

**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 licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **Fornton Group Limited**, you should at once hand this circular, together with the enclosed 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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## **FORNTON GROUP LIMITED**

**豐臨集團有限公司**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 1152)**

- (1) PROPOSED SHARE SUBDIVISION AND CHANGE OF BOARD LOT SIZE;  
(2) PROPOSED PLACING OF NEW SHARES AND  
CONVERTIBLE BONDS UNDER SPECIFIC MANDATE;  
AND  
(3) MAJOR TRANSACTION IN RELATION TO  
TRANSFER OF 8% EQUITY INTEREST  
IN A JOINT VENTURE COMPANY**

**Joint Financial Advisers to the Company**



**VEDA | CAPITAL**  
**智略資本**

**Placing Agent**



A letter from the Board of the Company is set out on pages 9 to 69 of this circular. A notice convening a special general meeting (the “SGM”) of the shareholders of the Company to be held at Unit A, 32nd Floor, Legend Tower, 7 Shing Yip Street, Kwun Tong, Kowloon, Hong Kong on Wednesday, 5 March 2014 at 10:00 a.m. is set out on pages SGM-1 to SGM-3 of this circular. Shareholders are advised to read the notice of the SGM set out on pages SGM-1 to SGM-3 of this circular.

Whether or not you are able to attend the SGM in person, please complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the Company’s branch share registrar in Hong Kong, Union Registrars Limited at 18/F, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong as soon as practicable and in any event not later than 48 hours before the time designated for holding of the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or at any adjourned meeting should you so wish.

17 February 2014

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## EXPECTED TIMETABLE

The expected timetable for the implementation of the Share Subdivision and the Change of Board Lot Size is set out as follows:

**2014**

Latest date and time to return form of proxy for the SGM .....	10:00 a.m. on Monday, 3 March
Date and time of the SGM .....	10:00 a.m. on Wednesday, 5 March
Publication of the announcement of the result of the SGM.....	Wednesday, 5 March
Effective date of the Share Subdivision .....	Thursday, 6 March
First day of free exchange of existing certificates for the new certificates for the Subdivided Shares.....	9:00 a.m. on Thursday, 6 March
Dealings in Subdivided Shares commence .....	9:00 a.m. on Thursday, 6 March
Original counter for trading in Shares in board lots of 4,000 Shares temporarily closes.....	9:00 a.m. on Thursday, 6 March
Temporary counter for trading in Subdivided Shares in board lot size of 8,000 Subdivided Shares (in the form of existing certificates) opens.....	9:00 a.m. on Thursday, 6 March
Original counter for trading in Subdivided Shares in board lots of 2,000 Subdivided Shares (only new share certificates for the Subdivided Shares can be traded at this counter) reopens.....	9:00 a.m. on Thursday, 20 March
Parallel trading in the Shares and Subdivided Shares (in the form of existing share certificates and new share certificates) commences .....	9:00 a.m. on Thursday, 20 March
Designated broker starts to stand in the market to provide matching services for odd lots of Subdivided Shares.....	9:00 a.m. on Thursday, 20 March
Temporary counter for trading in board lots of 8,000 Subdivided Shares (in the form of existing share certificates) closes .....	4:00 p.m. on Wednesday, 9 April

## EXPECTED TIMETABLE

2014

Parallel trading in Subdivided Shares (in the form of existing share certificates and new share certificates) ends ..... 4:00 p.m. on Wednesday, 9 April

Designated broker ceases to stand in the market to provide matching services for odd lots of Subdivided Shares ..... 4:00 p.m. on Wednesday, 9 April

Free exchange of existing certificates for the Shares for new certificates for the Subdivided Shares ends (*Note 1*) ..... 4:00 p.m. on Friday, 11 April

*Notes:*

1. Upon the Share Subdivision becoming effective, the new share certificates for the Subdivided Shares will be available for collection within a period of (10) ten business days from the submission of the existing share certificates for the Shares to the Company's branch share registrar in Hong Kong, Union Registrars Limited at 18/F, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong for exchange free of charge. The existing share certificates for the Shares will not be accepted for trading and settlement purposes after 4:00 p.m., Wednesday, 9 April 2014 but will remain effective as documents of title to such equivalent number of Subdivided Shares. From Monday, 14 April 2014 onwards, existing share certificates for the Shares will be accepted for exchange only on payment of a fee of HK\$2.50 (or such other amount as may from time to time be specified by the Stock Exchange) for each existing share certificate cancelled or new share certificate issued (whichever number of share certificates involved is higher).
2. All references to time in the expected timetable are references to Hong Kong time.

## DEFINITIONS

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

“Amended and Restated Articles”	the amended and restated articles of association to be entered into by the JV Partner Group, Top Wealth and Sino Top prior to Transfer Completion to amend certain terms of and restate the Original Articles to reflect the terms of the Transfer Agreement
“Amended and Restated JV Agreement”	the amended and restated joint venture agreement of the JV Company to be entered into by the JV Partner Group, Sino Top and Top Wealth prior to Transfer Completion to amend certain terms of and restate the JV Agreement to reflect the terms of the Transfer Agreement
“acting in concert”	has the meaning ascribed to it under the Takeovers Code
“associates”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“business day”	any day (excluding Saturdays, Sundays and public holidays, on which licensed banks generally are open for general banking business in Hong Kong)
“Bye-laws”	the bye-laws of the Company
“Capital Injection Amount”	the registered capital in the amount of RMB147,233,440 (equivalent to approximately HK\$187,354,552) to be contributed in cash by Sino Top to the JV Company pursuant to the Transfer Agreement
“CB Placing”	placing of the Convertible Bonds pursuant to the terms of the Placing Agreement
“CB Placee(s)”	any investor who is either a professional or institutional investor and other investors whom the Placing Agent has selected or procured to subscribe for any of the Convertible Bonds
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Change of Board Lot Size”	the change of the board lot size from 4,000 Shares to 2,000 Subdivided Shares upon the Share Subdivision becoming effective
“Company”	Fornton Group Limited (stock code: 1152), a company incorporated in Bermuda with limited liability and the Shares of which are listed on the main board of the Stock Exchange

## DEFINITIONS

“connected person”	has the meaning ascribed to it under the Listing Rules
“Conversion Price”	HK\$1.00 per Conversion Share (subject to adjustments)
“Conversion Share(s)”	new Subdivided Share(s) falling to be allotted and issued upon exercise of the conversion rights attaching to the Convertible Bonds
“Convertible Bonds”	the 3-year 5% per annum coupon rate unsecured non-redeemable convertible bonds in the aggregate principal amount of up to HK\$900,000,000 to be issued by the Company
“Director(s)”	the director(s) of the Company
“Enlarged Group”	the Group as enlarged by the acquisition of 8% equity interest in the JV Company
“Finance Leasing Business”	the finance leasing business to be carried out by the WFOE, in particular the finance leasing of coal mining related machineries and equipments
“Group”	the Company and its subsidiaries
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Independent Third Party(ies)”	third party(ies) and their ultimate beneficial owner(s) which are independent of the Company, the Directors, chief executive or substantial shareholders of the Company or any of its subsidiaries or any of their respective associates
“Jan 2014 LOI”	<p>the legally binding letter of intent dated 13 January 2014 entered into between Sino Top and Shanxi Zhengbang in respect of the proposed finance leasing of the Shanxi Zhengbang Equipment</p> <p>the legally binding letter of intent dated 13 January 2014 entered into between Sino Top and Shanxi Jinda in respect of the proposed finance leasing of the Shanxi Jinda Equipment</p> <p>the legally binding letter of intent dated 13 January 2014 entered into between Sino Top and Jinhui Kaichuan in respect of the proposed finance leasing of the Jinhui Kaichuan Equipment</p> <p>the legally binding letter of intent dated 13 January 2014 entered into between Sino Top and Shanxi Fuxin in respect of the proposed finance leasing of the Shanxi Fuxin Equipment</p>

## DEFINITIONS

“Jinhui Kaichuan”	山西方山金暉凱川煤業有限公司 (transliterated as Shanxi Fangshan Jinhui Kaichuan Coal Mining Company Limited*), a company established in the PRC with limited liability
“Jinhui Kaichuan Equipment”	coal mining related equipment to be leased to Jinhui Kaichuan for coal mining with an aggregate value of approximately RMB126.78 million (equivalent to approximately HK\$161.33 million)
“July 2013 LOI”	the non-legally binding letter of intent dated 12 July 2013 (as supplemented by a side letter dated 31 October 2013) entered into by a wholly-owned subsidiary of the Company and Shanxi Coking Coal Group International Development (Hong Kong) Co., Ltd. in respect of the intended cooperation in the development of iron ore, nonferrous metal ores, coal and other resources products and related equipment and facilities trading business
“July 2013 MOU”	the non-legally binding memorandum of understanding dated 8 July 2013 (as supplemented by a side letter dated 1 November 2013) entered into by a wholly-owned subsidiary of the Company and VLI Taiyuan, in respect of the intended cooperation in the development of in-seam directional drilling systems leasing business, which was superseded by the Supply Contract
“JV Agreement”	the existing joint venture agreement dated 29 June 2013 entered into by Top Wealth and the JV Partner Group in relation to the formation of the JV Company
“JV Company”	山西焦煤機械電氣有限公司 (transliterated as Shanxi Coking Coal Machinery Electric Co., Ltd.*), a joint venture company established in the PRC, which is owned as to 45% by Top Wealth and as to 55% by JV Partner Group immediately before Transfer Completion
“JV Group”	the JV Company and its branches, being 山西焦煤機械電氣有限公司西山租賃分公司 (transliterated as Shanxi Coking Coal Machinery Electric Co., Ltd., Xishan Leasing Branch*), 山西焦煤機械電氣有限公司西山機電分公司 (transliterated as Shanxi Coking Coal Machinery Electric Co., Ltd., Xishan Machinery Electric Branch*), 山西焦煤機械電氣有限公司汾西租賃分公司 (transliterated as Shanxi Coking Coal Machinery Electric Co., Ltd., Fenxi Leasing Branch*), 山西焦煤機械電氣有限公司汾西機電分公司 (transliterated as Shanxi Coking Coal Machinery Electric Co., Ltd., Fenxi Machinery Electric Branch*) and 山西焦煤機械電氣有限公司霍州租賃分公司 (transliterated as Shanxi Coking Coal Machinery Electric Co., Ltd., Huozhou Leasing Branch*)

## DEFINITIONS

“JV Partner”	山西焦煤集團有限責任公司 (transliterated as Shanxi Coking Coal Group Co., Ltd.*), a stated-owned company in the PRC
“JV Partner Group”	JV Partner, JV Partner Subsidiary A, JV Partner Subsidiary B and JV Partner Subsidiary C
“JV Partner Subsidiary A”	西山煤電(集團)有限責任公司 (transliterated as Xishan Coal And Electricity (Group) Co., Ltd.*), a subsidiary of the JV Partner
“JV Partner Subsidiary B”	山西汾西礦業(集團)有限責任公司 (transliterated as Shanxi Fenxi Mining (Group) Co., Ltd.*), a subsidiary of the JV Partner
“JV Partner Subsidiary C”	霍州煤電(集團)有限責任公司 (transliterated as Huozhou Coal And Electricity (Group) Co., Ltd.*), a subsidiary of the JV Partner
“Last Trading Day”	22 October 2013, being the last trading day for the Shares before publication of the Placing Announcement
“Latest Practicable Date”	12 February 2014, being the latest practicable date prior to the printing of this circular for ascertaining certain information for inclusion in this circular
“Listing Committee”	the listing committee appointed by the Stock Exchange for considering applications for listing and the granting of listing of securities on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	30 April 2014 or such later date as may be agreed between the parties to the Transfer Agreement
“MOFCOM”	the Ministry of Commerce of the PRC
“Original Articles”	the existing articles of association of the JV Company entered into by the JV Partner Group and Top Wealth on 29 June 2013
“Placing Agent”	VC Brokerage Limited, a licensed corporation to carry out types 1 and 4 regulated activities under the SFO
“Placing Agreement”	the conditional placing agreement (as supplemented by the Supplemental Placing Agreement) entered into between the Company and the Placing Agent dated 22 October 2013 in relation to the Share Placing and the CB Placing

## DEFINITIONS

“Placing Announcement”	announcement of the Company dated 22 October 2013 in relation to, among others, the Share Subdivision and the Placing Agreement
“Placing Closing Date”	the 5th business day after fulfilment of the conditions precedent referred to in the Placing Agreement or such other date as the Company and the Placing Agent may agree in writing
“Placing Period”	the period commencing immediately after the Placing Agreement and expiring at 5:00 p.m. on the 7th business day after the date of the SGM
“Placing Share(s)”	up to an aggregate of 300,000,000 new Subdivided Shares to be placed under the Share Placing pursuant to the Placing Agreement
“Primary Business”	the principal business scope of the JV Company, includes (i) design, manufacture, sales, maintenance, and combination of coal mining machinery and equipment and related electrical equipment; (ii) leasing business, purchase of leased assets in the PRC and abroad, disposal of residual value of leased assets and maintenance of leased assets; (iii) import and export of equipment; (iv) automatic system engineering, software system engineering and etc.; and (v) provide engineering and technological consulting services
“PRC”	the People’s Republic of China which, for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Sales Contract”	the sales contract dated 24 December 2013 entered into between Sino Top and 山西焦煤集團國際發展股份有限公司 (transliterated as Shanxi Coking Coal Group International Development Co., Ltd.*) pursuant to which Sino Top has agreed to supply and 山西焦煤集團國際發展股份有限公司 (transliterated as Shanxi Coking Coal Group International Development Co., Ltd.*) has agreed to purchase the coal mining related equipments that Sino Top had purchased from VLI Drilling Pty Ltd. pursuant to the Supply Contract
“Shanxi Fuxin”	山西平定古州富鑫煤業有限公司 (transliterated as Shanxi Pingding Guzhou Fuxin Coal Mining Company Limited*), a company established in the PRC with limited liability
“Shanxi Fuxin Equipment”	coal mining related equipment to be leased to Shanxi Fuxin for coal mining with an aggregate value of approximately RMB108.20 million (equivalent to approximately HK\$137.68 million)

## DEFINITIONS

“Shanxi Jinda”	山西煤炭運銷集團金達煤業有限公司 (transliterated as Shanxi Coal Transportation Group Jinda Coal Mining Company Limited*), a company established in the PRC with limited liability
“Shanxi Jinda Equipment”	coal mining related equipment to be leased to Shanxi Jinda for coal mining with an aggregate value of approximately RMB135.00 million (equivalent to approximately HK\$171.79 million)
“Shanxi Zhengbang”	山西汾西正幫煤業有限公司 (transliterated as Shanxi Fenxi Zhengbang Coal Mining Company Limited*), a company established in the PRC with limited liability
“Shanxi Zhengbang Equipment”	coal mining related equipment to be leased to Shanxi Zhengbang for coal mining with an aggregate value of approximately RMB154.30 million (equivalent to approximately HK\$196.35 million)
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s) or subject to the Share Subdivision becoming effective, the holders of the Subdivided Share(s)
“Share Placee(s)”	any investor who is either a professional or institutional investor and other investors whom the Placing Agent has selected or procured to subscribe for any of the Placing Shares
“Share Placing”	placing of up to an aggregate of 300,000,000 new Subdivided Shares pursuant to the terms of the Placing Agreement
“Share Placing Price”	HK\$1.00 per Placing Share
“Share Subdivision”	the proposed subdivision of each (1) issued and unissued Share into two (2) Subdivided Shares
“Subdivided Share(s)”	ordinary share(s) of HK\$0.005 each in the share capital of the Company upon the Share Subdivision becoming effective
“Supply Contract”	the supply contract dated 24 December 2013 entered into between Sino Top and VLI Drilling Pty Ltd. to supersede the July 2013 MOU, pursuant to the supply contract, VLI Drilling Pty Ltd. has agreed to supply and Sino Top has agreed to purchase the coal mining related equipments for the purpose of reselling them to 山西焦煤集團國際發展股份有限公司 (transliterated as Shanxi Coking Coal Group International Development Co., Ltd.*)

## DEFINITIONS

“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	the special general meeting of the Company to be convened and held for the Shareholders to consider and, if thought fit, approve the Share Subdivision, the Placing Agreement (including the specific mandate for the Placing Shares and the Conversion Shares to be issued upon conversion of the Convertible Bonds) and the Transfer Agreement and the transactions contemplated thereunder
“Sino Top”	Sino Top Capital Resources Limited, a company incorporated in Hong Kong with limited liability and is an indirect wholly-owned subsidiary of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental Placing Agreement”	the supplemental placing agreement entered into between the Company and the Placing Agent dated 5 February 2014 to supplement and amend the terms of the placing agreement entered into between the Company and the Placing Agent dated 22 October 2013
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Top Wealth”	Top Wealth Enterprises Limited, a company incorporated in Hong Kong with limited liability
“Transfer Agreement”	the transfer agreement dated 20 November 2013 entered into by Top Wealth and Sino Top pursuant to which Top Wealth has conditionally agreed to transfer 8% equity interest in the JV Company to Sino Top and Sino Top has conditionally agreed to contribute the Capital Injection Amount to the JV Company upon the terms and subject to the conditions contained therein
“Transfer Completion”	the completion of the Transfer Agreement and all transactions contemplated thereunder pursuant to the terms and conditions of the Transfer Agreement on the Transfer Completion Date
“Transfer Completion Date”	the date of Transfer Completion, being the sixteenth (16th) business day upon fulfillment of the conditions precedent referred to in the Transfer Agreement (or waived, if applicable) by the parties or the Long Stop Date, whichever is earlier, or such later date as the parties may agree in writing
“VLI”	Valley Longwall International Pty Limited (威利朗沃國際集團有限公司*), a company incorporated in Australia with limited liability

## DEFINITIONS

“VLI LOI”	the legally binding letter of intent dated 30 December 2013 entered into between Sino Top and VLI Taiyuan in respect of the proposed cooperation in the development of finance leasing business in the PRC
“VLI Taiyuan”	威利朗沃礦業設備(太原)有限公司 (transliterated as Valley Longwall Mining Equipment (Tai Yuan) Company Limited*), a company established in the PRC with limited liability
“WFOE”	山西華威融資租賃有限公司 (transliterated as Shanxi Huawei Finance Leasing Company Limited*), a wholly foreign-owned enterprise established in the PRC and a wholly-owned subsidiary of Sino Top, which was set up to carry out the Finance Leasing Business
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“US\$”	the lawful currency of the United States
“%”	per cent.

*For the purposes of illustration only, any amount denominated in RMB, US\$ and AU\$ in this circular and translated into HK\$ was translated at the rates of RMB1.00 = HK\$1.2725, US\$1.00 = HK\$7.78 and AU\$1.00=HK\$6.9217 respectively. Such translations should not be construed as a representation that the amounts in question have been, could have been or could be, converted at any particular rate at all.*

\* For identification purpose only

**LETTER FROM THE BOARD**

**FORNTON GROUP LIMITED**

**豐臨集團有限公司**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 1152)**

*Executive directors*

Mr. Yam Tak Cheung (*Chairman*)  
Ms. Wong Kan Kan, Kandy  
Mr. Wong Tat Wai, Derek  
Mr. Zheng Qiang  
Mr. Han Hanting

*Registered Office*

Clarendon House  
2 Church Street  
Hamilton  
HM11  
Bermuda

*Non-executive director*

Mr. Chan Yee, Herman

*Principal Place of*

*Business in Hong Kong*  
Unit A, 32nd Floor  
Legend Tower  
7 Shing Yip Street  
Kwun Tong  
Kowloon

*Independent non-executive directors*

Mr. Wang Wei Hung, Andrew  
Mr. Cheng Dickson  
Mr. Sin Ka Man

17 February 2014

*To the Shareholders*

Dear Sir or Madam,

**(1) PROPOSED SHARE SUBDIVISION AND CHANGE OF BOARD LOT SIZE;  
(2) PROPOSED PLACING OF NEW SHARES AND  
CONVERTIBLE BONDS UNDER SPECIFIC MANDATE;  
AND  
(3) MAJOR TRANSACTION IN RELATION TO  
TRANSFER OF 8% EQUITY INTEREST  
IN A JOINT VENTURE COMPANY**

**INTRODUCTION**

Reference is made to (i) the Placing Announcement and the announcement of the Company dated 5 February 2014 in relation to, amongst others, the Share Subdivision, the Change of Board Lot Size and the Placing Agreement; and (ii) the announcement of the Company dated 20 November 2013 in relation to, amongst others, the Transfer Agreement.

## LETTER FROM THE BOARD

The purpose of this circular is to provide you with information in respect of, among other things, (i) the details of the Share Subdivision, the Change of Board Lot Size, the Placing Agreement and the Transfer Agreement; (ii) the financial and other information of the Group; (iii) the financial information of the JV Company; (iv) the unaudited pro forma financial information of the Enlarged Group; and (v) the notice of SGM.

### THE SHARE SUBDIVISION AND CHANGE OF BOARD LOT SIZE

#### Share Subdivision

As at the Latest Practicable Date, the authorised share capital of the Company is HK\$100,000,000 divided into 10,000,000,000 Shares of HK\$0.01 each, of which 416,000,000 Shares have been issued and are fully paid or credited as fully paid.

