0.162	0.178	21
October	0.330	0.249	0.295	19
November	0.350	0.310	0.321	16

(up to the Last Trading Day)

Source: the website of the Stock Exchange (www.hkex.com.hk)

During the Review Period, the closing price of the Shares had been fluctuating considerably between the lowest of HK\$0.098 per Share, which was recorded on 21 January 2016 due to the very thin trading volume for the Shares during the period, to the highest of HK\$0.350 recorded on 22 November 2016, being the Last Trading Day. None of the Shares was transacted for three trading days out of the total 262 trading days during the Review Period. The Conversion Price of HK\$0.060 per Conversion Share had been far below the closing prices of the Shares throughout the Review Period. The Shares have experienced a sudden increase in trading volume and Share price on 27 September and 7 October 2016 to HK\$0.224 and HK\$0.300, respectively. On 30 September 2016, the Company made a voluntary announcement that the Company is in discussions in relation to the formation of a joint venture securities company in the PRC, which was still in progress and no legally binding agreement for that has been entered into between the parties. Since then, the closing prices of the Shares had been remaining stable, but experienced a sudden drop to HK\$0.255 on 28 October 2016 but immediately rebound to HK\$0.305 on the next trading day without any particular reason(s), and then been going up with gradual increasing trend from end of October 2015 to the Last Trading Day to HK\$0.350 per Share. On 8 November 2016,

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the Company made a positive profit alert announcement that the Group is expected to record a profit attributable to the Shareholders for the six months ended 30 September 2016 as compared to a loss of approximately HK\$11.6 million for the corresponding period in the last FY 2015. On 18 November 2016, the Company further clarify that after making further assessment on the latest information available to the Board, in addition to the gain arising from the disposal of shares and benefits related to shareholders loan of Measure Up International Limited as disclosed in the announcement dated 8 November 2016, the Group is expected to record a larger profit attributable to the Shareholders than previously expected due to an unrealised gain in fair value of the derivative component of convertible bonds issued by the Company. During such period, the closing price of the Shares had basically been fluctuating within the range from HK\$0.255 to HK\$0.335 before surging to HK\$0.350 on the Last Trading Day.

Save for the above, we are not aware of any other public announcements made by the Company that were price sensitive in nature and thus, we believe that the surge in the Share price, to a large extent, may likely due to the market speculation. Based on such scenario, we consider that the recent Share price level may not be a meaningful benchmark for the purpose of analysing the fairness and reasonableness of the Conversion Price.

We are aware of that the Conversion Price represents significant discounts to the recent market prices of the Shares and might be seen to be prejudicial to the interests of the Company and the Shareholders as a whole. However, we consider that the discounts are justifiable taking into account the facts that (i) the Group had basically incurred continuous operating losses for at least the past ten FYs since the FY 2007; (ii) the Group had never generated meaningful operating cash inflow (before movements of working capital) from its business operations for at least the past ten FYs; (iii) the Group's relatively higher gearing position of approximately 118.2% as at 31 March 2016 and without obvious improvement as at 30 September 2016; (iv) the uncertain and challenging prospects and outlook of the Group as detailed in the section headed "Historical financial information on and prospects of the Group" above; and (v) the Conversion Price of HK\$0.060 per Conversion Share is equivalent to that offered to other independent subscribers originally under the PAL Convertible Bonds as well as Riverhead Convertible Bonds. Also given the extremely low liquidity of the Shares as detailed in the section headed "Liquidity of the Shares" below, we consider that the prevailing market price of the Shares might not truly reflect the value of the Shares, and might also be seen to be abnormal and unrealistic when compared to that of the industry peers listed on the Main Board of the Stock Exchange, on the basis that the closing price of the Shares on the Last Trading Day at HK\$0.350 would imply a P/B Ratio of about 12.0 times based on the net asset value per Share at approximately HK\$0.029 as at 31 March 2016, which is far above the average P/B Ratio of the Comparables of approximately 2.03 times as analysed in details below.

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Liquidity of the Shares

The average daily number of Shares traded per month, and the respective percentages of the Shares' monthly trading volume during the Review Period as compared to (i) the total number of issued Shares held by the public as at the Last Trading Day; and (ii) the total number of issued Shares as at the Last Trading Day are tabulated as follows:

	Total monthly trading volume of the Shares	Average trading volume of the Shares per trading day during the month	% of average daily trading volume of the Shares to the average total issued Shares (Note 1)	% of average daily trading volume of the Shares to average public float Shares (Note 2)	Number of trading days in each month
2015					
November	97,184,000	4,627,810	0.14%	0.21%	21
December	35,874,000	1,630,636	0.05%	0.08%	22
2016					
January	63,078,000	3,153,900	0.09%	0.15%	20
February	30,216,000	1,678,667	0.05%	0.08%	18
March	207,850,000	9,897,619	0.29%	0.46%	21
April	71,772,000	3,588,600	0.10%	0.17%	20
May	132,452,000	6,307,238	0.18%	0.29%	21
June	288,636,000	13,744,571	0.40%	0.64%	21
July	88,508,000	4,425,400	0.13%	0.21%	20
August	279,016,000	12,682,545	0.37%	0.59%	22
September	551,804,000	26,276,381	0.77%	1.22%	21
October	840,674,282	44,246,015	1.29%	2.05%	19
			(Note 3)	(Note 4)	
November (up to the Last Trading Day)	368,320,000	23,020,000	0.62%	0.93%	16

Source: the website of the Stock Exchange (www.hkex.com.hk)

Notes:

1. Based on 3,418,385,668 Shares in issue for the eleven months from 1 November 2015 to 31 October 2016.
2. Based on 2,156,955,668 Shares in issue held by the Independent Shareholders for the eleven months from 1 November 2015 to 31 October 2016.
3. Based on 3,726,077,975 Shares in issue as at the Last Trading Day.
4. Based on 2,464,647,975 Shares in issue held by the Independent Shareholders as at the Last Trading Day.

The above table illustrates that the average daily trading volume of the Shares per month was extremely thin during the Review Period. The average daily trading volume of the Shares in each month ranged from approximately 1,630,636 Shares in December 2015 to 44,246,015 Shares in October 2016, representing approximately 0.05% and 1.29% to the total number of issued Shares, respectively, as at the

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end of these two months. Save and except for October 2016, the average daily trading volume of the Shares was below 2.0% of the total number of issued Shares held by the public as at the Last Trading Day during the entire Review Period. None of the Shares was transacted for three trading days out of the total 262 of trading days during the Review Period. Given that the Shares were extremely illiquid during the Review Period, such thin trading volume may indicate difficulty to pursue sizeable equity financing alternatives in the stock market.

Comparable analysis with industry peers

As mentioned in the “Letter from the Board” of the Circular, the principal amount of the New Convertible Bonds and the initial Conversion Price were determined by the Company and each of the subscribers for the New Convertible Bonds after arm’s length negotiations by reference to, among other things, the initial Conversion Price of the Previous Subscription, the liquidity, the historical trading prices of the Shares, the consolidated net asset value and the financial performance of the Group for the year ended 31 March 2016.

In assessing the fairness and reasonableness of the initial Conversion Price, it is the general practice to apply commonly used benchmarks for evaluating the value of companies. We have not considered applying (i) the price-to-earnings ratio(s) (the “**P/E Ratio(s)**”) as the Group has generally been loss-making during at least the past ten FYs since the FY 2007, and therefore no meaningful earnings could then be applied for calculating the P/E Ratios; and (ii) the dividend approach as the Company has not declared and distributed any dividends since the Shares listed on the Main Board of the Stock Exchange in May 2001, failing which, the remaining net asset approach (i.e. by computing the price-to-book ratio(s), the “**P/B Ratio(s)**”) can only be considered for our evaluation analysis, even though the Company and the Comparables are not fixed asset based companies in nature, such as property developers, property investment and manufacturing companies etc.. Nevertheless, having considered our general industry practice that P/E Ratios as well as P/B Ratios have always been inter-applicable to evaluate the value of banks and financial institutions listed on stock exchanges, we consider that P/B Ratios could also be reasonably applied for securities related companies listed on the Stock Exchange, on the basis that their key assets are generally comprising bank and cash balances, time deposits, investments held for trading, available-for-sale financial assets, loan and advance receivables, trade receivables from clients and securities clearing house(s) etc., all of which are closely cash assets in nature.