The Board proposes to subdivide each (1) existing issued and unissued Share of HK\$0.01 in the capital of the Company into two (2) Subdivided Shares of HK\$0.005 each. Upon the Share Subdivision becoming effective, the authorised share capital of the Company will be HK\$100,000,000 divided into 20,000,000,000 Subdivided Shares of HK\$0.005 each, of which 832,000,000 Subdivided Shares will be in issue and fully paid or credited as fully paid, assuming that no further Shares are issued or repurchased prior to the Share Subdivision becoming effective.

All Subdivided Shares will rank *pari passu* with each other in all respects with the Shares in issue prior to the Share Subdivision and the rights attached to the Subdivided Shares will not be affected by the Share Subdivision.

The Share Subdivision is conditional upon:

- (a) the passing by the Shareholders at the SGM of an ordinary resolution approving the Share Subdivision; and
- (b) the Listing Committee granting the listing of, and permission to deal in, the Subdivided Shares.

An application will be made to the Stock Exchange for the listing of and permission to deal in the Subdivided Shares arising from the Share Subdivision.

#### Change of Board Lot Size

The Shares are currently traded in board lot size of 4,000 Shares. The Board proposes that subject to and upon the Share Subdivision becoming effective, the board lot size will be changed from 4,000 Shares to 2,000 Subdivided Shares. The Change of Board Lot Size will reduce the market value of each board lot. The Change of Board Lot Size will not affect any of the relative rights of the Shareholders.

#### Arrangement on odd lot trading

In order to facilitate the trading of odd lots (if any) of the Subdivided Shares, the Company has appointed Fortune (HK) Securities Limited to provide matching services, on a best effort basis, to those Shareholders who wish to acquire odd lots of the Subdivided Shares to make up a full board lot, or to dispose of their holding of odd lots of the Subdivided Shares.

## **LETTER FROM THE BOARD**

Matching of odd lots of the Subdivided Shares arising will commence from 9:00 a.m. on Thursday, 20 March 2014 and will end at 4:00 p.m. on Wednesday, 9 April 2014.

### **Reasons for the Share Subdivision and the Change of Board Lot Size**

The proposed Share Subdivision will decrease the nominal value and increase the total number of Shares in issue. The Share Subdivision will result in downward adjustment to the trading price of the Shares. The Board believes that the Share Subdivision will decrease the trading spread as well as the volatility of the trading price of the Shares and thus result in the improved liquidity in trading of the Company's Subdivided Shares. Therefore, the Board considers that the Share Subdivision will enable the Company to attract more investors and broaden its Shareholder base.

Save for the expenses to be incurred by the Company in relation to the Share Subdivision, the implementation of the Share Subdivision will not, by itself, alter the underlying assets, business operations, management or the financial position of the Company or the proportionate interest of the Shareholders. The Board considers the Share Subdivision is in the interests of the Company and the Shareholders as a whole.

The Board is of the view that the reduction in board lot size may improve the liquidity of the Shares and the Change of Board Lot Size will result in Subdivided Shares being traded in a more reasonable board lot size and value. The Board considers that the Change of Board Lot Size is in the interests of the Company and the Shareholders as a whole.

### **Listing and dealing**

An application will be made to the Stock Exchange for the listing of and permission to deal in the Subdivided Shares arising from the Share Subdivision. All necessary arrangements have been made and subject to the granting of the listing of, and permission to deal in, the Subdivided Shares on the Stock Exchange, the Subdivided Shares will be accepted as eligible securities by the HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Subdivided Shares on the Stock Exchange or such other date as may be determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

No part of the equity or debt securities of the Company is listed or dealt in on any other stock exchanges other than the Stock Exchange and no such listing permission to deal in is being or is currently proposed to be sought from any other stock exchange.

### **Free exchange of share certificates**

Upon the Share Subdivision becoming effective, the new share certificates for the Subdivided Shares will be available for collection within a period of (10) ten business days from the submission of the existing share certificates for the Shares to the Company's branch share registrar in Hong Kong, Union Registrars Limited at 18/F, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong for exchange free of charge. The existing share certificates for the Shares will not be accepted for trading and settlement purposes after 4:00 p.m., Wednesday, 9 April 2014 but will remain effective as documents of title to such equivalent number of Subdivided Shares. From Monday,

## LETTER FROM THE BOARD

14 April 2014 onwards, existing share certificates for the Shares will be accepted for exchange only on payment of a fee of HK\$2.50 (or such other amount as may from time to time be specified by the Stock Exchange) for each existing share certificate cancelled or new share certificate issued (whichever number of share certificates involved is higher).

It is expected that the new share certificates will be available for collection within a period of (10) ten business days after the submission of the existing share certificates. The new share certificates will be issued in red colour in order to distinguish them from existing share certificates which are in blue colour.

After 4:00 p.m., Wednesday, 9 April 2014, existing certificates for the Shares will cease to be valid for trading and settlement purpose, but will continue to be good evidence of legal title to the Subdivided Shares on the basis of 1 Share for 2 Subdivided Shares.

### **Trading arrangement for Subdivided Shares**

Subject to the Share Subdivision becoming effective, dealings in the Subdivided Shares are expected to commence at 9:00 a.m. on Thursday, 6 March 2014. Parallel trading in the Shares and Subdivided Shares (in the form of existing share certificates and new share certificates) will be operated from 9:00 a.m. on Thursday, 20 March 2014 to 4:00 p.m. on Wednesday, 9 April 2014 (both days inclusive). Full details of the expected timetable and trading arrangement of the Shares are set out on pages ii and iii of this circular.

### **THE PLACING AGREEMENT**

On 22 October 2013 (after trading hours), the Company and the Placing Agent entered into the Placing Agreement pursuant to which the Placing Agent has conditionally agreed to (i) place up to an aggregate of 300,000,000 Placing Shares at HK\$1.00 per Placing Share, on a best effort basis, to not less than six Share Placees who and whose ultimate beneficial owners are Independent Third Parties; and (ii) place the Convertible Bonds with an aggregate principal amount of up to HK\$900,000,000 at an initial price of HK\$1.00 per Conversion Share (subject to adjustments) on a best effort basis, to not less than six CB Placees who and whose ultimate beneficial owners are Independent Third Parties during the Placing Period.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Placing Agent and its ultimate beneficial owners are Independent Third Parties.

### **The Share Placing**

#### ***Share Placees***

The Placing Shares will be placed to not less than six Share Placees who and whose ultimate beneficial owners are Independent Third Parties.

## LETTER FROM THE BOARD

### ***Placing Shares***

Assuming the Share Subdivision has become effective, the maximum number of 300,000,000 Placing Shares represent (i) approximately 36.06% of the existing issued share capital of the Company of 832,000,000 Subdivided Shares as at the Latest Practicable Date; (ii) approximately 26.52% of the Company's issued share capital of 1,132,000,000 Subdivided Shares as enlarged by the Share Placing; and (iii) approximately 14.76% of the Company's issued share capital of 2,032,000,000 Subdivided Shares as enlarged by the Share Placing and the maximum number of Conversion Shares falling to be issued upon full exercise of the conversion rights attaching to the Convertible Bonds.

The Placing Shares will be issued under a specific mandate to be obtained at the SGM.

### ***Ranking of Placing Shares***

Subject to the Share Subdivision having become effective, the Placing Shares will rank, upon issue, *pari passu* in all respects with the Subdivided Shares in issue on the date of allotment and issue of the Placing Shares.

### ***Application for listing***

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

### ***Share Placing Price***

The Share Placing Price of HK\$1.00 represents:

- (i) a discount of approximately 24.81% to the adjusted closing price of HK\$1.33 per Subdivided Share, based on the closing price of HK\$2.66 per Share as quoted on the Stock Exchange on the Last Trading Day and adjusted for the effect of the Share Subdivision;
- (ii) a discount of approximately 27.01% to the adjusted average closing price per Subdivided Share of approximately HK\$1.37, based on the average closing price of approximately HK\$2.74 per Share as quoted on the Stock Exchange for the 5 consecutive trading days up to and including the Last Trading Day and adjusted for the effect of the Share Subdivision;
- (iii) a discount of approximately 27.01% to the adjusted average closing price per Subdivided Share of approximately HK\$1.37, based on the average closing price of approximately HK\$2.73 per Share as quoted on the Stock Exchange for the 10 consecutive trading days up to and including the Last Trading Day and adjusted for the effect of the Share Subdivision;
- (iv) a discount of approximately 24.81% to the adjusted average closing price per Subdivided Share of approximately HK\$1.33, based on the average closing price of approximately HK\$2.66 per Share as quoted on the Stock Exchange for the 120 consecutive trading days up to and including the Last Trading Day and adjusted for the effect of the Share Subdivision;

## LETTER FROM THE BOARD

- (v) a discount of approximately 11.50% to the adjusted average closing price per Subdivided Share of approximately HK\$1.13, based on the average closing price of approximately HK\$2.25 per Share as quoted on the Stock Exchange for the 180 consecutive trading days up to and including the Last Trading Day and adjusted for the effect of the Share Subdivision;
- (vi) a discount of approximately 4.76% to the adjusted closing price of HK\$1.05 per Subdivided Share, based on the closing price of HK\$2.10 per Share as quoted on the Stock Exchange on the Latest Practicable Date and adjusted for the effect of the Share Subdivision; and
- (vii) a premium of approximately 525.00% over the net assets value of approximately HK\$0.16 per Subdivided Share (the “NAV per Share”), based on the unaudited net assets value of the Company of approximately HK\$130.94 million as at 30 June 2013 and 832,000,000 Subdivided Shares upon the Share Subdivision becoming effective.

The Share Placing Price was determined with reference to the prevailing market price of the Share and was negotiated on an arm’s length basis between the Company and the Placing Agent. The Company noted that after the publication of the Placing Announcement, the Share price has increased and represented a deeper discount to the Share Placing Price as compared with the Share price on the date of the Placing Announcement, however, having considered

- (a) the Share Placing Price is under arm’s length negotiation with the Placing Agent after taking into account (i) the average Share price level for the consecutive 180 trading days before publication of the Placing Announcement; (ii) the Share Placing Price represents a premium to the NAV per Share; (iii) the Company has been loss-making for the six months ended 30 June 2013; (iv) the size of the Share Placing and the CB Placing; and (v) the generally thin trading liquidity of the Shares for the six months preceding the date of the Placing Agreement;
- (b) the Share price level of the Company after the publication of the Placing Announcement may be a reflection of the investors’ perception and expectation regarding on the potential benefits to be brought by the possible acquisition of the interest in the JV Company, the Share Placing and the CB Placing and thus, the Share price level after the publication of the Placing Announcement may not be able to reflect the actual fundamental value of the Company; and
- (c) the discounts to the closing price of the Share on the Last Trading Day and average closing price of the Share for the 5 consecutive trading days up to and including the Last Trading Day represented by the Share Placing Price fall within the respective ranges of the discounts as compared with recent share placing transactions in the market.

In view of the above-mentioned, the Directors (including the independent non-executive Directors) consider that the terms of the Share Placing are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

It is expected that the gross and net proceeds from the Share Placing (after deducting commission) will amount to approximately HK\$300 million and approximately HK\$285 million respectively (on the assumption that all the Placing Shares are placed in full). The net placing price of each Placing Share is approximately HK\$0.95.

## LETTER FROM THE BOARD

### *Commission of the Share Placing*

The Placing Agent will receive a placing commission of 5% of the amount equal to the Share Placing Price multiplied by the number of Placing Shares that the Placing Agent has successfully placed. Such placing commission was arrived at after arm's length negotiation between the Company and the Placing Agent by reference to the size, the current market condition and the time allowed for the Placing Agent to procure Share Placees for the Share Placing. The Directors are of the view that the placing commission payable under the Share Placing is fair and reasonable.

### *Completion of the Share Placing*

Completion of the Share Placing will take place on the Placing Closing Date.

### **The CB Placing**

#### *CB Placees*

The Convertible Bonds will be placed to not less than six CB Placees who and whose ultimate beneficial owners are Independent Third Parties.

#### *Issue price of the Convertible Bonds*

The issue price of the Convertible Bonds shall be at 100% of the principal amount of the Convertible Bonds.

It is expected that the gross and net proceeds from the CB Placing (after deducting commission) will amount to approximately HK\$900 million and approximately HK\$855 million respectively (on the assumption that all the Convertible Bonds are placed in full).

#### *Conversion Shares*

Assuming the Share Subdivision has become effective and upon full conversion of the Convertible Bonds at the Conversion Price, the maximum number of 900,000,000 Conversion Shares to be issued represents (i) approximately 108.17% of the existing issued share capital of the Company of 832,000,000 Subdivided Shares as at the Latest Practicable Date; and (ii) approximately 44.28% of the Company's issued share capital of 2,032,000,000 Subdivided Shares as enlarged by the Share Placing and the maximum number of Conversion Shares falling to be issued upon full exercise of the conversion rights attaching to the Convertible Bonds.

The Conversion Shares falling to be issued upon exercise of the conversion rights attaching to the Convertible Bonds will be issued under a specific mandate to be obtained at the SGM.

#### *Application for listing*

Application will be made by the Company to the Stock Exchange for the listing of, and the permission to deal in the Conversion Shares falling to be issued upon exercise of the conversion rights attaching to the Convertible Bonds.

## LETTER FROM THE BOARD

### *Placing commission of CB Placing*

The Placing Agent will receive a placing commission of 5% of the amount equal to the aggregate principal amount of the Convertible Bonds that the Placing Agent has successfully placed. Such placing commission was arrived at after arm's length negotiation between the Company and the Placing Agent by reference to the size, the current market condition and the time allowed for the Placing Agent to procure CB Placeses for the CB Placing. The Directors are of the view that the placing commission payable under the CB Placing is fair and reasonable.

### *Completion of the CB Placing*

Completion of the CB Placing will take place on the Placing Closing Date.

### *Principal terms of the Convertible Bonds*

Details of the principal terms of the Convertible Bonds have been set out in below section headed "Principal Terms of the Convertible Bonds".

### **Conditions of the Placing Agreement**

Completion of the Placing Agreement is conditional upon:

- (a) the passing of an ordinary resolution by the Shareholders to approve the Share Subdivision, the Share Placing, the CB Placing and the transactions contemplated thereunder (including the specific mandate for the Placing Shares and the Conversion Shares to be issued upon conversion of the Convertible Bonds) at the SGM;
- (b) the Share Subdivision having become effective;
- (c) the Listing Committee granting approval for the listing of, and permission to deal in, the Placing Shares and the Conversion Shares on the Stock Exchange and the approval not having been subsequently revoked or cancelled;
- (d) if required, the Company having obtained the necessary consent, approval, authorisation, permission, or confirmation from any third party to which the Company or its subsidiaries have entered into any agreement or arrangement; and
- (e) the Company's representations and warranties made pursuant to the Placing Agreement being true and accurate and not misleading as of the date of the Placing Agreement and the Placing Closing Date.

The conditions contained in (a), (b) and (c) above cannot be waived by any party. The Company shall use all its reasonable endeavours to procure the satisfaction of the conditions set out above, but if the conditions shall not have been so satisfied within 2 months after the date of the SGM (or such later date as may be agreed by the parties) or any of the force majeure event set out in the Placing Agreement shall have occurred, all obligations of the Placing Agent and of the Company thereunder shall cease and determine and none of the parties shall have any claim against the other in relation thereto save for any antecedent breach of any obligations under the Placing Agreement and without prejudice to the accrued rights and liabilities of the parties.

## LETTER FROM THE BOARD

### Termination and force majeure of the Placing Agreement

If at any time between the date of the Placing Agreement and at 5:00 p.m. on the Placing Closing Date, there occurs:

- (a) the introduction of any new law or regulation or any change in existing laws or regulations (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may, in the reasonable opinion of the Placing Agent, materially and adversely affect the business or the financial or trading position or prospects of the Company; or
- (b) the occurrence of any local, national or international event or change occurring after the date of the Placing Agreement of a political, military, financial, economic, currency (including a change in the system under which the value of the Hong Kong currency is linked to the currency of the United States of America) or other nature (whether or not sui generis with any of the foregoing), or in the nature of any local, national, international outbreak or escalation of hostilities or armed conflict, or affecting local securities market or the occurrence of any combination of circumstances which may, in the reasonable opinion of the Placing Agent, materially and adversely affect the business or the financial or trading position or prospects of the Company or adversely prejudices the success of the Share Placing and CB Placing (such success being the completion of the placing of the Placing Shares and/or the Convertible Bonds to potential investor(s)) or otherwise makes it inexpedient or inadvisable for the Company or the Placing Agent to proceed with the Share Placing and CB Placing; or
- (c) any change in market conditions or combination of circumstances in Hong Kong (including without limitation suspension or material restriction on trading in securities) occurs after the date of the Placing Agreement which materially and adversely affects the success of the Share Placing and the CB Placing (such success being the completion of the placing of the Placing Shares to potential investor(s)) or otherwise in the reasonable opinion of the Placing Agent make it inexpedient or inadvisable or inappropriate for the Company or the Placing Agent to proceed with the Share Placing and the CB Placing; or
- (d) the Company commits any material breach of or omits to observe any of its obligations or undertakings under the Placing Agreement; or
- (e) any of the representations or warranties contained in the Placing Agreement was, when given or deemed to be repeated under the Placing Agreement, untrue or inaccurate in any respect or would in any respect be untrue or inaccurate, or if repeated the Placing Agent shall determine in its reasonable opinion that any such untrue representation or warranty represents or is likely to represent a material adverse change in the financial or trading position or prospects of the Company or will otherwise likely to have a material prejudicial effect on the Share Placing and the CB Placing,

then the Placing Agent may upon giving notice to the Company terminate the Placing Agreement with immediate effect. If the Placing Agreement shall be terminated pursuant to the Placing Agreement, the obligations of the Placing Agent shall cease and the Company shall not be liable to pay any commission pursuant to the Placing Agreement, and the Placing Agreement shall forthwith cease and determine and no party shall have any claim against the other party for compensation, costs, damages or otherwise.

## LETTER FROM THE BOARD

### The Supplemental Placing Agreement

On 5 February 2014 (after trading hours), the Company and the Placing Agent entered into the Supplemental Placing Agreement to supplement and amend the terms of the Convertible Bonds and the placing commission under the placing agreement entered into between the Company and the Placing Agent dated 22 October 2013. Pursuant to the Supplemental Placing Agreement, the terms of the Convertible Bonds and the placing commission shall be amended as follows:

- (i) the Convertible Bonds bear interest at a rate of 5% per annum;
- (ii) the Convertible Bonds are transferable except that the Convertible Bonds may not be transferred to any connected person of the Company or a party acting in concert (has the meaning ascribed to it under the Takeovers Code) with any person or Shareholder to the effect that any transfer of the Convertible Bonds to such transferee(s) and/or the exercise by such transferee(s) of any conversion right attaching to the Convertible Bond(s) subject to such transfer will trigger the mandatory offer obligation under Rule 26.1 of the Takeovers Code, unless such transfer has complied with the requirements of the Listing Rules;
- (iii) the holders of the Convertible Bonds shall have the right to convert the whole or any part (in integral multiples of HK\$1,000,000 thereof) of the outstanding principal amount of the Convertible Bonds into Subdivided Shares at any time on or before the Maturity Date (as defined below) provided that no holders of the Convertible Bonds shall exercise any conversion rights in the event that the issuance of the Conversion Shares pursuant to the exercise of any conversion right by the holders of the Convertible Bonds will result in (a) any mandatory offer obligation under Rule 26.1 of the Takeovers Code being triggered by the holders of the Convertible Bonds and/or the parties acting in concert with it (within the meaning of the Takeovers Code); (b) the Company 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; and (c) the Conversion Shares being issued to a connected person or such conversion will otherwise be treated as a connected transaction under the Listing Rules except where such issuance of Conversion Shares has complied with the requirements of the Listing Rules; and
- (iv) the placing commission of the Placing Agent (i.e. (a) 2.5% of the amount equal to the Share Placing Price multiplied by the number of Placing Shares that the Placing Agent has successfully placed under the Share Placing; and (b) 2.5% of the amount equal to the principal amount of the Convertible Bonds that the Placing Agent has successfully placed under the CB Placing) shall be revised to 5% for each of the Share Placing and the CB Placing.

Save as disclosed above, there is no material change to the terms of the placing agreement entered into between the Company and the Placing Agent dated 22 October 2013 and all terms and conditions of the placing agreement entered into between the Company and the Placing Agent dated 22 October 2013 remain unchanged and in full force and effect. The terms of the Supplemental Placing Agreement were arrived at after arm's length negotiations between the Company and the Placing Agent, and the Directors believe that the terms of the Supplemental Placing Agreement are fair and reasonable and are in the best interests of the Company and its Shareholders as a whole.

## LETTER FROM THE BOARD

### **Reasons for entering into the Supplemental Placing Agreement**

The amendments to the terms of the placing agreement entered into between the Company and the Placing Agent dated 22 October 2013 were arrived at after arm's length negotiations between the Company and the Placing Agent. Subsequent to the execution of the placing agreement entered into between the Company and the Placing Agent dated 22 October 2013, the Company and the Placing Agent, having considered the market conditions of recent placing of shares and convertible bonds in the market, have further discussed on the terms of the Placing Agreement to facilitate the Share Placing and the CB Placing. Having considered that (i) the revised terms of the Convertible Bonds, including an interest rate of 5% per annum, will enhance the attractiveness of the Convertible Bonds to the CB Placees and the interest rate of 5% per annum falls within the market range of the recent placing of convertible bonds in the market; and (ii) given the Share Placing and the CB Placing are on a best effort basis and the size of the Share Placing and the CB Placing, the revised placing commission of 5% will enhance the incentive of the Placing Agent to procure the Share Placees and the CB Placees, the Company is of the view that the Supplemental Placing Agreement would further facilitate the Share Placing and the CB Placing and thus, to maximize the funds to be raised under best effort basis for the future development of the Company, in particular for the diversification into the finance leasing business. As such, the Directors consider the entering into of the Supplemental Placing Agreement is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

## LETTER FROM THE BOARD

### Principal Terms of the Convertible Bonds

The principal terms of the Convertible Bonds are summarised below:

<i>Aggregate principal amount:</i>	up to HK\$900,000,000
<i>Issue price:</i>	100% of the principal amount of the Convertible Bonds
<i>Maturity date:</i>	the date falling on the third anniversary of the date of issue of the Convertible Bonds (both dates inclusive) (the “Maturity Date”)
<i>Interest:</i>	the Convertible Bonds bear interest at a rate of 5% per annum
<i>Initial Conversion Price:</i>	HK\$1.00, being the initial conversion price per Conversion Share, subject to adjustments as summarised in the paragraph “Adjustments to the Conversion Price”

The initial Conversion Price is equivalent to the Share Placing Price. The Conversion Price was determined on an arm’s length basis between the Company and the Placing Agent with reference to, among other things, the recent performance of the price of the Shares and the Share Placing Price. Details of the comparison of the Share Placing Price with the market prices of the Shares and the NAV per Share has been set out under the sub-section headed “Share Placing Price” under the section headed “The Share Placing”.

<i>Adjustments to the Conversion Price:</i>	<p>The initial Conversion Price will from time to time be adjusted in accordance with the relevant provisions under the terms and conditions of the Convertible Bonds upon occurrence of the following events:</p> <ul style="list-style-type: none"><li>(i) an alteration of nominal amount of the Subdivided Shares by reason of any consolidation or subdivision;</li><li>(ii) an issue (other than in lieu of a cash dividend) any Subdivided Shares credited as fully paid by way of capitalisation of profits or reserves;</li><li>(iii) a capital distribution being made by the Company;</li></ul>
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## LETTER FROM THE BOARD

- (iv) an offer or grant being made by the Company to the Shareholders by way of rights or of options or warrants to subscribe for new Subdivided Shares at a price which is less than 90% of the then market price of the Subdivided Share;
- (v) an issue wholly for cash being made by the Company of securities convertible into or exchangeable for or carrying rights of subscription for new Subdivided Shares, if in any case the total consideration per Subdivided Share initially receivable for such securities is less than 90% of the then market price of the Subdivided Shares, or the terms of any such rights of conversion or exchange or subscription attached to any such securities being modified so that the said total consideration per Subdivided Share initially receivable for such securities is less than 90% of the then market price of the Subdivided Shares;
- (vi) an issue being made by the Company wholly for cash of Subdivided Shares at a price per Subdivided Share less than 90% of the then market price of the Subdivided Shares; and
- (vii) an offer or invitation being made by the Company to the Shareholders to tender for sale to the Company any Subdivided Shares or if the Company shall purchase of any Subdivided Shares or securities convertible in Subdivided Shares or any rights to acquire Subdivided Shares.

## LETTER FROM THE BOARD

*Conversion rights:*

The holders of the Convertible Bonds shall have the right to convert the whole or any part (in integral multiples of HK\$1,000,000 thereof) of the outstanding principal amount of the Convertible Bonds into Subdivided Shares at any time on or before the Maturity Date provided that no holders of the Convertible Bonds shall exercise any conversion rights in the event that the issuance of the Conversion Shares pursuant to the exercise of any conversion right by the holders of the Convertible Bonds will result in (i) any mandatory offer obligation under Rule 26.1 of the Takeovers Code being triggered by the holders of the Convertible Bonds and/or the parties acting in concert with it (within the meaning of the Takeovers Code); (ii) the Company 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; and (iii) the Conversion Shares being issued to a connected person or such conversion will otherwise be treated as a connected transaction under the Listing Rules except where such issuance of Conversion Shares has complied with the requirements of the Listing Rules.

*Ranking:*

The Conversion Shares, when allotted and issued, will rank *pari passu* in all respects with the other Subdivided Shares then in issue as at the date of issue of such Conversion Shares.

*Transferability:*

The Convertible Bonds are transferable except that the Convertible Bonds may not be transferred to any connected person of the Company or a party acting in concert (has the meaning ascribed to it under the Takeovers Code) with any person or Shareholder to the effect that any transfer of the Convertible Bonds to such transferee(s) and/or the exercise by such transferee(s) of any conversion right attaching to the Convertible Bond(s) subject to such transfer will trigger the mandatory offer obligation under Rule 26.1 of the Takeovers Code, unless such transfer has complied with the requirements of the Listing Rules.

*Redemption:*

Each Convertible Bond may not be redeemed by the Company at any time prior to the Maturity Date.

*Voting rights:*

The holders of the Convertible Bonds are not entitled to attend or vote at any general meetings of the Shareholders.

*Listing:*

No application will be made for the listing of and permission to deal in, the Convertible Bonds on the Stock Exchange or any other stock exchange. Application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.

## LETTER FROM THE BOARD

### Fund raising activities in the past twelve months of the Company

Save as the Share Placing and CB Placing, the Company has not conducted any fund raising activities in the past twelve months immediately before the Latest Practicable Date.

### Effects on shareholding structure of the Company

The existing and enlarged shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) upon the Share Subdivision becoming effective; (iii) immediately after the issue of the Placing Shares (assuming the Placing Shares having been placed in full) but before full conversion of the Convertible Bonds; and (iv) immediately after the issue of the Placing Shares (assuming the Placing Shares having been placed in full) and the Conversion Shares upon full conversion of the Convertible Bonds (assuming the Convertible Bonds having been placed in full) are set out below:

Name of Shareholder	As at the Latest Practicable Date		Upon the Share Subdivision becoming effective		Immediately after the issue of the Placing Shares (assuming the Placing Share having been placed in full) but before full conversion of the Convertible Bonds		Immediately after the issue of the Placing Shares (assuming the Placing Shares having been placed in full) and the Conversion Shares upon full conversion of the Convertible Bonds (assuming the Convertible Bonds having been placed in full)	
	No. of Shares	Approximate %	No. of Subdivided Shares	Approximate %	No. of Subdivided Shares	Approximate %	No. of Subdivided Shares	Approximate %
Integrated Asset Management (Asia) Limited (Note 1)	104,000,000	25.00	208,000,000	25.00	208,000,000	18.37	208,000,000	10.24
Ever Rosy Limited (Note 2)	104,000,000	25.00	208,000,000	25.00	208,000,000	18.37	208,000,000	10.24
Billion Mission Limited (Note 3)	104,000,000	25.00	208,000,000	25.00	208,000,000	18.37	208,000,000	10.24
Public:								
Share Placees	0	0.00	0	0.00	300,000,000	26.52	300,000,000	14.76
CB Placees	0	0.00	0	0.00	0	0.00	900,000,000	44.28
Other Shareholders	104,000,000	25.00	208,000,000	25.00	208,000,000	18.37	208,000,000	10.24
<i>Sub-total</i>	<u>104,000,000</u>	<u>25.00</u>	<u>208,000,000</u>	<u>25.00</u>	<u>508,000,000</u>	<u>44.89</u>	<u>1,408,000,000</u>	<u>69.28</u>
<b>Total</b>	<b><u>416,000,000</u></b>	<b><u>100.00</u></b>	<b><u>832,000,000</u></b>	<b><u>100.00</u></b>	<b><u>1,132,000,000</u></b>	<b><u>100.00</u></b>	<b><u>2,032,000,000</u></b>	<b><u>100.00</u></b>

Notes:

- Mr. Yam Tak Cheung, being the chairman and the executive director of the Company, is the beneficial owner of the entire issued share capital of Integrated Asset Management (Asia) Limited.
- Ms. Wong Kan Kan, Kandy is the beneficial owner of the entire issued share capital of Ever Rosy Limited and is the spouse of Mr. Yam Tak Cheung.
- Billion Mission Limited is wholly owned by Mr. Zheng Qiang.

## LETTER FROM THE BOARD

### Reasons for the Share Placing and the CB Placing and use of proceeds

The Company is principally engaged in the manufacturing of an extensive assortment of knitwear products ranging from classically styled wardrobe basics to high quality fashion apparels.

To diversify the business risk on single segment of manufacturing and trading of high quality fashion apparels, the management of the Group is seeking new revenue stream proactively. The July 2013 MOU in respect of the intended cooperation with VLI Taiyuan in the development of in-seam directional drilling systems leasing business and the July 2013 LOI in respect of the intended cooperation with Shanxi Coking Coal Group International Development (Hong Kong) Co., Ltd. in the development of iron ore, nonferrous metal ores, coal and other resources products and related equipment and facilities trading business were entered into on 8 July 2013 (as supplemented by a side letter dated 1 November 2013) and 12 July 2013 (as supplemented by a side letter dated 31 October 2013) respectively. Subsequent to the signing of the side letter to the July 2013 MOU on 1 November 2013, the parties to the July 2013 MOU have further discussed and considered the cooperation model. As a result, the Supply Contract which superseded the July 2013 MOU (including its side letter) and the Sales Contract have been entered into on 24 December 2013 for the purposes of starting the Group's trading business in coal mining related machineries and equipment as a stepping stone for the future development of the Finance Leasing Business, details of the Supply Contract and the Sales Contract have been set out in the Company's announcement dated 24 December 2013. As at the Latest Practicable Date, parties to the July 2013 LOI are still under negotiation on the terms and conditions of the intended cooperation. Pursuant to the side letter dated 31 October 2013 to the July 2013 LOI, the expiry date of July 2013 LOI will be on 31 March 2014 (or such later date as the parties may otherwise agree in writing). Sino Top, an indirect wholly-owned subsidiary of the Company, has also entered into the Transfer Agreement on 20 November 2013 to procure 8% equity interest in the JV Company which will be engaged in the Primary Business.

The Company recorded consolidated bank balances and cash of approximately HK\$48.3 million and consolidated total assets of approximately HK\$209.64 million as at 31 October 2013. On the assumption that all the Placing Shares and the Convertible Bonds are placed in full, the aggregate gross proceeds and the net proceeds of the Share Placing and the CB Placing are approximately HK\$1,200 million and approximately HK\$1,140 million respectively.

Pursuant to the Transfer Agreement, in consideration of Sino Top has conditionally agreed to contribute the Capital Injection Amount of approximately RMB147.23 million (equivalent to approximately HK\$187.35 million) in cash to the JV Company, Top Wealth has conditionally agreed to transfer 8% equity interest in the JV Company to Sino Top. As such, it is intended that approximately HK\$187.35 million of the net proceeds will be used for the contribution of the Capital Injection Amount for the development of the Primary Business.

It is also the intention of the Company to diversify into the finance leasing business. On 30 December 2013, Sino Top has entered into the VLI LOI in relation to the proposed cooperation in the development of the Finance Leasing Business in the PRC. Pursuant to the VLI LOI, subject to the establishment of the WFOE, Sino Top will procure the WFOE to purchase ten sets in-seam directional drilling rigs, being equipment used for mining, from VLI Taiyuan with an aggregate value of approximately HK\$170 million and lease back those mining equipment to VLI Taiyuan for its daily operation business activities. The VLI LOI will be terminated if the WFOE has not been established by

## LETTER FROM THE BOARD

31 March 2014. On 13 January 2014, Sino Top has also entered into the four Jan 2014 LOI with Shanxi Zhengbang, Shanxi Jinda, Jinhui Kaichuan and Shanxi Fuxin respectively in relation to the proposed finance leasing of the Shanxi Zhengbang Equipment with an aggregate value of approximately RMB154.30 million (equivalent to approximately HK\$196.35 million), Shanxi Jinda Equipment with an aggregate value of approximately RMB135.00 million (equivalent to approximately HK\$171.79 million), Jinhui Kaichuan Equipment with an aggregate value of approximately RMB126.78 million (equivalent to approximately HK\$161.33 million) and Shanxi Fuxin Equipment with an aggregate value of approximately RMB108.20 million (equivalent to approximately HK\$137.68 million) respectively. Pursuant to the Jan 2014 LOI, the entering into of the definitive finance leasing agreement(s) is conditional upon the establishment of the WFOE, if the WFOE has not successfully obtained the business license and paid up the registered capital US\$35 million in full by 31 March 2014, the Jan 2014 LOI shall be terminated automatically. The Company has planned to allocate approximately HK\$890.65 million of the net proceeds to develop the Finance Leasing Business and would firstly apply approximately US\$35 million (equivalent to approximately HK\$272.3 million) from such approximately HK\$890.65 million for payment of the registered capital in the PRC in the first quarter of 2014 and thereafter, the registered capital is intended to be utilised for the Finance Leasing Business in the forthcoming quarters of 2014. The expected allocation of the net proceeds of approximately HK\$890.65 million (excluding the usage of the abovementioned US\$35 million for payment of the registered capital but including the expected utilisation of such US\$35 million in the second to fourth quarters in 2014 in the Finance Leasing Business) would be (i) as to approximately HK\$871.58 million for procurement spending for purchase of coal mining related machineries and equipment for the Finance Leasing Business, including, among others, the mining related equipment with an aggregate value of approximately HK\$170 million under the VLI LOI and coal mining related equipment with an aggregate value of approximately RMB524.28 million (equivalent to approximately HK\$667.15 million) under the four Jan 2014 LOI; and (ii) as to approximately HK\$19.07 million as general working capital for the new finance leasing company including the set up cost and daily operating cost. The Company is currently identifying suitable candidates to work for the Group's Finance Leasing Business, details of the proposed candidates have been set out under below sub-section headed "H. Proposed Candidates for the Finance Leasing Business".

**Shareholders and/or investors should be reminded that the Finance Leasing Business is subject to various uncertain conditions which may or may not be succeeded and there is therefore no assurance that the funding from the Share Placing and the CB Placing will generate positive returns to the Shareholders. Accordingly, Shareholders and/or investors are advised to exercise caution when dealing in the Shares.**

The Company intends to use the net proceeds of approximately HK\$62 million to enhance the financial flexibility for the general working capital of the daily operations of the existing knitting business for the Group in the financial year 2014. Such net proceeds are intended to be used (i) as to approximately HK\$55 million for general working capital of the Group; (ii) as to approximately HK\$7 million for the estimated expenses in relation to the professional fees incurred for the Share Subdivision, the Change of Board Lot Size, the Placing Agreement, the Transfer Agreement, the Supply Contract, the Sales Contract, the VLI LOI and the Jan 2014 LOI. The Group has sufficient working capital for the next twelve months without the completion of Share Placing and the CB Placing. However, the working capital raised from the Share Placing and the CB Placing would enhance the financial flexibility to the general working capital for the daily operation.

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Set out below is the summary of the expected breakdown of the use of aggregate net proceeds of approximately HK\$1,140 million from the Share Placing and the CB Placing for the year 2014.

	<b>JV Company</b>	<b>Finance Leasing Business</b>	<b>Existing business</b>			<b>Total</b>
	<b>Capital Injection Amount</b> <i>(HK\$'M)</i>	<b>Purchase of Coal Mining and Machineries Equipment</b> <i>(HK\$'M)</i> <i>(Note 1)</i>	<b>Working Capital</b> <i>(HK\$'M)</i> <i>(Note 2)</i>	<b>Working Capital</b> <i>(HK\$'M)</i> <i>(Note 3)</i>	<b>Professional Fee</b> <i>(HK\$'M)</i> <i>(Note 4)</i>	<i>(HK\$'M)</i>
2014						
1st Quarter	187.35	16.99	8.99	13.75	7.00	234.08
2nd Quarter	—	84.93	3.36	13.75	—	102.04
3rd Quarter	—	735.09	3.36	13.75	—	752.20
4th Quarter	—	34.57	3.36	13.75	—	51.68
	<u>187.35</u>	<u>871.58</u>	<u>19.07</u>	<u>55.00</u>	<u>7.00</u>	<u>1,140.00</u>

Notes:

- The Company would firstly apply approximately US\$35 million (equivalently to approximately HK\$272.3 million) for payment of the registered capital in the PRC in the first quarter of 2014 and thereafter, the registered capital is intended to be utilised for the Finance Leasing Business. The expected expenses for coal mining related machineries and equipment in 2014 (excluding the usage of the abovementioned US\$35 million for payment of the registered capital but including the expected utilisation of such US\$35 million in the second to fourth quarters in 2014 in the Finance Leasing Business) as follows:
 

1st Quarter	(i) approximately HK\$16.99 million for purchasing one set mining equipment from VLI Taiyuan under the VLI LOI.
2nd Quarter	(i) approximately HK\$84.93 million for purchasing five sets mining equipment from VLI Taiyuan under the VLI LOI.
3rd Quarter	(i) approximately HK\$67.94 million for purchasing four sets mining equipment from VLI Taiyuan under the VLI LOI.  (ii) approximately RMB126.78 million (equivalent to approximately HK\$161.33 million) for purchasing the Jinhui Kaichuan Equipment under the Jan 2014 LOI.  (iii) approximately RMB135 million (equivalent to approximately HK\$171.79 million) for purchasing the Shanxi Jinda Equipment under the Jan 2014 LOI.  (iv) approximately RMB108.2 million (equivalent to approximately HK\$137.68 million) for purchasing the Shanxi Fuxin Equipment under the Jan 2014 LOI.  (v) approximately RMB154.3 million (equivalent to approximately HK\$196.35 million) for purchasing the Shanxi Zhengbang Equipment under the Jan 2014 LOI.
4th Quarter	(i) approximately HK\$34.57 million for purchasing other mining machineries and equipment for the Finance Leasing Business..
- It is expected the general working capital in the first quarter of 2014 would be approximately HK\$8.99 million which comprises the commencement cost and general working capital of Finance Leasing Business in Shanxi, the PRC, which include, among others, the interior decoration expense, rental deposits, computers and equipment set up expenses, salary and administrative expenses, travelling and hotel expenses and sundries expenses. Also, it is expected the general operating working capital will be approximately HK\$3.36 million for each of the second, third and fourth quarter in 2014.

## LETTER FROM THE BOARD

3. It is the intention of the Company to allocate approximately HK\$13.75 million to the existing business to enhance the financial flexibility in each quarter of 2014.
4. The estimated expenses in relation to the professional fees incurred for the Share Subdivision, the Change of Board Lot Size, the Placing Agreement, the Transfer Agreement, the Supply Contract, the Sales Contract, the VLI LOI and the Jan 2014 LOI amounted to approximately HK\$7.00 million.

In the event that the Placing Shares and the Convertible Bonds are not fully placed and:

- (i) the net proceeds from the Share Placing and the CB Placing are sufficient for the contribution of the Capital Injection Amount and the payment of the registered capital of the WFOE of US\$35 million, and the balance of the net proceeds is of a substantial amount (i.e. the net proceeds from the Share Placing and the CB Placing is close to the original target of approximately HK\$1,140 million), the Company would scale down the size of the development of the Finance Leasing Business according to the amount of such balance;
- (ii) the net proceeds from the Share Placing and the CB Placing are sufficient for the contribution of the Capital Injection Amount and the payment of the registered capital of the WFOE of US\$35 million but the balance of the net proceeds is small, the Company would scale down the size of the development of the Finance Leasing Business according to the amount of such balance and use the registered capital of US\$35 million and the balance of the net proceeds to start the Finance Leasing Business and implement its development plan; and
- (iii) the net proceeds from the Share Placing and the CB Placing are sufficient for the contribution of the Capital Injection Amount but not the payment of the registered capital of the WFOE, the Company would apply the balance of the net proceeds to develop the trading business of the coal mining related equipment until the profit gained from the trading business is sufficient to pay the registered capital of the WFOE in full. If the registered capital of the WFOE is not fully paid up by 14 July 2014 as required, the Company will postpone the development of the Finance Leasing Business and may apply for a reduction in registered capital of the WFOE according to the funds available at the relevant time but in any event the reduced registered capital will not be less than US\$10 million which is the minimum requirement of the amount of the registered capital of a finance leasing company in the PRC.

As at the Latest Practicable Date, the Company has no intention to cease the development of the Finance Leasing Business even if the Placing Shares and the Convertible Bonds are not fully placed.