However, we have identified six companies listed on the Main Board of the Stock Exchange, the business nature of which are directly comparable to the Group (the “**Comparables**”) and shall be exhaustive, on the basis that all of which (i) had generated their turnover/revenue substantially from securities related operations in Hong Kong with appropriate licences registered with the SFC; and (ii) with relatively smaller market capitalisation at around or below HK\$2,000 million as at the Last Trading Day. Other securities industry players under our research having their very much larger market capitalization and/or net asset value when compared to that of the Group, which we consider incomparable and therefore inappropriate to be included in our analysis. Accordingly, we consider to apply the net asset approach (i.e. by computing the P/B Ratios) in making analysis for the Independent Shareholders’ indication and reference for how the P/B Ratios of the securities industry in Hong Kong performed. To the best of our knowledge, effort and endeavour and based on our independent researches conducted, the list of six Comparables shall represent fair and representative comparables to the Group

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on the grounds that we have included all the relatively meaningful available Comparables in the market, and their principal business activities are also securities related businesses conducted in the Hong Kong local market. Independent Shareholders should note that the business, scale of operation, trading prospect, target market, service mix and capital structure of the Company are not exactly the same as those of the Comparables and we have not conducted any in-depth investigation into business and operations of the Comparables, save for the aforesaid selection criteria. Nevertheless, we consider that the Comparables can still be meaningful for the Independent Shareholders' additional reference in assessing the fairness and reasonableness of the initial Conversion Price. Our relevant findings are summarised in the table below.

Company name (Stock Code)	Principal business activities	Share price as at the Last Trading Day HK\$	Market capitalisation as at the Last Trading Day HK\$' million	Net asset value HK\$' million (Note 1)	P/B Ratios Times (Notes 2 & 3)
Cinda International Holdings Limited (111)	Corporate finance, securities broking, commodities and futures broking, financial planning and insurance broking, asset management	1.090	698.9	696.8	1.00
Sunwah Kingsway Capital Holdings Limited (188)	Investment in securities, stock, options, futures and commodities brokerage, provision of financial advisory services, asset management, money lending and other securities related financial services	0.188	1,038.0	969.3	1.07
First Shanghai Investments Limited (227)	Securities investment, corporate finance and stockbroking, property development, property investment and hotel, direct investment and management	1.450	2,057.5	3,086.3	0.67

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Company name (Stock Code)	Principal business activities	Share price as at the Last Trading Day HK\$	Market capitalisation as at the Last Trading Day HK\$' million	Net asset value HK\$' million (Note 1)	P/B Ratios Times (Notes 2 & 3)
CASH Financial Services Group Limited (510)	Online and traditional brokerage of securities, futures & options, mutual funds & insurance linked investment products; investments of securities & options; provide margin financing, money lending services & corporate finance services	0.475	1,963.8	595.6	3.30
Southwest Securities International Securities Limited (812)	Futures broking, securities broking and margin financing, corporate finance, wealth management and insurance agency, money lending and proprietary trading	0.470	1,147.4	407.7	2.81
Quam Limited (952)	Securities and futures dealing, placement services, margin financing and money lending, the provision of fund and wealth management services; website management; provision of advisory service; investment holding and securities trading	1.330	2,015.5	608.0	3.31
				Maximum	3.31
				Average	2.03
				Median	1.94
				Minimum	0.67

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Company name (Stock Code)	Principal business activities	Share price as at	Market	Net asset value HK\$' million (Note 1)	P/B Ratios Times (Notes 2 & 3)
		the Last Trading Day HK\$	capitalisation as at the Last Trading Day HK\$' million		
			Conversion Price		
The Company (290) (Note 3)		0.060	223.6	108.7	2.06

Source: the website of the Stock Exchange (www.hkex.com.hk)

Notes:

1. The net asset values attributable to owners of the Comparables are extracted from their respective latest annual reports prior to the Last Trading Day.
2. P/B Ratios of the Comparables are calculated based on their respective closing prices as at the Last Trading Day and the net asset values attributable to owners of the Comparables, divided by the total number of issued shares as at the Last Trading Day.
3. The implied P/B Ratio of the Company is calculated based on the initial Conversion Price multiplied by 3,726,077,975 Shares in issue of the Company as at Last Trading Day over the consolidated net asset value attributable to owners of the Company of approximately HK\$108.7 million.

As illustrated in the above table, the P/B Ratios of the Comparables ranged from approximately 0.67 times to 3.31 times. The average P/B Ratios of the Comparables are approximately 2.03 times. The implied P/B Ratio of the Company, based on the initial Conversion Price of HK\$0.060 per Conversion Share is approximately 2.06 times, which is closely comparable with, and slightly higher than, the average P/B Ratios of the Comparables at 2.03 times and also within the range of the Comparables' P/B Ratios.

Having considered that (i) the implied P/B Ratio by the initial Conversion Price at approximately 2.06 times is closely comparable with, and slightly higher than, the average P/B Ratios of the Comparables at 2.03 times; (ii) the generally loss-making operating performance of the Group during at least the past ten FYs since the FY 2007; (iii) the Group's unsound financial position as at 31 March 2016 having a relatively higher gearing position of approximately 118.2% and without obvious improvement as at 30 September 2016; (iv) the Group's operating performance in the ordinary and usual course of business for the six months ended 30 September 2016 could not be regarded as really turnaround by relying on such non-operating gains which are non-recurring in nature; and (v) the future outlook and prospects of the Group are still uncertain and challenging, we consider the initial Conversion Price, with reference to the above implied P/B Ratios, is fair and reasonable when compared to the Group's own asset structure, persistent loss-making operating performance, unsound financial position, the current market valuation and pricing of shares of the other listed companies in the same industry.

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Comparison with other convertible bonds/notes

To evaluate the fairness and reasonableness of the terms of the New Convertible Bonds, we have made a comparison of convertible bonds/notes issued by companies listed on the Main Board of the Stock Exchange over the past almost three months. We have identified 19 issues of convertible bonds/notes that (i) were announced by other companies listed on the Main Board of the Stock Exchange during the past three months up to and including the Last Trading Day and has not been terminated as of the Latest Practicable Date; and (ii) were issued for fund raising purposes irrespective of their funding size (collectively, the “**CB Comparable(s)**”). Independent Shareholders should note that the businesses, operations and prospects of the Company may not be the same as, or even substantially different from, that of the CB Comparables; and we have not conducted any in-depth investigation into the respective businesses and operations of the CB Comparables.

Having considered the recent volatility of the capital market in Hong Kong and that the CB Comparables (i) adequately covered the prevailing market conditions and sentiments of the capital market in Hong Kong; (ii) such period represented recent structure of the convertible bonds/notes issues in Hong Kong; and (iii) the number of the CB Comparables identified allowed the Independent Shareholders to have a general understanding of recent issues of convertible bonds/notes being conducted in the capital market of Hong Kong, accordingly, we considered that the size of the CB Comparables is adequate, and represents fair and representative samples.