### **Alternative**

The Board has considered other alternative fund raising methods such as issue of new Shares under general mandate, bank borrowings and rights issue/open offer, however, taking into account:

- (i) given there is no track record for the JV Company before 31 October 2013 and the Finance Leasing Business is at the initial stage, the Company may not be able to procure loans/borrowings granted from the banks on the Capital Injection Amount and the development of the Finance Leasing Business in the current stage;

## LETTER FROM THE BOARD

- (ii) given the size of the fundraising and the financial reporting requirement of the financial institution, fundraising by rights issue or open offer on a fully-underwritten basis, which require the underwriter to lock-up financial resources for its underwriting commitment until completion of the right issue or open offer, is not preferred by the Placing Agent. After arm's length negotiation with the Placing Agent, fundraising by placing of new Shares and Convertible Bonds on a best effort basis which does not require any lock-up of financial resources is more acceptable to the Placing Agent;
- (iii) given the funding requirement for the Capital Injection Amount and the development of the Finance Leasing Business, the Company considers, as opposed to a placing on a best effort basis which is not subject to any threshold or restriction, an open offer on a non-fully underwritten basis is required to meet the minimum amount of funds raised set by and disclosed in the relevant listing document of the Company in order for the issue to proceed. This may result in the inability of the Company to implement its development plan on the Finance Leasing Business at all as there is a possibility that no funds could be raised from such open offer if the minimum amount is not met. In the alternative, a placing on a best effort basis would allow the Company, at the minimum, to raise certain funds even if the Placing Shares and the Convertible Bonds are not fully placed under the Share Placing and the CB Placing, and the cost associated with a placing is comparatively lower. As such, the Company considers a placing on a best effort basis involves less costs and less uncertainty risk than an open offer on a non-fully underwritten basis;
- (iv) given the bank balances and cash of the Group of approximately HK\$48.3 million as at 31 October 2013 and the number of new Shares allowed to be issued under general mandate is limited, fundraising by way of issuing new Shares under general mandate may not be able to provide sufficient financial flexibility for the Company to fulfill Capital Injection Amount and the capital requirement for the potential diversification into the Finance Leasing Business;
- (v) the Share Placing and CB Placing would enable the Company to broaden its shareholder base as the Share Placees and the CB Placees are Independent Third Parties; and
- (vi) the combination of Share Placing and CB Placing would reduce the immediate dilution effect of the Company,

the Company considers that the Share Placing and the CB Placing are the best fund raising means, fair and reasonable and in the interests of the Company and the Shareholders as a whole. The Directors consider that the terms of the Placing Agreement are fair and reasonable based on current market conditions and in the interests of the Company and the Shareholders as a whole.

As at the Latest Practicable Date, the Placing Agent is still in the process of procuring Share Placees and CB Placees. The Placing Agent has not received any solid commitment as more information of the Company in particular the development of the Finance Leasing Business is needed upon despatch of this circular. Accordingly, the Placing Agent is unable to ascertain the amount that could be successfully placed as at the Latest Practicable Date.

## LETTER FROM THE BOARD

### FINANCE LEASING BUSINESS

The following sections contain information and statistics relating to the PRC economy and the finance leasing industry in which the Company is intended to operate in. The Company has derived such information and data partly from publicly available government and other third-party sources (i.e. the research report in relation to the finance leasing industry issued in July 2013 by Orient Finance Holdings (Hong Kong) Limited, an Independent Third Party (the “Industry Report”)), which have not been independently verified by the Company and any of the respective directors, officers, representatives or affiliates. The Directors have taken reasonable care in the reproduction of such information, which may not be consistent with other information compiled within or outside the PRC.

#### A. INDUSTRY AND BUSINESS OVERVIEW

Finance leasing is developed to adapt the requirements of modern production and economic development and, in general, features stronger adaptability across different industries and sectors. Finance leasing is a modern financial instrument that has become popular strategies for enterprises for renewal of their machinery technologies. The finance leasing industry is commonly referred to as a “sun-rise industry” given its healthy track record of development and a presumably vigorous development potential in the future.

As set out in the Industry Report, the development of modern finance leasing industry began in the United States. In the 1960s, the finance leasing industry has emerged in developed countries and became more globalized gradually. In the middle of the 1970s, finance leasing industry commenced to develop in developing countries. The process of rapid global economic development that resulted in higher demand for new equipment from the enterprises, had provided opportunities for the growth of finance leasing industry as raising additional capital by relying heavily on traditional financing methods for the operations of the businesses of the enterprises became more difficult and troublesome for the enterprises. From the 1960s to 1990s, the average annual growth rate of the global finance leasing industry was 30%. Being one of the most vibrant financial service sectors globally, finance leasing industry has become the third largest financial instruments after bank credit and securities. Currently, nearly a third of fixed asset investments are completed through finance leasing.

Around the 1980s, finance leasing was introduced into the PRC. The PRC’s finance leasing industry had experienced development and consolidation after its initial establishment and had then continued to develop in a standardized and healthy way gradually. As set out in the Industry Report, in March 2007, the amended “Measures for the Administration of Lease Financing Companies” was introduced, allowing qualified financial institutions to hold equity interest or establish finance leasing companies. Thereafter, commercial banks such as Industrial and Commercial Bank of China Limited, China Construction Bank Corporation Limited, Bank of Communications, China Minsheng Bank and China Merchants Bank had entered into the finance leasing industry and established their own finance leasing companies and thereby accelerated the development of the finance leasing industry in the PRC. According to the Industry Report, the number of finance leasing companies that had registered in the PRC increased from 93 companies in 2007 to approximately 560 companies at the end of 2012; the total registered fund amounted to approximately RMB182 billion. The outstanding amount for leasing contract tallied at approximately RMB1,550 billion in 2012 from approximately RMB24 billion in 2007, which increased by 63.58 times with an average annual growth rate up to 10.6 times.

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The size of the PRC's finance leasing industry still consists of a large gap in terms of market penetration rate as compared to the size of the international finance leasing industry as it is currently considered to be at the initial stage of its growth due to the market conditions in the PRC. As set out in the Industry Report, based on the statistics of the World Leasing Yearbook, currently, the market penetration rate of finance leasing of more developed countries is between approximately 15% to approximately 30% and referring to the case of the United States, the amount of finance leasing in the United States exceeded US\$500 billion in 2011; the market penetration rate of finance leasing was over 22% based on the total fixed asset investment of approximately US\$2,290 billion in the same year. Also set out in the Industry Report, in the PRC, even though the fact that there is an increase in the market penetration rate of finance leasing in recent years, with approximately 0.17% in 2007 to approximately 4.14% in 2012, it is still lagging far behind the average standard of more developed countries and it is conservatively forecasted that the industry will maintain a compound growth rate of over 30% in the forthcoming five years. From the past experience of the global finance leasing industry, the economic driving forces which promote the speedy development of finance leasing industry in both developed and newly industrialized countries include two factors: market economic system and industrialization.

The increase of industrialization and the advancement and development of technology has greatly influenced the growth of the finance leasing industry. New innovation of technology leads to the rapidly increasing demand of enterprises for new equipment and the needs of capital for the innovation of technology leads to increasing demands for finance leasing as the traditional financing method becomes relatively difficult to be obtained by the enterprises. In addition, as a result of the rapid development of industrial adjustment and the innovation of technology, the size and the market penetration of finance leasing industry in the PRC has increased. Furthermore, the scope of the finance leasing industry has also been expanding with economic development and the advancement of technology.

Since 2009, the National Development and Reform Commission of the PRC initiated more than ten departments, including Ministry of Civil Affairs and Ministry of Finance of the PRC started to draw up the "Planning on enhancement of healthy development on urbanization 2011–2020" 《促進城鎮化健康發展規劃 (2011–2020年)》. As mentioned in the Industry Report, more than 20 urban groups, 180 prefectural level cities and over 10,000 towns will be involved in the project, providing the specific requirements for the development of new-style urbanization. Revolving around the future strategic plan of urbanization, the PRC will strengthen on the construction of facilities for railways, highways, sea transport, aviation, oil pipelines and basic infrastructures for cities which plays a supportive and guiding role on the development of urbanization. Urbanization results in the increased demand of basic infrastructure in urban areas, community services and facilities as well as real estate development which will inevitably increase the demand on investment capital and thus increase the demand on finance leasing. The importance of finance leasing is more pronounced when there is a great capital demand but limited supply of capital.

Presently, the PRC is undergoing the construction of market economy system and optimization of industrialization and such processes are likely to persist for 10 to 20 years. With the implementation of urbanization and industrialization and the improvement in related regimes and systems that provide good settings and conditions for the development of the PRC's finance leasing industry, the penetration rate is expected to increase continuously. As a vital part of finance trading, rapid development of the finance leasing industry is highly expected in the forthcoming decade and in turns, finance leasing will also be a significant driving force for the economic development in the PRC.

## LETTER FROM THE BOARD

### **The finance leasing market of coal mining equipment in Shanxi, the PRC**

According to the Industry Report, the PRC is the largest manufacturer of construction machinery in the world with rapid development in the recent years. The total sales amount of construction machinery in the PRC increased by 12.09% in 2012 compared with that of 2011. In 2012, the rate of increase of production and sales of construction machinery industry is expected to be at approximately 14% and the growth rate of profit is expected to be at approximately 5%. The leasing of construction machinery can accelerate the renewal of machinery technology of enterprises, enlarged the size of enterprises investment, lower the cost and relieve the shortage on capital of enterprises.

The coal industry is characterized by the large capital investment of coal mining machinery and equipment and the short usage cycle of the equipment. Under normal circumstances, a overhaul is required for major equipments such as shearer, scraper conveyor and hydraulic support when the production amounts to about 0.8 to 1 million tons. The equipment will become obsolete after 3 to 4 years of normal use. As advised by the JV Partner, according to its five-year internal historical data, it is estimated that, not taking into account the basic capital investment of construction of a coal mine, for every million tons of raw coal produced from a coal mine with normal production cycle, an investment of approximately RMB21.22 million of coal equipment and spare parts is required (the “Investment Estimation”). If the coal mine resolves its needs of equipment through finance leasing, the required leasing fee is approximately RMB11.44 million per every million tons of raw coal produced (the “Rental Estimation”).

Therefore, the coal enterprises resolving their needs of coal mining machineries and equipments through finance leasing has become a normal choice for them to mitigate funding pressure. Shanxi Province is well known as a coal province in the PRC and coal production is mainly concentrated in and carried out by the seven state-owned coal producers. Over the years, these state-owned coal enterprises have used finance leasing to resolve their demand for coal mining machineries and equipments. In addition, from the perspective of capital cost and working capital efficiency, the coal enterprises will continue to meet their demand for coal mining machineries and equipments through finance leasing. Therefore, the finance leasing market of coal mining machineries and equipments in Shanxi Province has room for development.

According to information from 山西省煤炭工業廳 (transliterated as Bureau of Coal Industry of Shanxi Province\*) ([www.sxcoal.gov.cn](http://www.sxcoal.gov.cn)) released on 29 January 2013, the coal production in Shanxi Province, PRC in 2012 amounted to approximately 913 million tons. Based on the Investment Estimation, for every million tons of raw coal production, it is estimated that the investment in Shanxi Province, PRC, for major coal mining machineries and equipments for normal production cycle in 2012 is approximately RMB19.37 billion and based on the Rental Estimation, for every million tons of raw coal production, the finance leasing market in 2012 is approximately RMB10.44 billion.

According to the website of 山西省人民政府 (transliterated as Shanxi Provincial People’s Government\*) ([www.shanxigov.cn](http://www.shanxigov.cn)), Shanxi’s coal production in 2013 is approximately 960 million tons. Based on the Investment Estimation, for every million tons of raw coal production, it is estimated that the investment in Shanxi Province, PRC, for major coal mining machineries and equipments for normal production cycle in 2013 is approximately RMB20.37 billion and based on the Rental Estimation, for every million tons of raw coal production, the finance leasing market in 2013 is approximately RMB10.98 billion.

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It is expected the domestic coal industry is overall in stable condition and it is also expected Shanxi's coal production in 2014 will be at around 1 billion tons. In 2014 the Company will actively develop the finance leasing market of coal mining machineries and equipments in Shanxi.

In addition, the surrounding areas of Shanxi Province such as Inner Mongolia, Hebei and Shaanxi are major coal production bases in the PRC and thus, they will also provide a potential market capacity for the future development of finance leasing business of the Group.

According to information published on 17 September 2013 on the website of China Coal Mining Industry (中國煤炭工業網) (www.chinacoal.gov.cn) and on 13 September 2013 on the website of National Coal Mining Industry (國家煤炭工業網) (www.coalchina.org.cn), based on the coal production for the year 2012, JV Partner is one of the top seven coal production enterprises in the PRC with its coal production exceeds 100 million tons in 2012 and according to information published on 20 January 2014 from the website of China Coal Resource (中國煤炭資源網) (www.sxcoal.com), the JV Partner is the 2nd largest coal production enterprise in Shanxi in 2013 and the coal production of JV Partner amounted to approximately 103.17 million tons in 2013, representing approximately 10.72% of the total coal production in Shanxi of approximately 962.56 million tons in 2013 and approximately 23.24% of the total coal production of the top five coal production enterprises in Shanxi of approximately 444.00 million tons in 2013. In view of the background and market position of the JV Partner in the coal production industry in the PRC, the Company considered the information provided by the JV Partner is a reasonable and reliable reference.

### B. PRC REGULATIONS AND RESTRICTIONS

The key laws and regulations regulating the finance leasing business in the PRC include the following:

- Measures on the Administration of Foreign Investment in the Leasing Industry (外商投資租賃業管理辦法)
- The PRC Contract Law (合同法)
- Notice on Including Railway Transportation and Postal Services Sectors into the Pilot Scheme on Switching from Business Tax to VAT (Cai Shui [2013] No. 106) (關於將鐵路運輸和郵政業納入營業稅改征增值稅試點的通知 (財稅[2013] 106號))

#### **Measures on the Administration of Foreign Investment in the Leasing Industry**

On 3 February 2005, MOFCOM promulgated the *Measures on the Administration of Foreign Investment in the Leasing Industry* (the "Measures") to regulate the operation of foreign-invested leasing business and finance leasing business.

The Measures shall apply to the foreign-funded companies, enterprises and other economic organizations that establish foreign-funded enterprises within the territory of the PRC in the forms of sino-foreign equity joint venture, sino-foreign contractual joint venture and solely foreign-funded enterprise to conduct lease business or finance leasing business. According to the Measures, foreign investors with total assets of no less than US\$5 million are permitted to apply to the competent MOFCOM office for establishing wholly foreign-owned finance leasing companies in the PRC. Foreign-

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invested finance leasing companies must satisfy the following qualifications: (i) the registered capital shall be no less than US\$10 million; (ii) the term of operation of a foreign-invested finance leasing company in the form of a limited liability company normally shall not exceed 30 years; and (iii) it shall have appropriate professional staffs and its senior management personnel shall possess appropriate professional qualifications and have no less than three years' experience in the business.

“Finance leasing business” is defined as the business in which a lessor, based on a lessee's selections of the seller and the leased object, agrees to purchase the assets underlying the leases from a seller, makes the leased object available to the lessee for use and collects rental from the lessee. Foreign-invested finance leasing companies may carry out finance leasing business by means such as direct leasing, sub-leasing, sale-leaseback, leveraged leasing, entrusted leasing and joint leasing. The leased objects allowed include (i) movable properties such as manufacturing equipment, telecommunication equipment, medical equipment, scientific and research equipment, inspection and testing equipment, engineering and machinery equipment and office equipment; (ii) transportation equipment, such as airplanes, automobiles and ships; and (iii) intangible assets such as software and technology that are attached to the moveable assets and transportation equipment mentioned above provided that the value of such attached intangible assets shall not exceed half value of the leased assets.

According to the Measures, foreign-invested finance leasing companies may conduct the following businesses: (i) finance leasing business; (ii) leasing business; (iii) purchase of leased assets inside and outside China; (iv) maintenance of assets underlying the leases and disposal of the residual value of assets underlying the leases; (v) lease transaction consultancy and security services; and (vi) other businesses approved by the approval authority.

The Measures require that the risky assets of a foreign-invested finance leasing company, which are determined by the total amount of residual assets after deducting cash, bank deposits, PRC treasury securities and entrusted leased assets from the total assets of the enterprise, shall generally not exceed ten times the company's net assets as of the end of each financial year. The Measures further require that foreign-invested finance leasing companies shall submit a report on their business operations and an audited financial statements of the past year to MOFCOM for filing purposes before 31 March of each year.

### **The PRC Contract Law**

On 15 March 1999, the National People's Congress promulgated the *PRC Contract Law* for regulating the civil contractual relationship among natural persons, legal persons and other organizations. Chapter 14 of the PRC Contract Law sets mandatory rules about finance leasing contracts.

Under the *PRC Contract Law*, the finance leasing contracts shall be in written format and shall include terms such as the name, quantity, specifications, technical performance and inspection method of the leased object, the lease term, the composition, payment term, payment method and currency of the rent and the ownership of the leased object upon expiration of the lease.

Under the finance leasing contracts, the lessor shall conclude a purchase contract based on the lessee's selections of the seller and the leased assets, and the seller shall deliver the leased assets to the lessee as agreed. The lessee has the rights of a buyer when taking delivery of the leased property.

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Without the consent of the lessee, the lessor may not modify relevant provisions related to the lessee of the sales contract which has been concluded based on the lessee's selections of the seller and the leased assets.

The *PRC Contract Law* includes a general mandate that the interest rate charged to a customer under a finance leasing contract shall take into account the purchase cost of the property or asset underlying a lease contract and should allow for a reasonable profit margin for the lessor, except as otherwise agreed upon by the contracting parties.

The ownership of the leased assets vests in the lessor. If the lessee becomes bankrupt, the leased assets will not become part of the property available for distribution in the bankruptcy. The lessee shall take due care of the leased assets and use it properly. The obligation to maintain and repair the leased object while in the possession of the lessee shall be performed by the lessee. The lessor is not liable for any personal injury to any third party or damage of the assets caused by the leased assets during in the possession of the lessee. If the leased assets fail to meet the requirements stipulated by the parties or is not fit for the purpose for which it is to be used, the lessor shall not be liable, unless the lessee selected the leased assets in reliance on the technical ability of the lessor or the lessor interfered in the selection of the leased assets.

The lessor and the lessee may stipulate in which party ownership of the leased property shall vest upon expiration of the lease. If they have not stipulated in which party ownership shall vest upon expiration or if such stipulation is not clear, and if ownership cannot be determined in accordance with the *PRC Contract Law*, the ownership of the leased assets shall vest in the lessor. If the parties have stipulated that ownership of the leased assets shall vest to the lessee upon expiration of the lease, and the lessee has already paid most of the rent but is unable to pay the balance, and if the lessor terminates the contract and repossesses the leased property on those grounds, the lessee may demand a partial refund if the value of the leased property repossessed exceeds the rent and any other expenses owed by the lessee.

**Notice on Including Railway Transportation and Postal Services Sectors into the Pilot Scheme on Switching from Business Tax to VAT** (together with its appendices (i) Measures for the Implementation of the Pilot Scheme on Switching from Business Tax to VAT; (ii) Provisions on Matters Relating to the Pilot Scheme on Switching from Business Tax to VAT; (iii) Provisions on the Transitional Policies Concerning the Pilot Scheme on Switching from Business Tax to VAT; and (iv) Provisions on Zero VAT Rate and Tax Exemption Policies Applicable to Taxable Services).

On 12 December 2013, the Ministry of Finance and State Administration of Taxation promulgated the *Notice on Including Railway Transportation and Postal Services Sectors into the Pilot Scheme on Switching from Business Tax to VAT (Cai Shui 2013 No. 106)* (collectively with its appendices, the "VAT Notice").

According to the VAT Notice, entities and individuals providing transportation, postal services and certain modern services (hereinafter referred to as the "taxable services") within the territory of the PRC are taxpayers of VAT. Taxpayers providing taxable services shall pay VAT pursuant to the VAT Notice and are no longer required to pay business tax. Taxable Services include leasing services of tangible movables. Under the VAT Notice, finance leasing of tangible movables means the business activities of leasing tangible movables of financing nature and with the characteristics of ownership transfer.

## LETTER FROM THE BOARD

The VAT rate under the VAT Notice shall be 17% for provision of leasing services of tangible movables and the VAT levy rate shall be 3%.

For finance leasing services of tangible movables provided by general taxpayers among taxpayers under the pilot scheme who engage in finance leasing business upon approval by the People's Bank, China Banking Regulatory Commission or MOFCOM, the policy on refund upon levy of VAT shall apply to the part in excess of 3% of their actual burden of VAT prior to 31 December 2015. If the registered capital of a taxpayer participating in the pilot scheme approved by the competent MOFCOM office at the provincial level or the national economic and technological development zone authorized by the MOFCOM to engage in the finance leasing business reaches RMB170 million prior to 31 December 2013, the taxpayer shall carry out the aforesaid tax refund policy as of 1 August 2013; if its registered capital reaches RMB170 million after 1 January 2014, the taxpayer shall carry out the aforesaid tax refund policy in the next month after reaching such standard.

### C. BUSINESS PLAN AND BUSINESS MODEL

#### Financing products

The Company will operate the Finance Leasing Business through the WFOE. The WFOE will mainly finance the four components that comprise a complete integrated coal mining and excavating system for underground coal mining, namely, hydraulic roof supports, armored-face conveyors, roadheaders and shearers, and spare parts such as jacks, hydraulic valves and structural parts for hydraulic roof supports. The WFOE will also finance various related mining and excavating equipment that supports coal mining operations, including belt conveyors, crushers and loaders.

The Company believes that the current favorable coal mining industry and the regulatory environment in the PRC will have a significant contribution to its business growth. The only way the majority of the coal reserves in the PRC can be economically extracted is underground mining. Compared to room-and-pillar mining, longwall mining is fully mechanized, and so it is a more efficient and safer underground mining method. As part of its measures to improve the mechanization rate, operating efficiency and safety of the PRC coal mining industry, the PRC government has implemented such policies as the *Twelfth Five-Year Plan* published in 2011, to encourage the consolidation of the PRC coal mining industry. As hydraulic roof supports generally account for over half of the total value of an integrated coal mining and excavating system, and are typically considered to be the most important component of an integrated coal mining and excavating system, the Company believes that these industry measures will help the future development of its Finance Leasing Business.

#### Business model of Finance Leasing Business

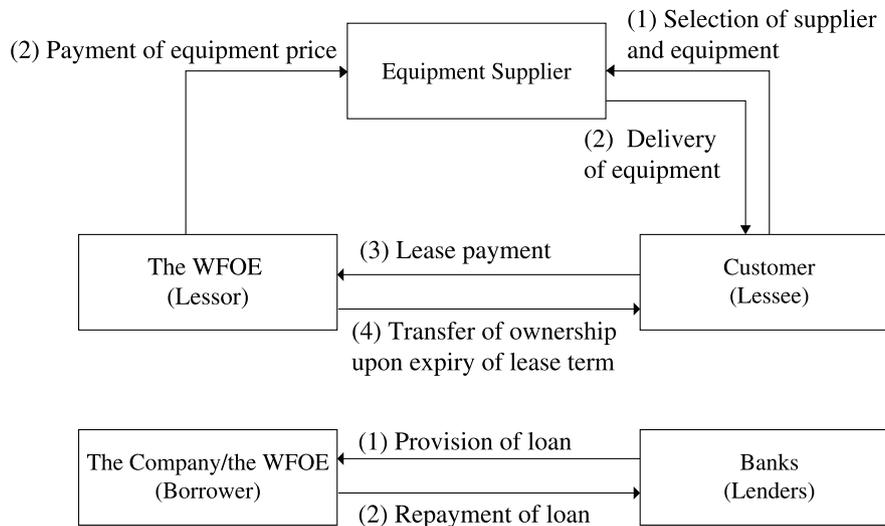
The model of Finance Leasing Business is to provide its customers with a commercial arrangement where: (i) the lessee, its customer, will select an asset (such as, the coal mining machinery that they need); (ii) the lessor, the WFOE, will then purchase the selected asset; (iii) the lessee will have the right to use the selected asset for the duration of the lease; (iv) the lessee will make a series of rental payments for the use of the selected asset during the term of the lease; (v) the WFOE will recover a majority or the entire cost of the selected asset and earn interest from the rental payments made by the lessee; and (vi) the lessee can choose to acquire ownership of the selected asset from WFOE upon expiry of the lease term. The usage demand of the lessee for a good is the precondition of the

## LETTER FROM THE BOARD

commencement of the finance leasing contract. The lessor acts as a bridge in the resource flow of capital and equipment. Ultimately, the lessor who makes contribution gains economic benefit through receiving the rent from the lessee.

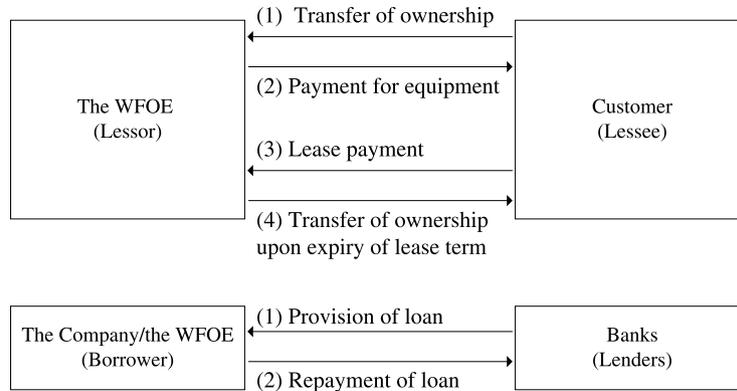
For finance leasing, almost all of the risks and rewards associated with the ownership of the selected assets are transferred to the lessees. When the WFOE is a lessor under the finance leasing, an amount equivalent to the minimum lease payment receivables and initial direct costs will be included in the financial statement as loans and accounts receivable. Any unguaranteed residual value will also be recognized at the inception of the finance leasing. The difference between (i) the sum of the minimum lease payment receivables, initial direct costs and the unguaranteed residual value and (ii) their present value is recognized as unearned finance income. Unearned finance income will be recognized over the term of the lease using the effective interest rate method. As the lessor for direct finance leasing, the WFOE has the legal ownership of the assets underlying the lease during the lease term and such ownership can be transferred to the lessee upon the expiry of the lease term if the lessee so chosen, which is generally agreed as a term in the lease contract with such lessee.

A typical direct finance leasing transaction usually involves three parties, namely the lessor, the lessee and the equipment supplier. Their relationship, as compared to the relationship between the Company/the WFOE as borrower and the banks as lenders under the normal loan transactions, is described in the below diagram:



## LETTER FROM THE BOARD

A typical sale-lease back transaction usually involves two parties, namely lessor and lessee. The relationship between the two parties, as compared to the relationship between the Company/the WFOE as borrower and the banks as lenders under the normal loan transactions, is shown in the following diagram:



Under normal use, coal mining machinery and equipment reach retirement extent generally around 3 to 4 years. Therefore in the PRC, including Shanxi market, it is also expected the term for coal mining machinery and equipment is around 3 to 4 years. The lease contracts are generally priced at market rates (determined with reference to the prevailing commercial lending rates as according to the People’s Bank of China (“PBOC”) benchmark interest rate, and is usually higher than commercial lending rates). The lease contracts of the WFOE will be executed in accordance with market practice; the WFOE will negotiate with individual customers for the commercial terms of their respective lease contracts. The interest rates charged and the payment date of rental fee are commercial arrangement of the lease contracts. It is expected that the rental fee would be paid quarterly or semi-annually and generally the WFOE do not set a predetermined range of interest rates for its lease customers.

### Advisory and other services

Through the finance leasing services, the WFOE will be able to establish its own customer base, develop customer relationships and deepen its industry knowledge, so that the WFOE can be sensitive to the needs and requirements of its customers. With the understanding of the customers’ specific needs, the WFOE also intends to provide extended value-added services primarily including advisory and trading services to customers. This will enable the WFOE to develop a business model through which the WFOE will provide an integrated range of customized services and will develop stronger customer relationships.

<b>Industry</b>	<b>Types of Services to be Provided</b>
Machinery	— management consulting, including liaising with customers and negotiation with their suppliers; market information exchange and policy trend analysis; industry competition analysis based on its accumulative industry expertise and market information; and financial advisory services, including working capital and cash flow management
Infrastructure Construction	— sharing of market information and statistics; and financial advisory services such as regulatory trends analysis and market data provision

## LETTER FROM THE BOARD

The advisory services will focus on the individual needs of the customers. The comprehensive industry expertise and in depth understanding of customers' specific needs and requirements will enable the WFOE to provide its customers with professional and customized advisory services.

### **Customers**

The WFOE's targeted customers will mainly include small-to-medium sized enterprises, large corporations and public institutions with operations within the WFOE's targeted industries. The WFOE will select its customers based on factors such as their cash flow stability and/or asset values, industry reputation and track record performance.

### **Risk control**

With the growth of the customer base in the targeted industries, the WFOE will assess its risk management systems, so as to institutionalize the accumulated knowledge and expertise of the WFOE in order to ensure compliance with prudent risk management standards. The risk management procedures include:

#### **(A) *Inspection and evaluation before leasing***

- (1) *Lease Application* — a customer who meets the following conditions may make an application to the WFOE:
  - (i) It is qualified to be an independent legal entity which has passed annual inspection of a legal body of enterprise;
  - (ii) Its production and operation must comply with the relevant laws and regulations of the nation and industry policies;
  - (iii) It has a fixed address for production and operation;
  - (iv) It has a standardized operation management, a sound accounting system, a core management with high quality and an enterprise operating mechanism adapted to the development needs of the market economy; and
  - (v) It has a good reputation.
- (2) The written application made by the lease applicant to the WFOE shall include: the description of the enterprise, the reason of lease, lease condition, lease guarantee and other conditions which need to be explained to the WFOE.
- (3) The lease applicant shall provide the following information:
  - (a) *Basic information*
    - (i) The business license with the qualified annual inspection at that time;
    - (ii) The certification and identity card or the letter of authorization of the legal representative;

## LETTER FROM THE BOARD

- (iii) The Articles of Association;
  - (iv) The audited accounting statements in latest three years and the recent period;
  - (v) The resolution of board of directors or the general meeting for lease application; and
  - (vi) The other information that the WFOE considers necessary.
- (b) *Information that shall also be provided for direct leasing*
- (i) Project approvals, feasibility study report and other relevant documents of approval;
  - (ii) Relevant information of the proposed lease objects and the supplier.
- (c) *Information that shall also be provided for leaseback*
- (i) The certification or proof of ownership of proposed lease objects;
  - (ii) The valuation basis of proposed lease objects.
- (4) The lease applicant shall provide the following information relating to the proposed guarantor and collateral and pledge guarantee:
- (a) Information of the guarantor:
- (i) The information described in items A(3)(a)(i) to (iv) “Basic information”;
  - (ii) The letter of undertaking of joint liability guarantee; and
  - (iii) The other information that the WFOE considers necessary.
- (b) Information of the collateral and pledge guarantee:
- (i) The list of collateral and pledge;
  - (ii) The certification or proof of ownership of the collateral and pledge;
  - (iii) Valuation information of the collateral and pledge;
  - (iv) In the event that the collateral and pledge are not attributed to the lease applicant, it shall also provide the following information of the third party: the information described in items A(3)(a)(i) to (ii) “Basic information”; and the letter of undertaking issued by such third party to agree to the collateral and pledge;
  - (v) The other information that the WFOE considers necessary.

## LETTER FROM THE BOARD

- (5) *Inspection before leasing* — the administration department of lease business, after the receipt of the application made and the information provided by the lease applicant, will assign a project manager and co-organizer to establish a project team and conduct an inspection before leasing on the projects which meet the leasing conditions. The inspection shall include but not limited to the following items:
- (a) *For direct leasing*
- (i) *Whether the information provided by the customer is real, legitimate and valid.*
  - (ii) *The basic situation of the customer, including the enterprise type, shareholder composition, historical evolution, the basic status of core leaders, team status, position in the industry and the situation of affiliated enterprise, etc.*
  - (iii) *Asset status, including whether the financial system of the enterprise is sound, the accounting affairs are clear and the statements are true; the quality and quantity of asset; the amount and aging of account receivable and payable; the conditions of contingent loss and contingent liability; whether it is involved in significant legal litigation; the mortgaged and pledged situation of asset, etc.*
  - (iv) *Operation status, including leading products and market competitiveness and market share; customers of major sales and suppliers of raw materials and their respective proportion; cash flow and revenue quality, profitability.*
  - (v) *Management status, including governance structure; operational mechanism; business policy and strategy; long-term development plan of the enterprise; establishment and implementation of the internal control system; the evaluation of public institutions and media, etc.*
  - (vi) *Lease guarantee, including the information of the guarantor described in items A(5)(a)(i) to (v) “For direct leasing”; the status, value and liquidity of the collateral and pledge.*
  - (vii) *The situation of project relating to direct leasing, including the basic content; necessity of the project construction; the ability of the enterprise to undertake the projects; the impact of the project on the operation of the enterprise; the market position of leading product of the project and the current supply and demand in the domestic and international markets; the advanced technology used by the project; the investment plan, investment composition, fund raising; the evaluation on the economic benefit, etc.*
  - (viii) *Lease conditions* The breakdown and value of proposed lease objects; the basic information of the supplier; the purchase way of lease objects; and payment method, etc.

## LETTER FROM THE BOARD

(b) *For leaseback*

Apart from the information described in items A(5)(a)(i) to (vi) “For direct leasing”, the location of the installment and application, the usage conditions, the reliability of the valuation, etc. of the proposed lease objects under the leasing conditions should also be included;

- (6) Basic formalities and procedures of conducting inspection before leasing:
- (i) To review the information provided by the lease applicant;
  - (ii) To carry out the inspection and to obtain first-hand information through meeting with lease applicant, site inspection, onsite verification and visit to the customers of lease applicant;
  - (iii) To obtain relevant information through public media and public institutions; and
  - (iv) To seek assistance from the relevant staff of the WFOE when the project manager considers necessary.
- (7) During the inspection, in the event of one of the following conditions, the inspection before leasing should be discontinued:
- (i) The financial statements provided contain false information or there is any omission of material facts in the financial statements;
  - (ii) The products and projects are expressly prohibited by the state where production and operation or investment are located;
  - (iii) Approval has not been obtained from the relevant authorities in accordance with the national regulations;
  - (iv) Permission has not been obtained from the Department of Environmental Protection for the production and operation or investment in the projects; and
  - (v) Any serious illegal operation activities.
- (8) *Risk analysis* — after completing the inspection, the project manager will analyse the information obtained from the inspection with a combination of qualitative and quantitative methods to reveal fully the risks of the lease project. Risk analysis should include but not be limited to the following contents:
- (i) *Financial analysis*, including an analysis of liquidity ratios, asset management ratios, debt ratios, profitability ratios, cash flow indicators, earnings quality indicators;
  - (ii) *Analysis of sustainable operation ability of the enterprise*, including an analysis of enterprise growth, operation prospects, and impact of technical progress on the industry and enterprise;

## LETTER FROM THE BOARD

- (iii) *Core leadership analysis of the enterprise*, including an analysis of the experience, integrity, and asset status of the main leaders;
  - (iv) *Lease guarantees analysis*, including an analysis of guaranty qualification and ability; the value and liquidity analysis of the collateral and pledge;
- (9) *Risk assessments* — on the basis of risk analysis, the lease project will be evaluated to determine the degree of risk and form the basis of project decisions; and at the meantime, reveal the potential risks of the project to develop specific preventive measures;
- (10) *Preparation of an inspection report* — on the basis of the information obtained from inspection before leasing, risk analysis and assessment result to prepare inspection report. The inspection report should include but not be limited to the following contents:
- (i) Basic condition of the lease;
  - (ii) The status quo analysis of the lease applicant;
  - (iii) The project situation analysis;
  - (iv) Proposed guarantee circumstance;
  - (v) The foreseeable uncertainty factors of the project and corresponding countermeasures to be taken; and
  - (vi) Conclusions.
- (11) *Proposed lease program* — it should include the details of the lease object; lease term; determination of commencement date of the lease; rental calculations, including the lease principal (acquisition cost), the agreed interest rate and fee for the lease; arrangements for leasing payment; lease deposit; purchase of the lease object (if leaseback, the transfer of lease object); delivery and acceptance of the lease object (if leaseback, the handover of the lease object); rental payment method; arrangement after lease expiry; lease guarantees; economic benefit evaluation of the lease project, etc.
- (12) *Preliminary examination of the lease* — the lease business management department will implement the preliminary examination on the inspection report, lease programs and related information. With respect to the projects which are qualified for approval, the project manager will fill in a *Lease Project Preliminary Examination Table* and a *Business Approval Flow Statement*. The manager of the department will then sign the comments submitted by the project manager and pass such comments in a serial sequence to the legal affairs department, the finance planning department, the review department, the internal audit department for their review. Those departments will then submit their comments respectively within two working days after they receive the information for review.

## LETTER FROM THE BOARD

*Legal review* — the legal affairs department will review the legality and the related content of the lease project.

*Financial Review* — the finance planning department will review the funding arrangements and the economic benefits of the lease project and related contents.

### **(B) *Review and approval of a lease application***

- (1) *Lease application review* — the review system for the lease project is implemented in accordance with the principle of separation of inspection and review. Review department will further carry out comprehensive evaluation and identify the risks of the lease project.
- (2) *Audit review and submission for approval*— the internal audit department will carry out a procedure review of inspection before leasing of the lease project and the compliance and integrity of the lease review, then make a clear comment. For project meeting the approval criteria, it should be submitted to the risk control committee for consideration after obtaining the consent from the general manager.
- (3) *Lease approval* — risk control committee of the WFOE will approve the lease project at meetings in accordance with its rules of procedure. After the approval and signing of the approval document, the lease office will send the approval documents and all information to the lease business management department for implementation on the approval date.

### **(C) *Entering into a lease contract***

The entering into of a lease contract is organized and carried out by the project manager and coordinated and managed by the lease business management department.

In principle, the standard contracts formulated by the WFOE shall be used for all legal documents including the lease business contract or agreement. For use of the non-standard contracts, it must be reviewed and approved by the legal affairs department.

The lease contract or agreement and other legal documents must be prepared by the project manager. Contracts should be executed on an in-person basis which means that the project manager shall sign, seal and execute the lease contract with the lessee, the supplier, the guarantor and the pledgor in person. When necessary, the contract shall be notarized. The mortgaged, pledged collateral shall be applied for other rights registration in accordance with the relevant provisions.

The transferring of ownership procedures or registration, and assets transfer procedures of the lease objects of leaseback projects shall be applied in accordance with the provisions.

## LETTER FROM THE BOARD

The lease contract shall include:

- (i) *Lease authorization letter* which is entered into by the WFOE and the lessee.
- (ii) *The purchase contract or entrusted purchase agreement of lease objects in direct lease* in the event that the WFOE directly enters into the purchase contract with the supplier determined by the lessee, the contract must be simultaneously confirmed by the lessee. Or in the event that the WFOE entrusts the lessee to enter into the lease object purchase contract with the supplier determined by the lessee, the contract should be recognized by the WFOE so as to confirm that the ownership of the subject matter in the contract belongs to the WFOE.
- (iii) *Ownership transfer agreement of lease object in leaseback business* which is entered into by the WFOE and the lessee.
- (iv) *Lease contract* which is entered into by the WFOE and the lessee.
- (v) *Guarantee Contract*, surety guarantee contract, mortgage guarantee contract or pledge guarantee contract which is entered into by the WFOE and the guarantors or the owner of collateralized or pledged assets.

After entering into the lease contract, the project manager will arrange the price payment and complete the relevant procedures for the lease objects in accordance with the provisions of the contract and the WFOE.

### **(D) Management after leasing**

*Management after leasing is solely undertaken by the lease business management department and the project manager, and monitored by the internal audit department. The works include:*

- (i) *Project account management* — upon implementation of the lease project, the project manager shall timely establish the project account, and input the relevant information into the project management system. Other relevant information shall also be timely recorded during the term of the lease.
- (ii) *Rental collection* — the project manager shall collect the rental from the lessee in accordance with the lease contract, and serve the rental notice to the lessee 15 days before the date of rental payment.
- (iii) *Tracking supervision* — the purpose is to identify any warning signs as soon as possible so that the project manager and the lease business management department can take all necessary measures timely to control the occurrence of any bad lease. The measures include:
  - (a) *Supervision of the lease object*

Upon taking over of the lease object, the project manager will timely procure the lessee to mark the ownership on it, perform accounting in accordance with the lease accounting standard, and have the lease object insured;

## LETTER FROM THE BOARD

During the lease term, the project manager shall inspect the use the lease object in every rental payment period.

(b) *Supervision of the lessee*

The project manager shall make an inspection after leasing on the lessee and the guarantor in every rental payment period and fill in the *Lease Project Tracking Card*, which mainly includes the status of the lease project's implementation, the conditions of the lease object, the operation of the lessee and the guarantor or the conditions of the mortgaged and pledged collaterals.

The project manager shall collect the accounting statements of the lessee and other relevant information which may have an impact on the lease project. If anything which has an adverse impact on the implementation of the lease project arises, the project manager shall timely report it and take appropriate measures to resolve it properly.

- (iv) *Supervision by the department* — the lease business management department will summarize the *Project Tracking Card* submitted by the project manager, carefully analyse the warning signs found so as to formulate appropriate measures and report this to the department head accordingly. After the approval by the department head, an immediate and appropriate measure shall be taken to control the occurrence of bad lease.

The manager of the lease business management department shall randomly inspect in person the implementation of the lease project.

- (v) *Supervision by auditing* — the internal audit department will check and supervise the management of the lease project after leasing.

*Settlement of the lease contract*, the lease contract will terminate when the lessee has paid the rental in full under the lease contract. The project manager shall complete the takeover procedure of the lease objects according to the provisions of the contract and prepare a project summary.

**(E) *Management of overdue and bad lease***

The lease business management department will quarterly review and classify the lease projects to determine the details and value of each of them and provide the relevant advice of treatment. Such advice shall be submitted to the risk control committee for approval after the review by the financial management department, the internal audit department and the general manager. Subject to the approval of the risk control committee, it will be dealt with and managed according to the relevant procedures.