Company name (Stock Code)	Date of announcement (2016)	Principal amount <i>HK\$' million</i>	Maturity <i>Month</i>	Coupon interest rate per annum %	Conversion price represented premium/ (discount) over/to the last trading day as per the respective announcement %	Conversion price represented premium/ (discount) over/to the last five trading days as per the respective announcement %
The United Laboratories International Holdings Limited (3933)	21 November	1,014.0	60	4.5	15.0	18.3
Lamtex Holdings Limited (1041)	21 November	200.0	24	2.0	0.0	(0.35)
Asia Allied Infrastructure Holdings Limited (711)	20 November	214.1	12	10.0	1.41	0.0

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Company name (Stock Code)	Date of announcement (2016)	Principal amount <i>HK\$' million</i>	Maturity <i>Month</i>	Coupon interest rate per annum %	Conversion price represented premium/ (discount) over/to the last trading day as per the respective announcement %	Conversion price represented premium/ (discount) over/to the last five trading days as per the respective announcement %
LVGEM (China) Real Estate Investment Company Limited (95)	6 November	780.0	24	5.5	13.1	13.5
AVIC Joy Holdings (HK) Limited (260)	3 November	140.0	24	4.0	2.9	(7.3)
Kiu Hung International Holdings Limited (381)	28 October	165.0	24	8.0	(13.39)	(18.52)
Prosperity International Holdings (H.K.) Limited (803)	26 October	100.0	36-72	5.0	5.63	10.62
China Huarong Energy Company Limited (1101)	24 October	103.5	24	7.0	116.49	118.3
Wuling Motors Holdings Limited (305)	13 October	400.0	36	4.0	22.8	24.1
Haitong International Securities Group Limited (665)	11 October	3,880.0	60	Nil	32.00	28.80
Silverman Holdings Limited (1616)	3 October	200.0	24-36	7.0	15.24	13.08
China Putian Food Holding Limited (1699)	28 September	150.0	24	5.0	9.09	8.36
TC Orient Lighting Holdings Limited (515)	26 September	285.0	36	7.0	(67.21)	(60.82)
Sun Century Group Limited (1383)	20 September	570.0	24	Nil	4.0	3.2

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Company name (Stock Code)	Date of announcement (2016)	Principal amount <i>HK\$' million</i>	Maturity <i>Month</i>	Coupon interest rate per annum %	Conversion price represented premium/ (discount) over/to the last trading day as per the respective announcement %	Conversion price represented premium/ (discount) over/to the last five trading days as per the respective announcement %
Lee & Man Handbags Holding Limited (1488)	18 September	1,500.0	60-84	3.0	(5.6)	(6.8)
Rentian Technology Holdings Limited (885)	9 September	858.0	36	5.5	1.03	0.34
Fullshare Holdings Limited (607)	7 September	350.0	12	Nil	(32.13)	(30.56)
SMI Culture & Travel Group Holdings Limited (2366)	5 September	65.0	12-24	5.0	(3.57)	10.66
Sino Energy International Holdings Group Limited (1096)	31 August	120.0	24	7.5	11.44	12.78
	Maximum	3,880.0	60.0	10.0	116.5	118.3
	Average	583.9	30.3	5.6	6.7	7.2
	Median	214.1	24.0	5.3	4.0	8.4
	Minimum	65.0	12.0	2.0	(67.2)	(60.8)
The Company (290)	22 November	Up to 570.0	36	2.0	(82.9)	(81.4)
	20 September	390.0	36	2.0	(63.0)	(63.9)

Source: the website of the Stock Exchange (www.hkex.com.hk)

The premium/discount represented by the conversion price of the respective CB Comparables over/ to their respective closing price of the shares on the last trading day ranged very widely from a discount of approximately 67.2% to a premium of approximately 116.5% with an average premium of approximately 6.7%. The discount of the initial Conversion Price of approximately 82.9% to the closing price of the Shares on the Last Trading Day is far below the average premium over the closing price of shares of CB Comparables and out of the price range of the CB Comparables. However, when comparing with the closing price of the Shares on the date of the Previous CB Subscription Agreement on 21 September 2016, the discount of the initial Conversion Price would be approximately 63.0% and is close to the lowest end of, but still within, the price range of the CB Comparables.

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The premium/discount represented by the conversion price of the respective CB Comparables over/ to their respective average closing prices of the shares for the last five trading days also ranged very widely from a discount of approximately 60.8% to a premium of approximately 118.3% with an average premium of approximately 7.2%. The discount of the initial Conversion Price of approximately 81.4% to the average closing price of Shares for the last five consecutive trading days (immediately prior to and including the Last Trading Day) is far below the average premium over the closing price of shares of CB Comparables and out of the price range of the CB Comparables. However, when comparing with the closing price of the Shares for the last five consecutive trading days up to and including the Previous Subscription Last Trading Day, the discount of the initial Conversion Price would be approximately 63.9% and slightly deviate from the lowest end of the price range of the CB Comparables.

Based on our independent review of and cross reference to the Previous Circular, we noted that the principal terms and conditions, including but not limited to the initial Conversion Price of HK\$0.060 per Conversion Share, between the Previous Subscription and the New Subscription, are substantially consistent in material respects, which the Directors consider to be fairly and equitably dealt with among subscribers under the New Convertible Bonds as the Previous Subscription has been delayed whilst new subscriber now joins into the New Subscription, irrespective of whether they are connected person(s) (i.e. China Cinda) or independent third parties originally, notwithstanding the Subscriber and Riverhead Capital are deemed to be connected persons of the Company pursuant to Rule 14A.20(b) of the Listing Rules. As a consequence, there has been a further deeper discount of the initial Conversion Price to the prevailing market price of the Shares when making comparison between the closing price of the Shares as at the last trading day prior to entering into the Previous CB Subscription Agreement on 20 September 2016 and the New Subscription Agreements on 22 November 2016. The fluctuation of market price of the Shares has been out of control of the Company. As analysed in the below, the current Share price might not reflect the true value of the Shares, and might also be seen to be abnormal and unrealistic when compared to that of the industry peers listed on the Main Board of the Stock Exchange, on the basis that the closing price of the Shares on the Last Trading Day at HK\$0.350 would imply a P/B Ratio of about 12.0 times based on the net asset value per Share at HK\$0.029 as at 31 March 2016, which is far above the average P/B Ratios of the Comparables of merely 2.03 times.

Based on our understanding from the Company, the Directors have considered that it would be expedient for the Company to offer a deeper discount of the initial Conversion Price to the prevailing market price of the Shares at the time of the finalizing the Previous Subscription in September 2016, because the Company was not financially sound and affordable to offer a higher coupon interest rate on the New Convertible Bonds, in particular view of its (i) persistent loss-making operating performance over at least the past ten FYs since the FY 2007; and (ii) relatively higher gearing position of approximately 118.2% as at 31 March 2016 and without obvious improvement as at 30 September 2016. Failing to do so, there would not be investors and/or convertible note subscribers willing to invest into the Company, in particular of the relatively larger fund-raising size of initially HK\$390.0 million, and may be up to the maximum of HK\$570.0 million, when comparing to the net asset value of the Group of merely HK\$108.7 million as at 31 March 2016. The Directors believe that potential investors always alert to balance their reasonable risk and return during the period of New Convertible Bonds (i.e. three years), so a deeper discount to the prevailing market price of the Shares is inevitably and justifiably to be offered to them, in particular view of (i) the unsound operating performance and financial position as well as the uncertain and challenging prospects and outlook of the Group; and (ii) the comparatively much lower coupon interest rate of merely 2% per annum attributable thereto.

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Notwithstanding the initial Conversion Price is below the lowest end of the historical trading price of the Shares during the Review Period and represents a discount to the average of the closing prices of the shares of the CB Comparables, having considered (i) the future Share price is subject to changes, while the New Subscription represents a commitment of the substantial Shareholder as well as other subscribers in supporting the future development of the Company throughout the investment period; (ii) the significant premium of the Conversion Price of approximately 105.5% over the audited consolidated net asset value per Share as at 31 March 2016; (iii) the generally loss-making operating performance of the Group during at least the past ten FYs since the FY 2007; (iv) the Group's relatively high gearing position of approximately 118.2% as at 31 March 2016 and without obvious improvement as at 30 September 2016; (v) the future prospects and outlook of the Group are still uncertain and challenging; (vi) the extremely low liquidity of the Shares; and (vii) the offer of discount to the closing prices is not an uncommon market practice for accommodating uncertainty that might emerge during the period of the convertible bonds for few years as illustrated in the above list of CB Comparables, we consider that the initial Conversion Price is fair and reasonable so far as the Independent Shareholders are concerned, and is in the interests of the Company and the Independent Shareholders as a whole.

Interest Rate

The interest rate of the CB Comparables ranges from nil to 10.0% per annum with an average interest rate of approximately 5.6% per annum; whilst the interest rate of the New Convertible Bonds of 2.0% per annum falls within the said market range and is lower than the average interest rate of the CB Comparables. Hence, we consider that the interest rate of the New Convertible Bonds is fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Independent Shareholders as a whole.

Based on the Annual Report for the FY 2016, the Group has issued corporate bonds with maturity period of one year to seven years and aggregate principal amount of HK\$86.5 million to a number of independent third parties. These corporate bonds are unsecured and carry coupon interest at fixed rate of 6.0% to 7.0% per annum with interest payable annually in arrears. Given the New Convertible Bonds will also be unsecured, we consider that the comparatively much lower interest rate of 2.0% per annum attributable to the unsecured New Convertible Bonds is favourable to the Group, in particular view of (i) the generally loss-making operating performance of the Group during at least the past ten FYs since the FY 2007; (ii) the Group's relatively higher gearing position of approximately 118.2% as at 31 March 2016 and without obvious improvement as at 30 September 2016; (iii) the Group's operating performance in the ordinary and usual course of business for the six months ended 30 September 2016 could not be regarded as really turnaround by relying on such non-operating gains which are non-recurring in nature; and (iv) the future prospects and outlook of the Group are still uncertain and challenging.

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Specific Mandate

The Cinda Subscription Agreement, the Subscription Agreement (as amended and supplemented by the Supplemental Agreement) and the Riverhead Subscription Agreement and the transactions contemplated thereunder, including the allotment and issue of the Conversion Shares under the Specific Mandate, are subject to the approval of the Shareholders at the EGM.

Application will be made by the Company to the Stock Exchange for the grant of listing of and permission to deal in the Conversion Shares.

4. Fund raising activities in the past twelve months

On 18 March and 27 June 2016, the Company had completed two fund-raising exercises by issuing the convertible bonds to independent third parties with net proceeds of HK\$40.0 million and HK\$32.0 million, respectively, which had been used for settlement of previous debt owed to the subscriber of relevant convertible bonds.

Save for the above, the Company did not carry out any equity fund raising activities during the past 12 months prior to the Latest Practicable Date.

5. Information on the subscribers for the New Convertible Bonds

China Cinda

China Cinda is a joint stock limited company established in the PRC whose shares are listed on the Main Board of the Stock Exchange (stock code: 1359). It is a leading asset management company in the PRC. Its principal business segments include (i) distressed asset management business; (ii) financial investment and asset management business and (iii) financial services business. As at the Latest Practicable Date, China Cinda (through Mankind Investment) is interested in approximately 11.43% of the entire issued share capital of the Company.

As at the Latest Practicable Date, China Cinda did not have any agreement or arrangement or understanding with Riverhead Capital and/or the Subscriber.

Mankind Investment

Mankind Investment is a limited liability company incorporated in the BVI and an indirect wholly-owned subsidiary of China Cinda. It is an investment holding company.

The Subscriber

The Subscriber is a limited liability company incorporated in the BVI. On 21 November 2016, Riverhead Capital transferred its entire shareholding interest in the Subscriber to Best Fortress upon which the Subscriber is wholly-owned by Best Fortress, a company incorporated in the BVI which is in turn owned as to 90% by Mr. Yip and as to 10% by Mr. Chung. The Subscriber is an investment holding company. For more background information of each of Mr. Yip and Mr. Chung, please refer to the "Letter from the Board" of the Circular.

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Riverhead Capital

Riverhead Capital is a limited liability company incorporated in the Cayman Islands and is owned as to 80% by Mr. Xie and as to 20% by Ms. Xie Juhan, who is the daughter of Mr. Xie. Riverhead Capital is an investment holding company. For more background information of Mr. Xie, please refer to the “Letter from the Board” of the Circular

6. Reasons for the New Subscription and use of proceeds

As disclosed in the Previous Circular, it is expected that the introduction of the strategic investors under the Previous Subscription is a valuable opportunity for the expansion of the scale of business of the Company. In light of Mr. Xie’s strong background, extensive experience and renowned status in the financial services industry in the PRC and his contribution to the Company, China Cinda, a substantial shareholder of the Company, which as at the Latest Practicable Date, through Mankind Investment is interested in approximately 11.43% shareholding interests in the Company, is confident that with the leadership and business network of Mr. Xie, the Group will be en route for rapid business expansion and China Cinda has expressed its interest to the Board to commit further funding to the Company by way of subscription of convertible bonds and to increase its shareholding interests in the Company.

After arm’s length negotiation between the Company, China Cinda, the Subscriber and Riverhead Capital (a company that is owned as to 80% by Mr. Xie and 20% by Ms. Xie Juhan), certain terms and structure of the Previous Subscription have been amended and it has been agreed among themselves that each of China Cinda (through Mankind Investment), the Subscriber and Riverhead Capital will subscribe for the Cinda Convertible Bonds, the PAL Convertible Bonds and the Riverhead Convertible Bonds, respectively, with the same maturity and Conversion Price under the Previous Subscription. In anticipation of the contribution to the future business expansion of the Group from each of the subscribers under the New Subscription, it has been agreed among Best Fortress and Riverhead Capital (which were originally the shareholders of the Subscriber holding as to 55% equity interests and 45% equity interests in the Subscriber respectively prior to the New Subscription) and China Cinda, to reallocate the total principal amount of the convertible bonds of HK\$390,000,000 pursuant to the Previous CB Subscription Agreement such that out of the convertible bonds in the principal amount of HK\$390,000,000 under the Previous CB Subscription Agreement, convertible bonds in the principal amount of HK\$110,754,000 has been reallocated to China Cinda, while the remaining balance of the convertible bonds in the principal amount of HK\$279,246,000 (the “**Remaining Balance**”) has been split between Best Fortress and Riverhead Capital proportionately as to HK\$153,585,000 (representing approximately 55% of the Remaining Balance) as the principal amount of the PAL Convertible Bonds to be subscribed by Best Fortress through the Subscriber (now being wholly owned by Best Fortress after entering into of the New Subscription) and as to HK\$125,661,000 (representing approximately 45% of the Remaining Balance) as the principal amount of the first tranche of the Riverhead Convertible Bonds to be subscribed by Riverhead Capital. China Cinda has also committed to provide its financial support to the Company by granting an unconditional and irrevocable cash loan of HK\$800,000,000 at a favorable interest rate of 6% per annum for the future expansion of the Group’s business. In view that the availability of the Cinda Loan represents the financial support from China Cinda for the future expansion of the Group’s businesses, it has been agreed between the Company and China Cinda to include the entering into of the Cinda Loan as a condition precedent for the issuance of the Cinda Convertible Bonds

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to China Cinda such that the Company could secure the Cinda Loan when issuing the Cinda Convertible Bonds to China Cinda in order to align the interests between the Company and China Cinda. For the ease of operation of the day-to-day use of the proceeds drawn down from the loan, the Board has designated a sub-committee for the approval of such use of the proceeds. The sub-committee will comprise four committee members of which one of them will be Mr. Xie, one of them will be the Director to be appointed by China Cinda and the other two members will be appointed by the Company. The use of the Cinda Loan is subject to an unanimous approval of the sub-committee.

The Board believes that with the financial resources from China Cinda and the leadership from Mr. Xie, the New Subscription will bring about valuable opportunities to the Company for the expansion of its business scale and to tap into the PRC financial services market to capture the vast business opportunities through expansion of its capital base. The New Subscription will provide the Company with the opportunity to forge a closer business relationship with China Cinda, the Subscriber and Mr. Xie and pave the way for future business co-operations.

Further, with the continuing expansion of commercial banks and financial institutions into brokerage and related businesses in Hong Kong as well as acquisitions and mergers of local securities firms by/with Chinese and overseas investors and securities firms, the financial services market continues to consolidate and become increasingly dominated by China and foreign securities firms with substantial financial backings. The Board believes that in order to compete successfully against the financial powerhouses, it is imperative for local securities firms, like the Company, to expand its business scale and to tap into the PRC financial services market to capture the vast business opportunities through expansion of its capital base.