In case of any rental overdue during the lease term, the project manager shall take measures to call for and collect rentals, timely keep abreast of the lessee's prevailing situation and identify the reasons of overdue, and report timely.

## LETTER FROM THE BOARD

In case of a lease overdue which has not been referred to legal proceedings for recovery, preservation measures shall be taken for the lease object and lease credit during recovery. Specific measures shall be formulated based on the changes of conditions of the lessee and timely reports are required.

During the process of recovery, the relevant departments shall actively cooperate with and support the project manager when he needs assistance.

Any project in relation to the recovery under legal proceedings shall be managed by the legal affairs department with the assistance of the lease business management department, the project manager and other relevant departments.

The WFOE manages overdue and bad lease through formulating corresponding management measures.

### **(F) *Leasing archives management***

After the entering into of a lease contract, the project manager shall archive all information relating to the lease project under such lease contract, including all information of the project obtained during the process of survey, review, approval, implementation and management after leasing. All data collected during the process of management after leasing, such as the project tracking card, accounting statements collected and other relevant information shall be transferred to the archives management department after the end of the year.

Upon settlement of the contract, all information relating to the lease project shall be transferred to the archives management department. The archives management department shall package up the information together with the project file for custody.

Inspection of a project file shall be managed according to the archives management policies of the WFOE.

### **Liquidity**

The Company and/or the WFOE intends to fund the Finance Leasing Business mainly through fundraising, banks and/or other borrowings depends on the different stages of the business and the market conditions. The WFOE manages liquidity primarily by monitoring the maturities of the assets and liabilities to ensure that the WFOE has sufficient funds to meet its obligations as they become due. One of the Company main focuses is on maintaining stable sources of funding.

Liquidity risk is the risk that funds will not be available to meet liabilities as they fall due. This may occur when the amounts or maturity of assets and liabilities mismatches. The Company will manage its liquidity risk through routine monitoring. The routine monitoring procedures refer to the controls procedures which are mentioned in "Risk control" paragraph. The Company aims to optimize the structure of the WFOE's assets and liabilities, and maintain the stability of its leasing business, cash flow and assessment of the terms of its current assets and liquidity standards, as well as maintain an efficient and adequate internal funds transfer mechanism.

## LETTER FROM THE BOARD

### Impact of interest rate movements

The results of operations will largely depend on the Finance Leasing Business net interest income (i.e. interest income less interest expense). The interest income is largely determined by market interest rates (i.e. the interest rate that are charged for the interest-bearing bank borrowings). Market interest rates are sensitive to a number of factors which are beyond control, including the regulatory framework of the banking and financial sectors in the PRC as well as domestic and international economic and political conditions. At present, RMB-denominated loans which are loaned by commercial banks are subject to minimum interest rates based on the PBOC benchmark interest rates, but generally are not limited to any maximum interest rates. Any adjustment to the PBOC benchmark interest rates will impact the average market interest rates for PRC loans.

Generally lease contracts of the WFOE will be priced based on a floating interest rate, which fluctuates at a preset margin above a base interest rate, thus allowing the WFOE to transfer the impact of interest rate fluctuations to its customers to a large extent. The base interest rate references the PBOC benchmark interest rates, and the preset margin is a commercial term in the lease contract which will be negotiated on a case-by-case basis with the individual customer. According to this floating rate mechanism, the interest rates intended to be charged on customers for most of lease contracts will be adjusted periodically at every subsequent payment date if necessary. As most of the lease contracts will have monthly payment dates, the interest rates charged can be adjusted at each subsequent month should the PBOC benchmark interest rates fluctuate. For those remaining lease contracts that have quarterly or semi-annual payment dates, the interest rates for these lease contracts are adjusted at each subsequent payment date as necessary. For these reasons, the interest rates that charge for lease contracts will vary depending on the commercial arrangement with the respective customers and the WFOE generally will not set a predetermined range of interest rates for the leasing customers.

### D. THE DEVELOPMENT

The Company aims to become a professional and leading finance leasing company, by providing tailored financing solutions through equipment-based finance leasing and extended value-added services to customers in target industries in Shanxi Province, PRC. In the initial stage, the Company will focus its finance leasing business on industry which has sustainable growth potential (i.e. the coal mining machinery and equipment industry).

In order to be close to its customers, the Company has set up a finance leasing company, the WFOE, in Shanxi to serve as direct contact point with its customers. On 13 December 2013, the Company got the 企業名稱預先核准通知書 (transliterated as Notification of Pre-approval of the Enterprise Name\*) from 山西省工商行政管理局 (transliterated as Shanxi Administration for Industry and Commerce\*) approving 山西華威融資租賃有限公司 (transliterated as Shanxi Huawei Finance Leasing Company Limited\*) as the corporate name of the WFOE. On 8 January 2014, 山西省商務廳 (transliterated as Shanxi MOFCOM Office\*) issued the approval letter, according to which the establishment of the WFOE has been approved and the term of operation of the WFOE will be 30 years. And on 10 January 2014, 山西省人民政府 (transliterated as Shanxi Provincial People's Government\*) issued the certificate of approval. On 14 January 2014, 山西省工商行政管理局 (transliterated as Shanxi Administration for Industry and Commerce\*) issued a business license of the WFOE, with an approved business operation period of six months from 14 January 2014 to 14 July 2014, and the WFOE was established on the same day. According to the articles of association of the WFOE, the registered capital

## LETTER FROM THE BOARD

of US\$35 million will be injected by Sino Top in a lump sum within 6 months upon the establishment of the WFOE. Therefore, 山西省工商行政管理局 (transliterated as Shanxi Administration for Industry and Commerce\*) granted a business license with the term of operation of 6 months, which is the same as the time period for Sino Top to inject the registered capital of the WFOE. 山西省工商行政管理局 (transliterated as Shanxi Administration for Industry and Commerce\*) will issue an updated business license, with an approved business operation period of 30 years, to the WFOE after the registered capital of US\$35 million has been paid up in full by 14 July 2014. According to the Company's PRC legal advisers, if Sino Top duly injects all its registered capital within 6 months upon the establishment date of the WFOE, and the WFOE operates in compliance with PRC laws and regulations in all aspects, there will be no substantial legal impediment for the WFOE to apply for and obtain the updated business license with the term of operation of 30 years.

If 山西省工商行政管理局 (transliterated as Shanxi Administration for Industry and Commerce\*) refuses to grant a business license after 14 July 2014 due to Sino Top's failure to inject the registered capital, Sino Top and the WFOE will be subject to an order to rectify such non-compliance in a prescribed period; if Sino Top and the WFOE fail to rectify the non-compliance in the prescribed period, the WFOE may be further subject to an administrative fine of RMB10,000 to RMB100,000. If the registered capital of the WFOE fails to be duly injected within 2 years after its establishment, and the WFOE fails to change the registered capital in the business license, the business license of the WFOE may be revoked in the worst case scenario.

The Ministry of Finance and the State Administration of Taxation issued an announcement on 12 December 2013 stating that pilot tax payers engaging in the finance leasing business as approved by MOFCOM office at provincial level who are classified as ordinary tax payers and to provide the finance leasing service of tangible movables with a registered capital amounted to RMB170 million after 1 January 2014 may enjoy the tax benefit of having his/her/its portion of value-added tax which is over 3% actual tax liability refunded. The registered capital of the WFOE will be US\$35 million so as to enjoy the tax incentive from the government.

The Company has started the trading business in coal mining related machinery and equipment as a stepping stone to develop and maintain the relationship with its potential clients for the finance leasing business. On 24 December 2013, the Company has entered into the Supply Contract and the Sales Contract for purchasing and reselling coal mining related machinery and equipment. Details of the Supply Contract and the Sales Contract have been set out in the Company's announcement dated 24 December 2013.

On 30 December 2013, Sino Top has entered into the VLI LOI in relation to the proposed cooperation in the development of the finance leasing business in the PRC. Pursuant to the VLI LOI, subject to the establishment of the WFOE, Sino Top will procure the WFOE to purchase ten sets in-seam directional drilling rigs, being equipment used for mining, from VLI Taiyuan with an aggregate value of approximately HK\$170 million and lease back those mining equipment to VLI Taiyuan for its daily operation business activities. There are indeed a number of potential clients of VLI indicating their needs of finance leasing services. Announcement will be made by the Company as and when appropriate in accordance with the Listing Rules should any agreements be entered into by the parties.

## LETTER FROM THE BOARD

On 13 January 2014, Sino Top has also entered into the four Jan 2014 LOI with Shanxi Zhengbang, Shanxi Jinda, Jinhui Kaichuan and Shanxi Fuxin respectively in relation to the proposed finance leasing of the Shanxi Zhengbang Equipment, Shanxi Jinda Equipment, Jinhui Kaichuan Equipment and Shanxi Fuxin Equipment respectively, which are subject to the establishment of the WFOE and the paying up of the registered capital in full by 31 March 2014.

The Company will form a strategic alliance with the JV Company and enjoy support from the JV Partner Group which will provide the Company a solid and growing customer base. With the Company's business model, extensive network and quality customer base, the Company will be well positioned to expand its business into finance leasing industry which is expected to have a promising growth potential and to grow along with its customers and the PRC economy.

### **E. COMPETITIVE STRENGTHS**

The competitive strengths include:

- through strategic focus on financial leasing industry which has been expanding with the growth of the PRC economy, the Company have grasped the opportunity of the PRC's strong economic growth;
- the Company has identified and will engage a management team with experienced and qualified candidates to operate the finance leasing business and develop a business model to provide comprehensive financial services tailored to the target customers;
- the Company will diversify and keep sustainable funding sources to support its business growth and have strong capabilities in managing funding risks; and
- the Company will form a strategic alliance with the JV Company and enjoy support from the JV Partner Group which will provide the Company with a solid and growing customer base.

### **F. STRATEGIES**

The long-term goal of the WFOE is to become a leading finance leasing company in Shanxi Province, PRC. The Company intends to implement the following key strategies to grow its business and create value for its shareholders:

- capture on growth opportunities of the PRC finance leasing market;
- expand the customers base and deepen market penetration in the financial leasing industry;
- diversify the services portfolio to enhance the WFOE value-added abilities;
- continue to establish strategic partnership with the customers;
- continue to optimize the sources of funding, minimize funding costs and manage funding risks effectively;
- continue to strengthen the risk management capabilities; and

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— continue to select, train, motivate and retain talented and professional staff.

### G. RISK FACTORS RELATING TO THE FINANCE LEASING BUSINESS

**Any inability to effectively mitigate credit risk and maintain the asset quality of the WFOE may have a material adverse impact on the WFOE's business, financial condition and results of operations.**

The sustainability of finance leasing business and future growth depends largely on the WFOE's ability to effectively manage its credit risk and maintain the quality of its receivables portfolio. As such, any deterioration in the asset quality of the equipment or impairment in the collectability of receivables could materially and adversely affect the WFOE's future operational results.

The quality of lease receivables portfolio may deteriorate for a variety of reasons, including factors beyond the control of the WFOE, such as a slowdown in the economic growth of the PRC or global economies, a recurrence of a global credit crisis or other adverse macroeconomic trends which may cause operational, financial and liquidity problems for the WFOE's future customers thereby affecting their ability to make timely lease payments. If the level of the impaired lease receivables increases, the business, financial condition and results of operations may be materially and adversely affected.

**Any inability to effectively mitigate credit risk and maintain asset quality of the WFOE may have a material adverse impact on the Group's liquidity and continuing position in net cash outflows from operating activities.**

As the Company expands its business in finance leasing, it may experience periods of net cash outflows from operating activities in the future and there may be an increase in the balance of net lease receivables. As finance leasing is a capital intensive business, the Company may require funding from fund raising activities or bank and other borrowings which will result in cash inflows.

The Group's net cash flows from operating activities can be adversely impacted if it does not effectively manage its credit risk and fail to maintain the quality of the WFOE's lease receivables portfolio. The liquidity of the Company in the future will to an extent depend on the Company's ability to maintain adequate cash inflows from operating activities, collected primarily from the outstanding lease receivables of the WFOE. If the WFOE does not effectively manage its credit risk, or should there be any prolonged or significant decrease in the quality of WFOE's lease receivables portfolio, liquidity and cash flows from operating activities of the Group could be materially and adversely affected.

**The WFOE cannot assure that it can or will continue to match the maturity profile of the WFOE's assets and liabilities as both its assets and liabilities grow. Any inability to do so will impact the WFOE's liquidity and ability of the WFOE to repay borrowings and settle outstanding liabilities.**

The WFOE strives to effectively match the WFOE's asset growth with the WFOE's fundraising on an ongoing basis through regular review and periodic adjustment of its funding sources and structure, as necessary, in view of the changes to internal financial condition and external business environment of the WFOE.

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The WFOE may fail to effectively match the relative maturities of its assets and liabilities or manage its interest rate exposures between the WFOE's borrowings and the WFOE's lease receivables. Net liquidity shortfalls may result, and the WFOE may not be able to meet its financial liabilities as they fall due. In addition, such liquidity shortfalls may also impair the ability of the WFOE to obtain sufficient additional financing, if at all. As a result, the liquidity may be impaired, which would have a material adverse affect on the WFOE's business, financial condition and results of operation.

**The WFOE may not be able to obtain sufficient funds on commercially acceptable terms to finance its operations or expansion plans, or at all.**

Due to the capital-intensive nature of operations of finance leasing business, a substantial amount of capital as well as ongoing funding is required to support the growth of the WFOE's lease receivables portfolio, as well as to fund future expansion. If there are changes in international and/or domestic macroeconomic conditions and policies, or if the WFOE fails to maintain its existing and future loan arrangements on commercially acceptable terms, the WFOE cannot assure that it will be able to continue to obtain adequate funding in the future on reasonable commercial terms, or at all. If sufficient financing is not available to meet needs of the WFOE, or cannot be obtained on commercially acceptable terms, or at all, the WFOE may not be able to refinance its existing portfolio, fund the operation and/or expansion of the Finance Leasing Business, introduce new services or compete effectively.

**Failure to obtain, renew, or retain licenses, permits or approvals or failure to comply with applicable laws and regulations may affect the ability of the WFOE to conduct the Finance Leasing Business.**

The WFOE is required to hold various licenses, permits and approvals issued by relevant authorities allowing it to conduct the operations of the Finance Leasing Business. Any infringement of legal or regulatory requirements, or any suspension or revocation of these licenses, permits and approvals may have a material adverse impact on the business and operations. In addition, the licensing requirements within the PRC finance leasing industry are constantly evolving and the WFOE may be subject to more stringent regulatory requirements due to changes in the political or economic policies in the PRC. The WFOE cannot assure that it will be able to satisfy such regulatory requirements and as a result it may be unable to retain, obtain or renew relevant licenses, permits or approvals in the future. This may, in turn, hinder its business operations and materially and adversely affect the WFOE's results of operations and financial condition.

**Business performance depends heavily on the level of coal exploration and production activities in the PRC.**

The demand for coal mining-related machineries and equipment heavily depends on the level of coal exploration and production activities and the capital expenditures of coal producers, which are in turn driven by the demand and the current and future price trends for coal. The demand for coal fluctuates for a variety of reasons, including among others, changes in macroeconomic conditions, PRC government policies towards the coal industry and other energy industries and the adoption of alternative fuels. Although the prices of coal in the PRC are partially regulated by the PRC government, coal prices have fluctuated in recent years. The level of coal exploration and production activity is sensitive to coal prices. Any event that has an adverse effect on the coal industry in the PRC may have a material and adverse effect on the Finance Leasing Business.

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### **Business and reputation may be affected by potential product liability claims, litigation, complaints or negative publicity in relation to products' quality and safety.**

If the leased products fail to perform as expected, or prove to be defective or result in industrial accidents, personal injuries, casualties or financial losses to the customers, the WFOE may be subject to liability claims for damages. The WFOE cannot assure that it will not be exposed to future product liability claims. The WFOE may not have insurance coverage for product liability or any other protection scheme. If the leased products do not meet the specifications and requirements requested by the customers, or if any of the products of the WFOE are defective, such defects and any complaints or negative publicity resulting therefrom could have negative impact on the business of the WFOE, and the WFOE may also be subject to product liability claims and litigation. As a result, the WFOE may incur significant legal costs regardless of the outcome of any claim of alleged defects. Lawsuits are inherently expensive to defend and will divert management and other resources from the WFOE's business operations, which could in turn materially and adversely affect the business, financial position and operations of the WFOE.

### **The financial services industry is an increasingly competitive industry.**

The financial services industry is an increasingly competitive industry, and the WFOE cannot assure that it will be able to sustain its competitive advantage or effectively implement its business strategies. The potential competitors of the WFOE comprise mainly bank-affiliated leasing companies, captive leasing companies, independent leasing companies and other financial service companies, which are all similarly involved in the finance leasing and/or financial services business. Competition from such entities may result in certain developments in the industry, business and operating environment, such as downward competitive pressure on interest rates charged to customers, expansion by existing competitors, adoption by the WFOE's potential competitors of innovative financial services or comparatively effective branding efforts, any of which may have a material adverse impact on the WFOE's business, financial condition and results of operations.

Upon China's accession to the World Trade Organization in 2001, the PRC leasing industry entered a phase of rapid development and the number of both foreign and domestic investors in the industry has increased. In order to fulfill its commitment to liberalize the PRC finance leasing market, China's MOFCOM implemented several policies to develop further the leasing industry and encourage additional investment. For instance, the *Measures on the Administration of Foreign Investment in the Leasing Industry* was promulgated in 2005 and permitted the incorporation of foreign investment leasing companies either through the establishment of wholly-owned or joint venture finance leasing companies. In order to encourage participation by domestic investors, the "Circular on Issues in Connection with the Engagement in Financial Leasing Business" was jointly promulgated by the MOFCOM and the State Administration of Taxation. This notice permitted the establishment of domestic pilot finance leasing companies. In 2007, China Banking Regulatory Commission issued the newly revised "Measures on Administration of Finance Leasing Companies" which allowed qualified domestic promoters to invest in or establish finance leasing companies qualified as financial institutions with or without foreign investment. Pursuant to the *Decision of the State Council of PRC on the Fifth Batch of Administrative Examination and Approval Matters to be Cancelled or Delegated to Subordinate Authorities* promulgated and effected on July 4, 2010, approval for the establishment or modification of foreign invested enterprises engaged in finance leasing with a total investment amount of US\$300 million or less can be approved by provincial-level governmental authorities instead of those at the national level.

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The WFOE believes these measures are likely to further increase competition in the PRC finance leasing industry. If the WFOE is unable to compete successfully against current and future participants in the industry, the WFOE's business, results of operations and financial condition may be materially and adversely affected.

### **Interest rate changes may adversely affect interest expense related to the WFOE's borrowings, reduce net interest income and reduce demand for the WFOE's leasing services.**

The finance leasing business is affected by interest rates, including both the interest rates charged to the WFOE's potential finance leasing customers and the rate of interest the Company pays on its loans and financing obligations. In order to remain responsive to changing interest rates and to manage its interest rate exposure, the WFOE will implement measures to adjust the structure of its assets and liabilities based on an assessment of the sensitivity of projected net interest income under various interest rate scenarios. However, an increase in interest rates, or the perception that such an increase may occur, could adversely affect the WFOE's ability to obtain bank loans at favorable interest rates, ability to maximize its interest income, ability to originate new leases and ability to grow. In addition, changes in interest rates or in the relationships between short-term and long-term interest rates or between different interest rate indices could affect the interest rates received on interest-earning assets differently from the interest rates paid on interest-bearing liabilities, which could, in turn, result in an increase in interest expense or a decrease in net interest income (which is its interest income minus its interest expense). In addition, the WFOE's net interest income is also impacted by whether the WFOE can adjust the interest rates it charges its potential customers in response to fluctuations in interest rates for its interest-bearing bank borrowings to maintain its net interest spread and its net interest margin. If the WFOE fails to appropriately adjust the interest rates of its lease contracts in a timely manner, its net interest spread and its net interest margins may decrease, and as a result, the WFOE's profitability and results of operations would be adversely impacted. Any increase in the WFOE's interest expense or decrease in the WFOE's net interest income could have a material adverse effect on its business, results of operations and financial condition.

### **Fluctuations in equipment prices may adversely affect the Finance Leasing Business.**

The WFOE plans to operate the finance leasing business by targeting the coal mining industry which it believes to have sustainable growth potential. There is no assurance that the demand for finance leasing services in the coal mining industry will remain sustainable. Rapid increases in equipment prices may reduce overall demand and, accordingly, reduce the WFOE's ability to generate new contracts.

Moreover, reductions in equipment prices may also affect the WFOE's ability to recover the related lease receivables due to the increasing likelihood of default by its potential customers. In particular, the price at which the WFOE is able to sell any asset underlying its leases may be lower than the price at which it acquired it. In the event that the WFOE is required to recover a material portion of its equipment receivables but is only able to do so at values substantially below their acquisition prices, there may be a material adverse effect on its business, results of operations and financial condition.