Based on the Annual Report for the FY 2016, the Group has issued corporate bonds with one to seven years and aggregate principal amount of HK\$86.5 million to a number of independent third parties. These corporate bonds are unsecured and carry coupon interest at fixed rate of 6.0% to 7.0% per annum with interest payable annually in arrears. Given the facts that (i) the Group has not been operating profitably for at least ten FYs since FY 2007 with its relatively higher gearing position as at 31 March 2016, it would be difficult for the Company to obtain a huge amount of bank borrowings at a favourable interest rate; (ii) the Cinda Loan of HK\$800.0 million under a two-year term at an interest rate of 6% per annum is comparable to, or slightly lower than, the Group's current cost of funding, though which is slightly higher than the prevailing prime lending rates offered by major banks in Hong Kong ranging from 5% to 5.25% per annum; (iii) there has been general anticipation that the interest rate in the local money market would move upwards in the coming years; and (iv) the use of the Cinda Loan is subject to an unanimous approval of the sub-committee for the purpose of imposing a stringent control over the future utilization of cash resources drawn down from the Cinda Loan, which in turn, would better safeguard the interests of not only China Cinda as the fund provider, but also the Company and the Shareholders as a whole. On such basis, we are of the view that the provision of the Cinda Loan to the Company is beneficial to the Group and on normal commercial terms, fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

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Upon the New Subscription Completion, gross proceeds from the New Subscription will continue to be HK\$390,000,000 before expenses, and the estimated net proceeds of the New Subscription will be approximately HK\$385,000,000 after deduction of the estimated expenses to be incurred in relation to the New Subscription. The Company intends to apply the net proceeds from the New Subscription in the same way as disclosed in the Previous Circular as follows:

- (i) approximately HK\$180,000,000 for the injection of capital to the wholly-owned Securities Subsidiary of the Company and expanding its margin financing and underwriting businesses;
- (ii) approximately HK\$150,000,000 for expanding its money lending business;
- (iii) approximately HK\$12,000,000 for engaging in private equity investments;
- (iv) approximately HK\$9,000,000 for strengthening the capital base of its asset management, wealth management and corporate financing business; and
- (v) the remaining balance of approximately HK\$34,000,000 for the general working capital of the Group which includes staff costs, rental, professional fee, marketing expenses etc.

For further details of the above uses of proceeds, please refer to the “Letter from the Board” of the Circular.

The gross proceeds of the Tranche 1 Bonds in the principal amount of HK\$125,661,000 will form part of the gross proceeds of HK\$390,000,000 of the New Subscription upon issuance on the New Subscription Completion Date together with the Cinda Convertible Bonds and the PAL Convertible Bonds. Further details of the arrangement and use of proceeds from the Riverhead Subscription II are set out in the “Letter from the Board” of the Circular.

The gross proceeds from the Riverhead Subscription II will be HK\$180,000,000 in aggregate and the net proceeds will be approximately HK\$180,000,000. The Company intends to apply the net proceeds as follows:

- (i) in respect of the Tranche 2 Bonds in the principal amount of HK\$60,000,000, as to approximately HK\$50,000,000 for further expanding its margin financing business and approximately HK\$10,000,000 for its underwriting business;
- (ii) in respect of the Tranche 3 Bonds in the principal amount of HK\$60,000,000, as to approximately HK\$36,000,000 for strengthening the capital base of its proprietary trading business in order to provide financial returns to the Shareholders; as to approximately HK\$12,000,000 for its private equity investment business such as pre-IPO investment and as to approximately HK\$12,000,000 for its asset management business to be used as seed money to its existing fund and/or new funds; and

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- (iii) in respect of the Tranche 4 Bonds in the principal amount of HK\$60,000,000, as to approximately HK\$36,000,000 for further strengthening the capital base of its proprietary trading business; as to approximately HK\$12,000,000 for its private equity investment business and as to approximately HK\$12,000,000 for its asset management business for further contribution to its existing fund or as seed money of new funds.

Since the issuance of the Tranche 3 Bonds and Tranche 4 Bonds are conditional on whether the Company could achieve the 2018 Performance Target and the 2019 Performance Target respectively, the Board is of the view that the Riverhead Subscription II could align the interests of the Shareholders and Riverhead Capital for the achievement of the long-term business expansion of the Group.

To the extent that the proceeds are not immediately required, the Group will seek potential business opportunities in the securities and financial markets so as to maximise the efficiency and return of such idle funds, broaden the income source and improve the financial position of the Group.

The Board is of the view that the New Subscription and the Riverhead Subscription II, coupled with the commitment of China Cinda and Mr. Xie in terms of the Cinda Loan and the 2018 Performance Targets and the 2019 Performance Targets, will not only provide the Company with a substantial amount of funding for business expansion, but would also put together the resources of China Cinda and Mr. Xie and align the interests with those of the Company. From this perspective, the Directors consider the New Subscription and the Riverhead Subscription II are fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

Further, in view that the completion of the New Subscription shall be subject to conditionality of the Cinda Subscription Agreement, the Subscription Agreement (as amended and supplemented by the Supplemental Agreement) and the Riverhead Subscription Agreement under the amended proposal, the Board has considered alternative ways of fund raising such as placing and preemptive issues such as rights issue or open offer.

The senior management of the Company has approached a total of four securities firms and two fund houses to discuss the possibility of underwriting a rights issue by the Company. However, given the fund raising size and the thin trading volume of the Shares, the Company was not able to identify a suitable underwriter for the preemptive issues, in addition to the high commission rates demanded by some of the securities firms approached by the Company. In the circumstances, the Board considered that it may have difficulty in finding an independent underwriter in Hong Kong which is interested to fully underwrite a rights issue or an open offer of the Company to raise the proposed amount of funds within the timeframe that would allow the Company to implement the business expansion plan and to capture the business opportunities envisaged. The Board considered that even if such an independent underwriter was identified, the rights issue or open offer would incur costly underwriting commission and the process would be relatively more time-consuming than debt financing.

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Having considered the above factors and the implementation of the expansion plan depends highly on both (i) the availability of the funding; and (ii) the support and leadership from Mr. Xie, the Board is of the view that the New Subscription and the Riverhead Subscription II will provide the Company with the necessary funding to implement the business expansion plan at a reasonable cost and bring about valuable opportunities from Mr. Xie. Hence, the Board considers that fund raising through the New Subscription and the Riverhead Subscription II is in the interest of the Company and the Shareholders as a whole.

In view of the above, we concur with the Directors view that the proposed issue of the New Convertible Bonds (i) represents a good opportunity for the Company to raise a substantial amount of fund available for its business expansion and future development with relatively lower financing cost impact when compared to the current market conditions; and (ii) will facilitate the Company to better formulate its business strategies and activities in a more efficient and cost effective way.

We also consider that the New Subscription will reinforce the cash position of the Group for its future development and strategically put the Company in an advantageous position to take up potential business and/or investment opportunities from time to time, with a more assured and available cash resources.

7. Financial impact of the issue of the New Convertible Bonds

Earnings

As advised by the Directors, the liability portion of the New Convertible Bonds will be carried at amortised cost using effective interest method in subsequent financial periods. The effective interest expenses of the New Convertible Bonds will be charged to the consolidated statement of profit or loss subsequent to the New Subscription Completion for three years, or earlier if the conversion and/or redemption of the New Convertible Bonds in full would be exercised not until the maturity date thereof.

Liquidity and working capital

Based on the Annual Reports, the Group had not been generating meaningful operating cash inflow in its ordinary and usual course of business for at least the past ten FYs from FY 2007 to FY 2016. As mentioned in the above, the net proceeds from the issuance of the New Convertible Bonds is approximately HK\$390.0 million and may be up to HK\$570.0 million, and the substantial portion of the net proceeds from the New Subscription will be applied for expanding its, among others, margin financing, underwriting and money lending businesses of the Group in the coming future.

Accordingly, it is currently expected that the overall liquidity and the working capital position of the Group will not be tied up particularly. The issuance of the New Convertible Bonds is expected to provide the Group with the necessary resources to finance its operating and working capital requirements and will better align with the timing on the use of funds in the future. As such, the overall liquidity and working capital position of the Company can be enhanced. Subsequently, any conversion thereof would be leading to an accounting treatment to reclassify the New Convertible Bonds from non-current liabilities to equity of the Group. After which, the Group's capital and shareholder base would be enhanced accordingly.

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Net asset value

According to the Interim Results Announcement, the Group had consolidated net asset value of approximately HK\$225.6 million as at 30 September 2016, and 4,036,728,859 Shares in issue as at the Latest Practicable Date, representing net asset value per Share of approximately HK\$0.0559. The initial Conversion Price of the New Convertible Bonds of HK\$0.060 per Conversion Share represents a premium of approximately 7.3% over the consolidated net asset value per Share attributable to the Shareholders of approximately HK\$0.0559 as at 30 September 2016. Assuming the Conversion Rights attaching to the New Convertible Bonds would be exercised in full to convert into Conversion Shares before their maturity, it is estimated that, for illustration only, the total net asset value of the Group and net asset value per Share would increase to approximately HK\$795.6 million and HK\$0.0588, respectively, upon full conversion of all the outstanding New Convertible Bonds of HK\$570.0 million into 9,500,000,000 new Conversion Shares at that time.

Gearing position

Based on the Interim Results Announcement, the Group had audited consolidated net asset value and aggregate interest-bearing borrowings of approximately HK\$241.6 million and HK\$225.6 million, respectively, as at 31 March 2016, representing a relatively higher gearing ratio (i.e. being calculated as the aggregate interest-bearing corporate bonds to be divided by the net asset value of the Group) of approximately 107.1% thereof. Upon the New Subscription Completion, for illustration only, the Group's gearing position would inevitably increase to approximately 359.8%, as the aggregate principal amount of HK\$570.0 million attributable to the New Convertible Bonds is almost 2.5 times of the net asset value of the Group as at 30 September 2016. However, the Directors are confident that as the initial Conversion Price is very attractive enough for the subscribers under the New Convertible Bonds when compared to the prevailing market price of the Shares, the Group's capital base would conversely be enhanced while its gearing level would be improved by possible increase in net asset value, following the possible full conversion of the New Convertible Bonds before their maturity date.

8. Potential dilution effect on the interests of other public Shareholders

Based on the shareholding structure of the Company as at the Latest Practicable Date, 2,464,647,975 Shares were held by public Shareholders, representing approximately 61.06% of the issued share capital of the Company. Assuming full conversion of the New Convertible Bonds into new Conversion Shares, corresponding shareholding of public Shareholders will be diluted to approximately 18.21%. In view of such scenario, the shareholding dilution effect appears to be pretty material, while such dilution effect is inevitable on the grounds that the Company would have received considerable amount of net proceeds from issuance of the New Convertible Bonds, the principal amounts received from the New Convertible Bonds of up to HK\$570.0 million or 2.5 times of the net asset value of the Group as at 30 September 2016.

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However, Independent Shareholders should note that dilution effect on earnings per Share and shareholding is inevitable for the issue of convertible notes, they would face a similar level of dilution if a placing as well as a rights issue or an open offer of similar size to the issue of the New Convertible Bonds is proceeded, instead of the issue of the New Convertible Bonds and their subsequent conversions while the Shareholders do not subscribe for the new Shares in full (under the rights issue or the open offer). Having considered the possible enhancement and broadening of shareholders' and capital base of the Company upon possible conversion of the New Convertible Bonds, we consider that the dilution effect on the shareholding is inevitable for the possible issue of new Shares and therefore acceptable, though on its own is not favourable, so far as the Independent Shareholders are concerned after taking into account of the expected increase in the net asset value per Share upon any possible conversion of the New Convertible Bonds into new Conversion Shares.

RECOMMENDATION

Though the transactions contemplated under the New Subscription Agreements shall be regarded as corporate financing activities instead of operating activities conducted in the ordinary and usual course of business of the Company, having considered the principal factors and reasons as discussed above and in particular of the following:

- the principal terms of the New Convertible Bonds were determined after arm's length negotiations with reference of the Previous Subscription and substantially comparable with each others offered for subscriptions, irrespective of whether they are connected person(s) or independent third parties originally, notwithstanding the Subscriber and Riverhead Capital are deemed to be connected persons of the Company pursuant to Rule 14A.20(b) of the Listing Rules;
- the Group basically had incurred persistent net losses over at least the past ten FYs since the FY 2007;
- the Group had not been generating meaningful operating cash inflow (before movements of working capital) over at least the past ten FYs since the FY 2007;
- the Group's operating performance in the ordinary and usual course of business for the six months ended 30 September 2016 could not be regarded as really turnaround by relying on such non-operating gains which are non-recurring in nature;
- the prospects and outlook of the Group would remain uncertain and challenging in the near future;
- the Company has never distributed any dividends since its listing on the Main Board of the Stock Exchange in May 2001;
- the Conversion Price of HK\$0.060 per Conversion Share represents an implied P/B Ratio of the Company of approximately 2.06 times, which is closely comparable to the average P/B Ratios of the Comparables at approximately 2.03 times;

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- the Conversion Price of HK\$0.060 represented a significant premium of approximately 105.5% over the net asset value per Share of approximately HK\$0.0292 as at 31 March 2016;
- it would be difficult for the Company to pursue sizeable equity financing alternatives because of (i) the extremely thin trading volume and liquidity of Shares in stock market during the Review Period and (ii) its unsound operating performance and financial position;
- the issuance of the New Convertible Bonds would provide financial flexibility and enhance responsiveness of the Group to take advantages of future business and investment opportunities;
- the possible positive impact on liquidity of financial resources, working capital position, the net asset value and gearing position of the Group from the New Subscription; and
- the dilution effect to the shareholding interests of the existing public Shareholders is acceptable,

we consider that the terms of the New Subscription pursuant to the New Subscription Agreements and the transactions contemplated thereunder (including the grant of the Specific Mandate) are fair and reasonable so far as the Independent Shareholders are concerned, on normal commercial terms or better, and in the interests of the Company and the Shareholders as a whole. We therefore recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the proposed resolution(s) to approve the New Subscription pursuant to the New Subscription Agreements and the transactions contemplated thereunder (including the grant of the Specific Mandate) at the EGM.

Yours faithfully,
For and on behalf of
First Shanghai Capital Limited
Fanny Lee **Nicholas Cheng**
Managing Director *Director*

Note:

Ms. Fanny Lee and Mr. Nicholas Cheng have been the Responsible Officers of Type 6 (advising on corporate finance) regulated activity under the SFO, and have over 15 years of experience in corporate finance industry. Both of them have been participating in the provision of independent financial advisory services for various connected transactions involving companies listed in Hong Kong.

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 enquires, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS**(a) Interests of Directors and chief executive of the Company**

As at the Latest Practicable Date, none of the Directors and Chief executive of the Company has any interests and short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred therein; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules.

(b) Interests of substantial shareholders of the Company

So far as is known to the Directors and the chief executives of the Company, as at the Latest Practicable Date, the following persons (other than a Director or the chief executives of the Company) had, or were deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required pursuant to section 336 of the SFO, to be entered into the register referred to therein, or, who are, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or any other member of the Group:

Long position in the Shares:

Name	Nature of interests	Number of Shares held	Approximate percentage ¹ of the issued share capital of the Company (%)
Jadehero Limited (Note 1)	Beneficial owner	800,000,000	19.81
Southlead Limited (Note 1)	Interest of controlled corporations	800,000,000	19.81
Marvel Steed Limited (Note 1)	Interest of controlled corporations	800,000,000	19.81
Mankind Investment Limited (Note 2) ("Mankind Investment")	Beneficial owner	461,430,000	11.43
China Cinda (HK) Asset Management Co., Limited ("China Cinda (HK)") (Note 2)	Interest of controlled corporations	461,430,000	11.43
China Cinda (HK) Holdings Company Limited (Note 2) ("China Cinda (HK) Holdings")	Interest of controlled corporation	461,430,000	11.43
China Cinda Asset Management Co., Limited (Note 2) ("China Cinda Asset")	Interest of controlled corporation	461,430,000	11.43
Chinese Strategic Holdings Limited (formerly known as China Railway Logistics Limited) ("Chinese Strategic") (Note 3)	Interest of controlled corporation	292,900,000	7.25
Flying Bridge Investment Limited	Beneficial owner	310,650,884	7.70

Notes:

- As at the Latest Practicable Date, Jadehero, a company incorporated in the BVI with limited liability, beneficially held 800,000,000 Shares. Jadehero is owned as to 80% by Southlead Limited and as to 20% by Marvel Steed Limited. Southlead Limited is wholly owned by Wahan Investments Limited which is in turn wholly owned by Mr. Zhao Xu Guang. Mr. Wong Kam Fat Tony, who is the former chairman of the Company and the former executive Director, is the sole beneficial owner of the entire equity interests in Marvel Steed Limited.