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### **The uncertainties of the PRC legal system and its laws and regulations may have a negative impact on the operations of the Finance Leasing Business.**

The Finance Leasing Business is to be conducted in the PRC and substantially all of the operations will be located in the PRC, hence the business operations are regulated primarily by PRC laws and regulations. The PRC legal system is a civil law system based on written statutes. Unlike the common law systems, past court judgments in the PRC have limited precedential value and may be cited only for reference. Furthermore, PRC written statutes often require detailed interpretations by courts and enforcement bodies for their application and enforcement. Since 1979, the central government of the PRC has been committed to developing and refining its legal system and has achieved significant progress in the development of its laws and regulations governing business and commercial matters, such as in foreign investment, company organization and management, commercial transactions, tax and trade. However, as these laws and regulations are still evolving, in view of how the financial services industry in the PRC is still developing, and because of the limited number and non-binding nature of published cases, there exist uncertainties about their interpretation and enforcement, and such uncertainties may have a negative impact on the WFOE's business and prospects.

The WFOE intends to continue exploring growth opportunities within the coal mining industry in the PRC with growth potential and thus may be subject to further laws and regulations applicable to this industry. MOFCOM promulgated the *Measures on the Administration of Foreign Investment in the Leasing Industry* on 3 February 2005 to regulate the operation of foreign-invested leasing and finance leasing businesses generally. Under these Measures, the risky assets of a foreign-invested finance leasing company shall not in general exceed ten times the company's net assets. The WFOE cannot assure that it will not be subject to any further regulatory measures imposing stricter requirements such as further restrictions on the proportion of risky assets or the introduction of minimum capital adequacy requirements. If the WFOE fails to meet any such additional regulatory requirements, MOFCOM or other relevant regulators may take corrective actions (including, for example, restricting the growth of lease receivables and business activities of the WFOE), thereby materially and adversely affecting the WFOE's business, results of operations and financial condition.

### **H. PROPOSED CANDIDATES FOR THE FINANCE LEASING BUSINESS**

Mr. Zhao Li Xin, who is a qualified senior accountant in the PRC and possesses the qualifications of China Certified Public Accountant, China Certified Public Valuer and China Certified Tax Agent. He used to be a certified public accountant for securities and futures. He is currently a director of a number of sizeable firms in the PRC. He has over 25 years of working experience in the financial and the securities industries and, in particular, over 8 years of experience in finance leasing business, giving consultation to the business development and financial operation of several finance leasing companies. He will be the general manager of the WFOE and be mainly responsible for the overall strategic planning and development of the Finance Leasing Business.

Mr. Jia Gen Qing, who holds a bachelor's degree in Accounting from 山西財經學院 (transliterated as Shanxi College of Finance and Economics\*). He is a qualified economist in the PRC. He has joined 山西金融租賃有限公司 (transliterated as Shanxi Financial Leasing Corporation Ltd.\*) ("Shanxi Financial") since December 2000 and is currently the manager of asset and information management department of Shanxi Financial. Having over 23 years of working in the investment and banking industry and over 13 years of experience in finance leasing business, he has developed an extensive

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knowledge of and is familiar with the management and business development of the finance leasing business. He will be the head of business development department of the WFOE and be responsible for asset management of the Finance Leasing Business.

Mr. Wang Mo Fu, who holds a bachelor's degree in Accounting from 山西財經學院 (transliterated as Shanxi College of Finance and Economics\*). He was hired as the senior economist of 建設銀行山西省分行 (transliterate as China Construction Bank Shanxi branch\*) in 1995 and has worked at managerial positions in several companies since 1999. He has over 31 years of working experience and is currently a member of the party committee in the General Manager Office in 信達財產保險股份有限公司山西分公司 (transliterated as Cinda Property and Casualty Insurance Co. Ltd, Shanxi branch\*), mainly responsible for the management of the finance departments. He also has extensive experience in asset management. He will be the head of risk control department of the WFOE and be mainly responsible for risk control and risk management of the Finance Leasing Business.

Mr. Zhai Jun, who holds a bachelor's degree in Law from 山西大學 (transliterated as Shanxi University\*) and has obtained the legal professional qualification certificate in the PRC. He joined Shanxi Financial in June 2008 and is currently an account manager of asset and information management department of Shanxi Financial. Having involved in the legal affair, risk compliance, business operation and asset and information management divisions in Shanxi Financial over the years, he is familiar with the laws and regulations and the business flow of finance leasing. He has more than 5 years of experience in the management of legal risks of finance leasing business as well as practical experience in asset management. He will be the department head of legal compliance department of the WFOE and be responsible for issues related to legal and compliance of the Finance Leasing Business.

Mr. Yue Wen Jie, who holds a master's degree in Business Administration from 山西財經大學 (transliterated as Shanxi University of Finance and Economics\*). He joined Shanxi Financial in May 2010 and is currently a business manager of Shanxi Financial. He has three years of practicable experience in finance leasing and has developed strong customer base and channels. He will be the manager of the business development department of the WFOE.

Mr. Zhao Zhi Qing, who holds a bachelor's degree in Financial Management and obtained a postgraduate certificate in Accounting from 山西財經大學 (transliterated as Shanxi University of Finance and Economics\*). He joined Shanxi Financial in 2011. He is currently the accounting supervisor of the capital and finance department and is responsible for preparing the company's financial budgets, financial statements, taxation and other related works. He will be working in the finance department of the WFOE and be mainly responsible for handling issues related to finance and accounting of the Finance Leasing Business.

The Company is in the process of negotiating the terms of the remuneration for the proposed candidates. With their extensive knowledge and experience in the finance leasing industry, the proposed candidates will help and ensure the healthy and potential development of the Finance Leasing Business.

### **I. REASONS FOR ENTERING INTO FINANCE LEASING BUSINESS**

The Company intends to diversify into the finance leasing business mainly because of the potential prospect of the finance leasing industry in the PRC. The due diligence work performed by the Company before it decided to engage in the Finance Leasing Business includes but not limited to (i) reviewing the Industry Report; (ii) having discussion with the management of the JV Partner Group in relation to the

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potential development, business model and risk of the finance leasing business; (iii) site-visiting the operation of the finance leasing business carried out by the JV Partner Group in Shanxi and other enterprises in Tianjin; (iv) conducting interview with an experienced expertise who has over 8 years experience in the finance leasing business in the PRC about the potential development of the finance leasing business in the PRC; and (v) conducting feasibility studies regarding the establishment of finance leasing company in Tianjin or Shanxi. According to the Industry Report, the outstanding amount of leasing contracts in the PRC (being the outstanding balance of the leasing contracts which have not been settled) at the end of 2012 amounted to approximately RMB1,550 billion, represented an increase of approximately 63.58 times as compared with the outstanding amount of leasing contracts of approximately RMB24 billion at the end of 2007. As set out in the Industry Report, based on the statistics of the World Leasing Yearbook, currently, the market penetration rate of finance leasing of more developed countries is between approximately 15% and approximately 30% and referring to the case of the United States, the amount of finance leasing in the United States exceeded US\$500 billion in 2011; the market penetration rate of finance leasing was over 22% based on the total fixed asset investment of approximately US\$2,290 billion in the same year. Also as set out in the Industry Report, in the PRC, even though the fact that there is an increase in the market penetration rate of finance leasing in recent years, with approximately 0.17% in 2007 to approximately 4.14% in 2012, it is still lagging far behind the average standard of more developed countries and it is conservatively forecasted that the industry will maintain a compound growth rate of over 30% in the forthcoming five years. In view of this, the Company considers the finance leasing industry in the PRC has a vast room for development and the diversification into the Finance Leasing Business will be in the interests of the Company and the Shareholders as a whole.

### THE TRANSFER AGREEMENT

Date: 20 November 2013 (after trading hours)

Parties: (1) Sino Top, the transferee, an indirect wholly-owned subsidiary of the Company  
(2) Top Wealth, the transferor

Top Wealth is an investment company. To the best of the Directors' knowledge, information and belief and after having made all reasonable enquires, Top Wealth and its ultimate beneficial owner are Independent Third Parties.

Pursuant to the Transfer Agreement, in consideration of Sino Top has conditionally agreed to contribute the Capital Injection Amount of RMB147,233,440 (equivalent to approximately HK\$187,354,552) in cash to the JV Company, Top Wealth has conditionally agreed to transfer 8% equity interest in the JV Company to Sino Top together with all rights, benefits and interests attached thereto free from any encumbrance or third party rights. The Capital Injection Amount shall be paid after the issue of the new business licence to the JV Company as a result of the transfer under the Transfer Agreement and in accordance with the specified date and method of capital contribution stated in the Amended and Restated Articles and the Amended and Restated JV Agreement. The Capital Injection Amount was determined after arm's length negotiation between the parties with reference to 8% of the total registered capital of the JV Company of RMB1,840,418,000 (equivalent to approximately HK\$2,341,931,905).

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The Capital Injection Amount is expected to be funded by the net proceeds from the Share Placing and CB Placing.

### Conditions precedent

The Transfer Completion is conditional upon fulfillment of the following conditions:

- (1) Sino Top having completed the due diligence investigations on the JV Group and having been satisfied with the due diligence results;
- (2) Sino Top and the Company having obtained all necessary approvals for the Transfer Agreement, including the approvals from the Stock Exchange and the approvals from the directors and shareholders of each of Sino Top and the Company (if necessary), and having complied with all applicable laws and regulations;
- (3) all necessary approvals and consents as required under the Transfer Agreement and the transactions contemplated thereunder having been obtained provided that Sino Top having provided its assistance, including but not limited to the approvals relating to the transfer of the 8% equity interest in the JV Company by Top Wealth to Sino Top pursuant to the Amended and Restated JV Agreement and the Amended and Restated Articles or any similar documents and any other internal approvals, the consents from the other shareholders of the JV Company and the approval and consent from and/or the registration and filing with relevant PRC governmental authority (including but not limited to the written consent from the other shareholders of the JV Company (other than Top Wealth) consenting to give up their rights of first refusal to acquire such equity interest from Top Wealth and the approval from the responsible department of the Ministry of Commerce of the PRC (中國商務部主管部門));
- (4) the Company having completed the fund raising exercise for the purpose of raising funds for the payment of the Capital Injection Amount;
- (5) Sino Top, Top Wealth and the JV Partner Group having executed the Amended and Restated JV Agreement in the agreed form;
- (6) Sino Top, Top Wealth and the JV Partner Group having executed the Amended and Restated Articles in the agreed form;
- (7) all the relevant legal documents in compliance with the applicable PRC laws and regulations in relation to the Transfer Completion having been duly executed, including but not limited to the Transfer Agreement, and the execution of such legal documents having obtained all necessary internal approvals; and
- (8) all representations, warranties and undertakings given by Top Wealth to Sino Top as at the Transfer Completion Date as set out in the Transfer Agreement being true, accurate and not misleading to the extent that any breach of such representations, warranties and undertakings might reasonably be expected to have caused any material adverse effect to the JV Group.

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Save for paragraphs (2), (3), (4), (5) and (6) above, all of the above conditions precedent (i.e. paragraphs (1), (7) and (8)) may be waived by Sino Top at its own discretion in writing if the non-fulfillment of such conditions precedent will not have any material adverse effect to the business and financial affairs of the JV Company, the validity and legality of the establishment and existence of the JV Company and the legality and enforceability of the Transfer Agreement and the transactions contemplated thereunder. Although conditions precedent (1), (7) and (8) are waivable under the Transfer Agreement, Sino Top has no intention to waive any of such conditions precedent as at the Latest Practicable Date.

Top Wealth cannot waive any of the above conditions precedent. Sino Top and Top Wealth have agreed to use their best endeavours to ensure that the conditions precedent are to be fulfilled on or prior to the Long Stop Date. If the conditions precedent have not been fulfilled on or before the Long Stop Date, the Transfer Agreement will be terminated immediately and Sino Top and Top Wealth will be released from all obligations thereunder, save for any liabilities for any antecedent breaches thereof.

### **Completion**

Transfer Completion shall take place on the Transfer Completion Date, being the sixteenth (16th) business day upon all the conditions precedent having been fulfilled (or waived, if applicable) by the parties or the Long Stop Date, whichever is earlier, or such later date as the parties may agree in writing.

### **Indemnity**

Pursuant to the Transfer Agreement, Top Wealth has undertaken to fully and effectively indemnify Sino Top for any loss, capital amount and any other liabilities suffered by Sino Top (including any professional fees and expenses) in respect of the following matters:

- (1) the failure on the part of Top Wealth to fulfill its undertakings or obligations under the Transfer Agreement which constitutes a breach of the Transfer Agreement;
- (2) the failure on the part of the JV Partner Group and Top Wealth to make their capital contributions to the JV Company in accordance with the requirements of the Original Articles, i.e. the failure of the JV Partner Subsidiary A, JV Partner Subsidiary B and JV Partner Subsidiary C to make their capital contributions at the total value of RMB1,012,229,900 by way of assets injection before 31 October 2013; and the failure of Top Wealth to make its capital contribution of RMB160,000,000 (or its HK\$ equivalent) by way of cash before 31 October 2013 and the remaining capital contributions of RMB668,188,100 (or its HK\$ equivalent) to the JV Company before 31 January 2014;
- (3) the legality and validity of the establishment and existence of the JV Company being affected as a result of (including but not limited to) the JV Partner Subsidiary A, JV Partner Subsidiary B and JV Partner Subsidiary C having invested in the JV Company without obtaining the necessary approvals from their respective shareholder(s);
- (4) the failure of the JV Company to pay the social security insurance fee and housing provident funds to its employees; and

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- (5) any other matters provided in the Transfer Agreement.

Pursuant to the Transfer Agreement, Sino Top has undertaken to fully and effectively indemnify Top Wealth for any loss, capital amount and any other liabilities suffered by Top Wealth (including any professional fees and expenses) in respect of its failure to fulfill its undertakings or obligations under the Transfer Agreement which constitutes a breach of the Transfer Agreement.

### **Tax Indemnity**

Pursuant to the terms of the Transfer Agreement, Top Wealth undertakes to indemnify Sino Top upon demand against any loss or liability suffered by the JV Company or the JV Group in relation to taxation which are summarized as follows:

- (1) any tax liability of the JV Company or the JV Group that arises or occurs on or before the Transfer Completion Date as a result of any or a series of material event(s) whether or not such tax is chargeable against or attributable to any other person;
- (2) any tax liability of the JV Company or the JV Group that would not have been payable had there been no termination, reduction, amendment or cancellation on certain tax deduction as a result of any material event occurred on or before the Transfer Completion Date, and such tax deduction has been reflected in the management accounts of JV Group or has been calculated as assets in the management accounts of JV Group; or the management accounts of JV Group have shown that such tax liability has been taken into account when calculating (and reducing) deferred tax or provision for other payables; or the management accounts have shown that no provision has been made for deferred tax as a result of such tax liability. In the event that the JV Company or the JV Group has to re-pay any tax which has already been fully paid, due to the occurrence of the material event on or before the Transfer Completion Date, resulting in the expropriation, reduction, elimination or cancellation of the rights arose from any tax paid in full, such tax being re-paid shall be deemed to be caused by the material event;
- (3) any current or future tax liability of the JV Company or the JV Group that would not have been payable for the use of deduction of or for the purpose of eliminating taxation, as a result of any material event which should have occurred on or before the Transfer Completion Date but the material event incurred after the Transfer Completion Date which relates to the JV Company or the JV Group being responsible for tax liability;
- (4) any tax liability of the JV Company and/or the JV Group recovered or entreated or demanded from any tax or regulatory authority in the PRC after the Transfer Completion Date resulting from any event occurred on or before the Transfer Completion Date which has not been paid or has been omitted to pay; and
- (5) any tax liability of the JV Company or the JV Group arising from damages, guarantee, mortgage or lien on or before the Transfer Completion Date.

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Top Wealth has undertaken to indemnify Sino Top in full against any and all claims, proceedings, loss and damages (including any fine and interests accrued thereon) and all reasonable and appropriate costs (including but not limited to legal fees), expenses and disbursement as a result of or in connection with the tax indemnity and there is no limitation period on which Sino Top may claim for tax indemnity.

### **Termination of the Transfer Agreement**

The Transfer Agreement may be terminated by Sino Top at any time prior to Transfer Completion if any of the following events shall occur:

- (1) Sino Top shall become aware of any matter or event showing that any of the representations, warranties and undertakings under the Transfer Agreement was, when given, untrue or inaccurate in any respect or would be untrue or inaccurate in any respect if repeated as at the date on which Sino Top becomes so aware and such untrue or inaccurate representations, warranties and undertakings shall, in the reasonable opinion of Sino Top, cause any material adverse effect to the JV Group;
- (2) Top Wealth commits any breach of or omits to observe any of its obligations or undertakings expressed to be assumed by it under the Transfer Agreement in any aspect;
- (3) any creditor makes a valid demand for repayment or payment of any indebtedness of Top Wealth, the JV Company or the JV Group or in respect of which Top Wealth, the JV Company or the JV Group is liable prior to its stated maturity which demand can reasonably be expected, in the opinion of Sino Top, to have a material adverse effect on the Primary Business of the JV Company or the JV Group or the Transfer Completion;
- (4) the JV Company or the JV Group sustains any loss or damage (howsoever caused and whether or not the subject of any insurance or claim against any person) which can reasonably be expected, in the reasonable opinion of Sino Top, to have a material adverse effect on the Primary Business of the JV Company or the JV Group;
- (5) any petition is presented for the winding up or liquidation of the JV Company, the JV Group or Top Wealth, or the JV Company, the JV Group or Top Wealth makes any composition or arrangement with its creditors or enters into a scheme of arrangement, or a provisional liquidator, receiver or manager is appointed over all or part of the assets or undertaking of the JV Company, the JV Group or Top Wealth anything analogous thereto occurs in respect of the JV Company, the JV Group or Top Wealth which can reasonably be expected, in the opinion of Sino Top, to have a material adverse effect on the Primary Business of the JV Company or the JV Group or the Transfer Completion; or
- (6) if any material adverse change occurs to the JV Group (other than such change caused by the acts done or not done by Top Wealth) which in the opinion of Sino Top that such material adverse change makes it unable or fundamentally unable to materialise its objectives or to perform in accordance with the terms of the Transfer Agreement,

and such termination shall not affect the then accrued rights, rights to compensation or indemnity of Sino Top.

## LETTER FROM THE BOARD

### Reasons for the entering into of the Transfer Agreement

The Company is principally engaged in the manufacturing of an extensive assortment of knitwear products ranging from classically styled wardrobe basics to high quality fashion apparel.

The management of the Group has been proactively seeking different investment opportunities which are expected to have future growth and will enhance Shareholders' value. The Directors consider the entering into of the Transfer Agreement would (i) allow the Group to diversify its business risk by diversifying the resources of the Company into the investment on the JV Company; and (ii) enable the Group to establish a co-operative relationship with the JV Partner Group which may facilitate the future development of the Finance Leasing Business given the background of the JV Partner Group in the coal mining industry in the PRC.

The Company is aware that the JV Company has no track record yet before the date of the Transfer Agreement and it has a wide scope of business, however, taking into account that (i) the businesses of the JV Company are all related to coal mining which is highly correlated with and in relation to the business of the JV Partner Group; and (ii) the prospect of the JV Company given the operational strengths of the JV Company as mentioned under the sub-section headed "Operational strengths of the JV Company" under below section headed "INFORMATION OF THE JV COMPANY", the Company considers its investment in the JV Company is in the interests of the Company and its shareholders as a whole.

Having considered the abovementioned, the Directors consider that the Transfer Agreement was entered into by Top Wealth and Sino Top on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### THE AMENDED AND RESTATED JV AGREEMENT

The JV Partner Group and Top Wealth executed the JV Agreement on 29 June 2013. Prior to Transfer Completion, the Amended and Restated JV Agreement will be entered into by the JV Partner Group, Sino Top and Top Wealth to amend certain terms of and to restate the JV Agreement to reflect the Transfer Agreement and the transactions contemplated thereunder and to govern the relationships amongst the JV Partner Group, Sino Top and Top Wealth. Set out below are the major terms of the draft Amended and Restated JV Agreement:

**Parties** : (i) the JV Partner Group;  
(ii) Sino Top; and  
(iii) Top Wealth

JV Company will be owned as to 55% by the JV Partner Group, 37% by Top Wealth and 8% by Sino Top.

## LETTER FROM THE BOARD

**Scope of business :** The JV Company will be principally engaged in (i) design, manufacture, sales, maintenance, and combination of coal mining machinery and equipment and related electrical equipment; (ii) leasing business, purchase of leased assets in the PRC and abroad, disposal of residual value of leased assets and maintenance of leased assets; (iii) import and export of equipment; (iv) automatic system engineering, software system engineering and etc.; and (v) provide engineering and technological consulting services.