2. As at the Latest Practicable Date, Mankind Investment beneficially held 461,430,000 Shares. Mankind Investment is wholly-owned by China Cinda (HK) which is in turn wholly-owned by China Cinda (HK) Holdings (formerly known as Well Kent International Investment Company Limited). China Cinda (HK) Holdings is wholly-owned by China Cinda Asset. For the purpose of SFO, China Cinda (HK), China Cinda (HK) Holdings and China Cinda Asset are deemed or taken to be interested in the Shares held by Mankind Investment.
 3. As at the Latest Practicable Date, Victory Time Global Limited, Excel Return Enterprises Limited and Fameway Finance Limited beneficially held 153,800,000 Shares, 34,000,000 Shares and 105,100,000 Shares respectively. Victory Time Global Limited, Excel Return Enterprises Limited and Fameway Finance Limited are all indirect wholly-owned subsidiaries of Chinese Strategic. For the purpose of SFO, Chinese Strategic is deemed or taken to be interested in the Shares held by Victory Time Global Limited, Excel Return Enterprises Limited and Fameway Finance Limited.
- † The percentage represents the number of ordinary Shares interested divided by the number of the Company's issued Shares as at the Latest Practicable Date.

Save as disclosed above, as at the Latest Practicable Date, no person had registered an interest or short position in the Shares or underlying Shares that was required to be recorded pursuant to Section 336 of the SFO.

3. SERVICE CONTRACTS

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

4. OTHER INTERESTS OF THE DIRECTORS

As at the Latest Practicable Date, none of the Directors has any direct or indirect interests in any assets which have been acquired or disposed of by, or leased to, or are proposed to be acquired or disposed of by, or leased to, the Company or any of its subsidiaries since 31 March 2016, the date to which the latest published audited consolidated financial statements of the Company were made up.

As at the Latest Practicable Date, save for the interest of Mr. Tang Baoqi, a non-executive Director, in the Cinda Subscription Agreement, the Subscription Agreement (as amended and supplemented by the Supplemental Agreement) and the Riverhead Subscription Agreement (which are inter-conditional amongst each other) and the transactions contemplated thereunder as his directorship of the Company was nominated by China Cinda, none of the Directors is materially interested in any contract or arrangement which is significant in relation to the business of the Group.

5. EXPERT'S CONSENT AND QUALIFICATION

The following is the qualifications of the expert who has given opinion or advice which is contained in this circular:

Name	Qualification
First Shanghai	A licensed corporation under the SFO to engage in Type 6 (advising on corporate finance) regulated activity under the SFO

First Shanghai has given, and has not withdrawn, its written consent to the issue of this circular with the inclusion of its letter and all reference to its name in the form and context in which they appear.

First Shanghai does not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

First Shanghai does not have any direct or indirect interests in any assets which have been, since 31 March 2016 (being the date to which the latest published audited consolidated accounts of the Group were made up), acquired or disposed of by or leased to, any member of the Group, or which are proposed to be acquired or disposed of by or leased to, any member of the Group.

6. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors and his or her associates was interested directly or indirectly in a business, apart from his or her interest in the Company, which competes or is likely to compete with the business of the Group.

7. MATERIAL ADVERSE CHANGE

In April 2014, a writ of summons was issued by a third party in liquidation (the "Plaintiff") against Fortune (HK) Securities Limited ("F(HK)SL"), a wholly-owned subsidiary of the Company, in relation to HK\$4,000,000 ("Sum") paid to F(HK)SL pursuant to a cheque issued by the Plaintiff in September 2009 which was transferred to a client's account maintained with F(HK)SL. The Plaintiff claimed that the Sum was money belonging to him and demanded for a refund of the Sum. As advised by the legal adviser to the case, pursuant to the terms and conditions of the client's agreement entered into between the client and F(HK)SL, F(HK)SL is entitled to set off or withhold any securities and monies held in the account against any liabilities owed by the client. Having considered the legal advice, the Board believes that the said legal action does not have any material adverse impact on the Group's operation and financial position. As at the Latest Practicable Date, the said legal action is still pending. Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 March 2016, being the date to which the latest published audited consolidated financial statements of the Group were made up.

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours from 9:00 a.m. to 12:30 p.m. and from 2:00 p.m. to 5:30 p.m. (other than Saturdays, Sundays and public holidays in Hong Kong) at the principal place of business of the Company at 35/F., Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong from the date of this circular up to and including the date of the EGM:

- (a) the letter of recommendation from the Independent Board Committee, the text of which is set out on pages 45 to 46 of this circular;
- (b) the letter of advice from First Shanghai, the text of which is set out on pages 47 to 87 of this circular;
- (c) the written consent from First Shanghai referred to in the paragraph under the heading “Expert’s Consent and Qualification” in this appendix;
- (d) the Cinda Subscription Agreement, the Subscription Agreement (as amended and supplemented by the Supplemental Agreement) and the Riverhead Subscription Agreement; and
- (e) this circular.

NOTICE OF EGM



China Fortune Financial Group Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 290)

Website: <http://www.290.com.hk>

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “EGM”) of China Fortune Financial Group Limited (the “**Company**”) will be held at 11:30 a.m. on 5 January 2017 at 35th Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong for the purpose of considering and, if thought fit, passing with or without modification, the following resolutions:

SPECIAL RESOLUTION

1. “**THAT** subject to and conditional upon (i) the approval of the Capital Reduction (as defined below) by the Grand Court of the Cayman Islands (the “**Court**”), (ii) the compliance with any conditions which the Court may impose in relation to the Capital Reduction; (iii) the registration by the Registrar of Companies of the Cayman Islands of the order of the Court confirming the Capital Reduction and the minutes approved by the Court containing the particulars required under the Companies Law Chapter 22 (Law 3 of 1961 as consolidated and revised) of the Cayman Islands with respect to the Capital Reduction; and (iv) the Listing Committee of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) granting the listing of, and permission to deal in, the New Shares (as defined below) arising from the Capital Reduction:
 - (A) the issued share capital of the Company be reduced from HK\$403,672,885.90 to HK\$40,367,288.59 by: (i) the cancellation of HK\$0.09 paid-up capital on each issued share so that each issued share shall be treated as one fully paid-up share of HK\$0.01 each in the capital of the Company; (ii) the reduction of the nominal value of each authorised but unissued share from HK\$0.10 to HK\$0.01 (the “**Capital Reduction**”), such that the authorised share capital of the Company shall be reduced from HK\$500,000,000 comprising 5,000,000,000 shares of a nominal or par value of HK\$0.10 each to HK\$50,000,000 comprising 5,000,000,000 shares of a nominal or par value of HK\$0.01 each (the “**New Shares**”); and
 - (B) the credit arising from the Capital Reduction in the amount of approximately HK\$363,305,597.31 be credited towards offsetting the accumulated losses of the Company as at the effective date of the Capital Reduction, thereby reducing the accumulated losses of the Company.”

NOTICE OF EGM

ORDINARY RESOLUTIONS

2. **“THAT** subject to the passing of special resolution numbered 1 above:
- (A) forthwith upon the Capital Reduction becoming effective, the authorised share capital of the Company be increased from HK\$50,000,000 divided into 5,000,000,000 New Shares to HK\$200,000,000 divided into 20,000,000,000 New Shares of HK\$0.01 each, by the creation of an additional 15,000,000,000 New Shares (the **“Increase in Authorised Share Capital”**); and
 - (B) the Directors be and are hereby authorised to do all such acts and things and execute all such documents on behalf of the Company which they may consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the Increase in Authorised Share Capital.”
3. **“THAT** subject to the passing of the special resolution numbered 1 and ordinary resolution numbered 2 above:
- (A) the supplemental agreement (the **“Supplemental Agreement”**) dated 22 November 2016 entered into between the Company as the issuer, and Pacific Alliance Limited as the subscriber (**“PAL”**) to amend and supplement the conditional subscription agreement dated 21 September 2016 (the **“Subscription Agreement”**) entered into between the same parties, in relation to the subscription by PAL of the three-year 2% interest rate unsecured convertible bonds in the principal amount of HK\$153,585,000 (the **“PAL Convertible Bonds”**), which carry the rights to convert into New Shares (the **“Conversion Shares”**) of HK\$0.01 each in the share capital of the Company at a conversion price of HK\$0.06 per Conversion Share (subject to adjustments) and the transactions contemplated thereby be and are hereby approved, confirmed and ratified and that the board (the **“Board”**) of directors (the **“Directors”**) of the Company be and is hereby authorised to make changes or amendments to the Subscription Agreement (as amended and supplemented by the Supplemental Agreement) as it may in its absolute discretion think fit, a copy of which is produced to the meeting marked **“A”** and initialed by the Chairman of the EGM for the purpose of identification;
 - (B) conditional upon, among others, the Stock Exchange granting the listing of, and permission to deal in, the Conversion Shares, the issue and allotment of the Conversion Shares which may fall to be issued upon the exercise of the conversion rights attaching to the Convertible Bonds be and is hereby approved; and
 - (C) the Directors be and are hereby authorised to do all such acts and things and execute all such documents on behalf of the Company which they may consider necessary, expedient or desirable to give effect to the terms of the Subscription Agreement (as amended and supplemented by the Supplemental Agreement), the allotment and issue of the Conversion Shares or any transactions contemplated under the Subscription Agreement (as amended and supplemented by the Supplemental Agreement).”

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4. “**THAT** subject to the passing of the special resolution numbered 1 and ordinary resolutions numbered 2 and 3 above:
- (A) the conditional subscription agreement (the “**Cinda Subscription Agreement**”) dated 22 November 2016 entered into between the Company as the issuer, and Mankind Investment Limited as the subscriber (“**Mankind Investment**”), in relation to the subscription by Mankind Investment of the three-year 2% interest rate unsecured convertible bonds in the principal amount of HK\$110,754,000 (the “**Cinda Convertible Bonds**”), which carry the rights to convert into New Shares (the “**Conversion Shares**”) of HK\$0.01 each in the share capital of the Company at a conversion price of HK\$0.06 per Conversion Share (subject to adjustments) and the transactions contemplated thereby be and are hereby approved, confirmed and ratified and that the Board be and is hereby authorised to make changes or amendments to the Cinda Subscription Agreement as it may in its absolute discretion think fit, a copy of which is produced to the meeting marked “B” and initialed by the Chairman of the EGM for the purpose of identification;
 - (B) conditional upon, among others, the Stock Exchange granting the listing of, and permission to deal in, the Conversion Shares, the issue and allotment of the Conversion Shares which may fall to be issued upon the exercise of the conversion rights attaching to the Cinda Convertible Bonds be and is hereby approved; and
 - (C) the Directors be and are hereby authorised to do all such acts and things and execute all such documents on behalf of the Company which they may consider necessary, expedient or desirable to give effect to the terms of the Cinda Subscription Agreement, the allotment and issue of the Conversion Shares or any transactions contemplated under the Cinda Subscription Agreement.”
5. “**THAT** subject to the passing of the special resolution numbered 1 and ordinary resolutions numbered 2, 3 and 4 above:
- (A) the conditional subscription agreement (the “**Riverhead Subscription Agreement**”) dated 22 November 2016 entered into between the Company as the issuer, and Riverhead Capital (International) Management Co., Ltd. as the subscriber (“**Riverhead Capital**”), in relation to the subscription by Riverhead Capital of the three-year 2% interest rate unsecured convertible bonds in the principal amount of HK\$305,661,000 (the “**Riverhead Convertible Bonds**”) which will be issued in four tranches in the principal amount of HK\$125,661,000, HK\$60,000,000, HK\$60,000,000 and HK\$60,000,000 respectively, and carry the rights to convert into New Shares (the “**Conversion Shares**”) of HK\$0.01 each in the share capital of the Company at a conversion price of HK\$0.06 per Conversion Share (subject to adjustments) and the transactions contemplated thereby be and are hereby approved, confirmed and ratified and that the Board be and is hereby authorised to make changes or amendments to the Riverhead Subscription Agreement as it may in its absolute discretion think fit, a copy of which is produced to the meeting marked “C” and initialed by the Chairman of the EGM for the purpose of identification;

NOTICE OF EGM

- (B) the appointment of Mr. Xie Zhichun as an executive Director and chairman of the Board be and is hereby approved;
- (C) conditional upon, among others, the Stock Exchange granting the listing of, and permission to deal in, the Conversion Shares, the issue and allotment of the Conversion Shares which may fall to be issued upon the exercise of the conversion rights attaching to the Riverhead Convertible Bonds be and is hereby approved; and
- (D) the Directors be and are hereby authorised to do all such acts and things and execute all such documents on behalf of the Company which they may consider necessary, expedient or desirable to give effect to the terms of the Riverhead Subscription Agreement, the allotment and issue of the Conversion Shares or any transactions contemplated under the Riverhead Subscription Agreement.”

By order of the Board
China Fortune Financial Group Limited
WONG Kam Choi MH
Chairman

Hong Kong, 13 December 2016

Registered office:

P.O. Box 309, Uglan House
Grand Cayman, KY1-1104
Cayman Islands

Principal place of business in Hong Kong:

35/F., Office Tower, Convention Plaza
1 Harbour Road
Wanchai
Hong Kong

Notes:

- (a) Any member of the Company entitled to attend and vote at the EGM is entitled to appoint a proxy to attend and vote on behalf of him/her/it. A proxy needs not be a member. A member of the Company who is the holder of two or more shares of the Company may appoint more than one proxy to represent him/her/it to attend and vote on his/her/its behalf. If more than one proxy is so appointed, the appointment shall specify the number and class of shares of the Company in respect of which each such proxy is so appointed.
- (b) In order to be valid, a form of proxy together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power of authority, must be deposited at the Company's branch share registrar and transfer office in Hong Kong, Union Registrars Limited at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and delivery of the form of proxy shall not preclude a member from attending and voting in person at the EGM or any adjournment thereof should such member so wishes and, in such event, the form of proxy shall be deemed to be revoked.
- (c) Where there are joint registered holders of any shares of the Company, any one of such persons may vote at the EGM, either personally or by proxy, in respect of such shares as if he were solely entitled thereto; but if more than one of such joint holders be present at the EGM personally or by proxy, that one of the said persons so present being the most, or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand in the register of members of the Company in respect of the relevant joint holding.
- (d) All votes to be taken at the EGM shall be conducted by way of poll.

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- (e) If a Typhoon Signal No. 8 or above is hoisted, a or a “Black” rainstorm warning signal is in force at or at any time after 8:00 a.m. on the date of the EGM, the EGM will be postponed. The Company will post an announcement on the Company’s website and HKExnews website to notify the shareholders of the Company of the date, time and place of the rescheduled EGM.

As at the date of this notice, the Board consists of three executive Directors, namely Mr. WONG Kam Choi MH (Chairman), Mr. HON Chun Yu and Ms. FU Wan Sheung; two non-executive Directors, namely Mr. TANG Baoqi and Mr. WU Ling; and three independent non-executive Directors, namely Mr. CHAN Kin Sang, Mr. NG Kay Kwok and Mr. TAM B Ray Billy.