**Registered capital :** Total amount: RMB1,840,418,000 (equivalent to approximately HK\$2,341,931,905)

The registered capital will be contributed as follows:

	RMB (approximately HK\$)	% to the total registered capital (%)	Form of contribution (Cash/Assets)
JV Partner Group:			
<i>JV Partner Subsidiary A</i>	<i>RMB374,554,100 (equivalent to approximately HK\$476,620,092)</i>	20.35	<i>Assets</i>
<i>JV Partner Subsidiary B</i>	<i>RMB338,439,900 (equivalent to approximately HK\$430,664,773)</i>	18.39	<i>Assets</i>
<i>JV Partner Subsidiary C</i>	<i>RMB299,235,900 (equivalent to approximately HK\$380,777,683)</i>	16.26	<i>Assets</i>
Subtotal:	RMB1,012,229,900 (equivalent to approximately HK\$1,288,062,548)	55.00	
Sino Top	RMB147,233,440 (equivalent to approximately HK\$187,354,552)	8.00	Cash
Top Wealth	RMB680,954,660 (equivalent to approximately HK\$866,514,805)	37.00	Cash
<b>Total</b>	<b>RMB1,840,418,000 (equivalent to approximately HK\$2,341,931,905)</b>	<b>100.00</b>	

The JV Partner Group will make its contribution to the registered capital of the JV Company in the form of assets which would be used for carrying out the Primary Business. The JV Partner Group shall contribute the assets into the JV Company within three (3) months upon the issuance date of the JV Company's new business license, the value of the contributed assets should be valued by a valuer approved by 山西省國有資產監督管理委員會 (transliterated as State-owned Assets Supervision and Administration Commission of Shanxi Province\*).

## LETTER FROM THE BOARD

Top Wealth shall make its capital contribution equivalent of RMB79,225,800 (equivalent to approximately HK\$100,814,831) in cash to the JV Company within three (3) months upon the issuance date of the JV Company's new business license, and make its capital contribution equivalent of RMB601,728,860 (equivalent to approximately HK\$765,699,974) in cash to the JV Company before 30 January 2014.

According to the capital verification report of the JV Company dated 12 November 2013, the JV Partner Group has made its contribution to the registered capital in the form of assets in the total amount of RMB1,012,229,900 (equivalent to approximately HK\$1,288,062,548) and Top Wealth has made its contribution to the registered capital in cash in the amount of RMB79,225,800 (equivalent to approximately HK\$100,814,831).

Sino Top shall contribute the Capital Injection Amount in cash to the JV Company before 30 January 2014.

- Conditions precedent** : The completion of the contribution on the registered capital to the JV Company is conditional upon the following:
- (i) all representations and warranties given by the parties to the Amended and Restated JV Agreement set out therein being true, accurate and not misleading at all times;
  - (ii) all the relevant legal documents in relation to the Amended and Restated JV Agreement and the Amended and Restated Articles having been duly executed and/or approved by the relevant authority;
  - (iii) the Amended and Restated JV Agreement and the Amended and Restated Articles having obtained the approval(s) from the relevant authority and the JV Company having obtained the certificate of approval reflecting such approval(s);
  - (iv) completion of the appointment of the board of directors (including the appointment of the chairman of the board by the JV Partner Group) and general manager of the JV Company; and
  - (v) there is no occurrence of any force majeure event and material violation of the provisions of the Amended and Restated JV Agreement.

## LETTER FROM THE BOARD

- Term** : 20 years from the date of issue of the business license of the JV Company, and to be extended for a further term of 10 years each time subject to the parties' agreement and the approval from the PRC authority.
- Board composition** : The board of the JV Company will consist of five directors, of which three will be appointed by the JV Partner Group, one will be appointed by Top Wealth and one will be appointed by Sino Top. The chairman of the board of the JV Company will be appointed by the JV Partner Group and the vice-chairman of the board of the JV Company will be appointed by Top Wealth.
- Supervisor** : The JV Company will consist of 3 supervisors, of which one will be appointed by the JV Partner Group, one will be appointed by Top Wealth and one will be representing the employees of the JV Company. Neither director nor senior management of the JV Company is to be appointed/nominated as a supervisor.
- Profit distribution** : Subject to the financial requirement of the JV Company and the approval by the board of directors of the JV Company, the distributable profit should be distributed in proportion to the respective ratio of the shareholders to the registered capital of the JV Company.
- Transfer of equity** : Unless the prior written consent has been obtained from the other parties and the relevant approval has been granted by the relevant authority in the PRC, each of the parties may not, whether directly or indirectly, transfer, sell, mortgage, pledge or otherwise dispose of the whole or part of its equity interest or capital contribution.

### THE AMENDED AND RESTATED ARTICLES

The JV Partner Group and Top Wealth executed the Original Articles. Prior to Transfer Completion, the JV Partner Group, Sino Top and Top Wealth will execute the Amended and Restated Articles to amend certain terms of and to restate the Original Articles to reflect the Transfer Agreement and the transactions contemplated thereunder and to govern the relationships amongst the JV Partner Group, Sino Top and Top Wealth. The major terms of the Amended and Restated Articles are substantially the same as the Amended and Restated JV Agreement set out above.

The terms of each of the Amended and Restated JV Agreement and the Amended and Restated Articles set out above shall be subject to the approval and consent from the relevant PRC governmental authority. If there is any change to the terms of the Amended and Restated JV Agreement and the

## LETTER FROM THE BOARD

Amended and Restated Articles which leads to any material deviation from those set out above, the Company will make further disclosure as and when necessary and appropriate in compliance with the Listing Rules.

### INFORMATION OF THE JV COMPANY

The JV Company was established on 30 July 2013 in the PRC as a sino-foreign equity joint venture company with limited liability and is owned as to 45% by Top Wealth, 20.35% by the JV Partner Subsidiary A, 18.39% by the JV Partner Subsidiary B and 16.26% by the JV Partner Subsidiary C as at the Latest Practicable Date. The principal business scope of the JV Company includes (i) design, manufacture, sales, maintenance, and combination of coal mining machinery and equipment and related electrical equipment; (ii) leasing business, purchase of leased assets in the PRC and abroad, disposal of residual value of leased assets and maintenance of leased assets; (iii) import and export of equipment; (iv) automatic system engineering, software system engineering and etc.; and (v) provide engineering and technological consulting services.

Each of the JV Partner Subsidiary A, the JV Partner Subsidiary B and the JV Partner Subsidiary C is a subsidiary of the JV Partner which is a state-owned company in the PRC. The JV Partner Group is principally engaged in coal production, coal and coal related products power generation and logistic-related business. The JV Partner Group is one of the largest metallurgical coal production enterprises and one of the major coal suppliers in the PRC.

To the best of the Directors' knowledge, information and belief and after having made all reasonable enquires, the JV Partner and its ultimate beneficial owners are Independent Third Parties.

### Operational strengths of the JV Company

The operational strengths of the JV Company include:

**Brand Strength** : The JV Partner is one of the major coal producers in the PRC and in the world, and also ranks the 403rd in 2013 Fortune Global 500 Companies. Its principal clients are the large-scale enterprises which rank the top ten of the steel industry in the PRC. Therefore, the JV Partner has relatively strong brand strength. Simultaneously, due to the scarcity of coking coals and the irreplaceable nature of the refined coking coals produced by the JV Partner, the JV Partner has certain bargaining power over the upstream and downstream industries. As such, the brand strength and the bargaining power of the JV Partner play a key role in increasing the loyalties of the JV Company's clients, market development and supply of raw materials.

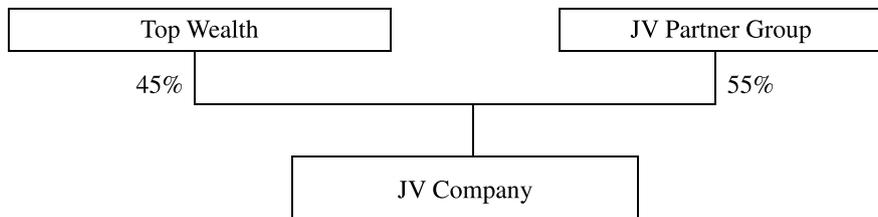
## LETTER FROM THE BOARD

**Fundamental strength** : The branches under the JV Company, which are engaged in the manufacturing of the coal related machineries, possess a large group of industrial workers with proficient skills including a group of technicians of design, craftsmanship and inspection. The branches of the JV Company also own more advanced equipments and facilities in the nation. The above-mentioned factors have provided a solid foundation for the development of the JV Company.

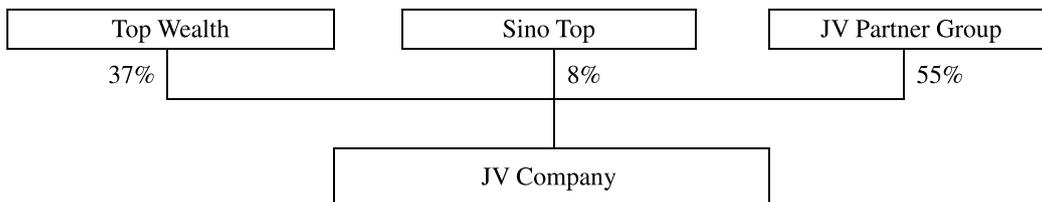
**Market strength** : The production volume of coal in the PRC ranks the top in the world, and the production volume of coal in Shanxi ranks the top in the PRC, therefore, the industry of the coal related machineries enjoys unique development advantage in Shanxi. Leveraging on the advantage of having the JV Partner Group as its shareholders, the JV Company can receive immediate market feedbacks on the suitability, reliability and economic benefit of its products and the ineffective time of the industrial experiments of coal machine products can be saved and thus the development cycle of new products can be greatly shortened.

### Shareholding structure of the JV Company

*Immediately before Transfer Completion:*



*Immediately after Transfer Completion:*



## LETTER FROM THE BOARD

### Financial information

Summary of the financial information of the JV Company for the period from 30 July 2013 to 31 October 2013 as extracted from Appendix II to this circular is set out as follows:

	<b>For the period from 30 July 2013 (date of establishment) to 31 October 2013 (RMB'000)</b>
Turnover	—
Profit/(loss) before tax	(700)
Profit/(loss) after tax	(700)
	<b>As at 31 October 2013 (RMB'000)</b>
Net assets/(liabilities)	1,090,756

The JV Company had not yet commenced any business and had not generated any revenue since its incorporation up to 31 October 2013. Upon Transfer Completion, the JV Company will become an available for-sale investment of the Company and accordingly, the financial information of the JV Company will not be consolidated into the accounts of the Group.

### FINANCIAL EFFECTS TO THE GROUP AS A RESULT OF ENTERING INTO THE TRANSFER AGREEMENT

As referred to the interim report of the Company for the six months ended 30 June 2013 (the "Interim Report"), the consolidated total assets and total liabilities of the Group as at 30 June 2013 amounted to approximately HK\$205.99 million and approximately HK\$75.05 million respectively. According to the unaudited pro forma financial information of the Enlarged Group as set out in Appendix III to this circular, assuming that the Transfer Agreement has been completed, the unaudited pro forma total assets and total liabilities of the Enlarged Group will be approximately HK\$1,338.99 million and approximately HK\$876.45 million respectively.

According to the Interim Report, the Group recorded a consolidated net loss attributable to owners of the Company of approximately HK\$8.84 million for the six months ended 30 June 2013. According to the accountant's report of the JV Company as set out in Appendix II to this circular, the JV Company recorded a net loss attributable to equity holders of approximately RMB0.7 million for the four months ended 31 October 2013 and such net loss represented the start up cost of the JV Company. The JV Company has commenced its business in November 2013. Notwithstanding the Company will only acquire 8% of the entire equity interest in the JV Company, given the strengths of the JV Company in particular the strong background of the JV Partner Group in the coal mining industry, the Directors

## LETTER FROM THE BOARD

consider the entering into of the Transfer Agreement enables the Company to establish a business relationship with the JV Partner Group which may bring a positive impact to the Finance Leasing Business.

### GENERAL

**Shareholders and potential investors should note that completion of the Placing Agreement and the Transfer Agreement are subject to the fulfillment of the conditions under the Placing Agreement and the Transfer Agreement respectively. As the transactions may or may not proceed to completion, Shareholders and potential investors are reminded to exercise caution when dealing in the Shares/Subdivided Shares.**

### LISTING RULES IMPLICATIONS

As certain applicable percentage ratios are more than 25% but less than 100% as calculated in accordance with Rule 14.07 of the Listing Rules, the Transfer Agreement constitutes a major transaction for the Company under the Listing Rules and is subject to the announcement, reporting and Shareholders' approval requirements.

A SGM will be convened and held to approve the Share Subdivision, the Placing Agreement and the Transfer Agreement and the transactions contemplated thereunder in which ordinary resolution(s) to approve the Share Subdivision, the Placing Agreement and the Transfer Agreement and the transactions contemplated thereunder will be proposed. The Company will seek the specific mandate from the Shareholders at the SGM for the allotment and issue of the Placing Shares and the Conversion Shares falling to be issued upon conversion of the Convertible Bonds.

Pursuant to the Placing Agreement, the conditions thereof shall be satisfied within 2 months after the date of the SGM (or such later date as may be agreed by the parties), in the event that the long stop date of the Placing Agreement has been postponed, the Company may obtain again the Shareholder's approval for the Placing Agreement and the transactions contemplated thereunder (including specific mandate for the allotment and issue of the Placing Shares and the Conversion Shares falling to be issued upon conversion of the Convertible Bonds).

To the best knowledge of the Directors, no Shareholder has a material interest in the transactions contemplated under the Share Subdivision, the Placing Agreement and the Transfer Agreement. Accordingly, no Shareholder will be required to abstain from voting at the SGM in respect of the resolutions relating to the Share Subdivision, the Placing Agreement and the Transfer Agreement.

### SGM

The Company will convene the SGM at Unit A, 32/F., Legend Tower, 7 Shing Yip Street, Kwun Tong, Kowloon, Hong Kong on Wednesday, 5 March 2014 at 10:00 a.m. to consider and if thought fit, approve the Share Subdivision, the Placing Agreement (including the specific mandate to allot and issue the Placing Shares and the Conversion Shares falling to be issued upon conversion of the Convertible Bonds) and the Transfer Agreement and the transactions contemplated thereunder. The notice of the SGM is set out on pages SGM-1 and SGM-3 of this circular.

## LETTER FROM THE BOARD

The Company will publish an announcement on the results of the SGM with respect to whether or not the proposed resolutions have been passed by the Shareholders.

A form of proxy for use by the Shareholders at the SGM is enclosed with this circular.

Whether or not you are able to attend the SGM in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the Company's branch share registrar in Hong Kong, Union Registrars Limited at 18/F, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong as soon as possible but in any event no later than 48 hours before the time designated for the holding of the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or at any adjourned meeting should you so wish.

### RECOMMENDATIONS

Having noted and considered the reasons stated under the sections "Reasons for the Share Subdivision and the Change of Board Lot Size", "Reasons for the Share Placing and the CB Placing and use of proceeds", "Reasons for entering into Finance Leasing Business" and "Reasons for the entering into of the Transfer Agreement", the Board considers that the Share Subdivision, the terms of the Placing Agreement and the Transfer Agreement and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Shareholders to vote in favour of the relevant resolutions to approve the Share Subdivision, the Placing Agreement and the Transfer Agreement and the transactions contemplated thereunder at the SGM.

### ADDITIONAL INFORMATION

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

Yours faithfully,  
By order of the Board  
**Fornton Group Limited**  
**Yam Tak Cheung**  
*Chairman*

## 1. FINANCIAL INFORMATION OF THE GROUP

### Financial summary for the six months ended 30 June 2013 and two years ended 31 December 2012

Financial information of the Group for the six months ended 30 June 2013 and each of the three years ended 31 December 2012, 2011 and 2010 were disclosed in the unaudited consolidated financial statement in the interim report of the Company for the six months ended 30 June 2013, the audited consolidated financial statements in the annual reports of the Company for the years ended 31 December 2012 and 2011 and the accountants' report in Appendix I to the prospectus of the Company dated 18 October 2011 (the "Prospectus") respectively, published on both the website of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the website of the Company (<http://www.fornton.com/>).

Links to the financial reports of the Company are set out below:

2013 interim report (pages 4 to 22)

<http://www.hkexnews.hk/listedco/listconews/SEHK/2013/0910/LTN20130910041.pdf>

2012 annual report (pages 29 to 88)

<http://www.hkexnews.hk/listedco/listconews/SEHK/2013/0412/LTN20130412201.pdf>

2011 annual report (pages 37 to 89)

<http://www.hkexnews.hk/listedco/listconews/SEHK/2012/0427/LTN20120427338.pdf>

the Prospectus

<http://www.hkexnews.hk/listedco/listconews/SEHK/2011/1018/LTN20111018009.pdf>

## 2. INDEBTEDNESS STATEMENT

### Borrowings

As at 31 December 2013, being the latest practicable date for determining the Group's indebtedness, the Group had total debt of approximately HK\$19,562,000, all of which are denominated in HK\$, as set forth below:

	<i>HK\$'000</i>
Amount due to a director ( <i>Note 1</i> )	565
Bank borrowings — unsecured	18,045
Obligation under finance lease ( <i>Note 2</i> )	<u>952</u>
	<u><u>19,562</u></u>

*Note 1:* The amount is unsecured, non-interest bearing and repayable on demand.

*Note 2:* The obligations are secured by the lessor's charge over the leased assets.

**Contingent liabilities**

As at the close of business on 31 December 2013, the Group had the following contingent liabilities:

On 16 November 2011, the High Court made a judgement (the “Judgement”) in favour of a subsidiary of the Group to dismiss a claim from a supplier (the “Supplier”) of approximately HK\$1,118,000.

On 23 July 2012, the Supplier has filed a notice of appeal against the Judgement (the “Appeal”) and the Appeal was heard on 8 March 2013.

On 14 March 2013, the Court of Appeal ordered that the Appeal was allowed and the Judgement was set aside. The Court of Appeal also ordered that unless the dispute between the Supplier and the subsidiary of the Group can be settled by other means, the dispute should be remitted for a re-trial by another judge. As informed by the District Court on 17 September 2013, this case has been transferred to the District Court. As at the Latest Practicable Date, this case was still pending.

Based on the legal advice of the legal advisor of the Company on this case, the Directors are of the opinion that (i) the Group has meritorious defenses against the Supplier; and (ii) the amounts involved in the claim is not material; therefore no provision for the claim has been made in the consolidation financial statements for the year ended 31 December 2013. In addition, the claim is not expected to have material impact on the Group and its related business.

**Disclaimer**

Save as aforesaid or as otherwise disclosed herein, at the close of business on 31 December 2013, the Group did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

**3. FINANCIAL AND TRADING PROSPECTS**

At present, the Group has been principally engaged in the manufacturing of an extensive assortment of knitwear products ranging from classically styled wardrobe basics to high quality fashion apparel.

Upon Transfer Completion, the Company’s interest in the JV Company will be accounted for as available for sale. The results of the JV Company will not be consolidated into the consolidated financial statement of the Company, but the Company will share the results of the JV Company.

Based on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix III to this circular, assuming that the entering into of the Transfer Agreement has been completed on 30 June 2013, the Enlarged Group’s pro forma net assets will be approximately HK\$462.54 million.

## **Trading Prospect of the Group**

### ***Knitwear Business***

As disclosed in the interim report of the Company for the six months ended 30 June 2013, the knitwear business has been facing challenges due to a global economic downturn. Despite the competitive environment, the knitwear business could continue to generate positive, though decreasing turnover and operating profit. Due to the current market situation, the management would closely monitor the market and seek for new income sources from other business sectors.

### ***Finance leasing business***

The company intends to diversify into the Finance Leasing Business mainly because of the potential prospect of the finance leasing industry in the PRC. According to the Industry Report, based on the statistics of the World Leasing Yearbook, currently, the market penetration rate of finance leasing of more developed countries is between approximately 15% and approximately 30% and referring to the case of the United States, the amount of finance leasing in the United States exceeded US\$500 billion in 2011 and the market penetration rate of finance leasing was over 22% based on the total fixed asset investment of approximately US\$2,290 billion in the same year. Also set out in the Industry Report, in the PRC, even though the fact that there is an increase in the market penetration rate of finance leasing far behind the average standard of more developed countries and it is conservatively forecasted that the industry will maintain a compound growth rate of over 30% in the forthcoming five years. In view of this, the Company considers the finance leasing industry in the PRC has a vast room for development and the diversification into finance leasing business will be in the interests of the Company and the Shareholders as a whole. The Transfer Completion could also strengthen the Company's background and growth in the finance leasing industry and provide positive influence to the Group as a whole.

## **The entering into of the Transfer Agreement**

The global economic growth led to an increasing energy price with coal price maintained at high level. Driven by the promising prospect of the coal industry, the coal equipment manufacturing sector grew rapidly.

There is a high mechanization in the international coal mining business, for which countries such as the United States and Australia are basically mechanized in coal mining. There is also a high concentration in the coal equipment manufacturing market abroad, for example, Joy Global Inc. in the United States and Deutsche Bergbau Techlink GmbH (DBT) in Germany have a strong presence in the large and high-end coal machinery market. Currently, a mechanized, automatic and intellectual turnkey project is becoming the focus of coal machinery in the world.

The PRC is the major coal producer and consumer. Coal is highly weighed in the energy structure in the PRC. Coal equipment manufacturing not only provides modernized equipment technology to and sustains the development of the coal industry, but also secures its structural adjustment and optimizes the upgrade and sustainable development. The continuity and development of coal equipment manufacturing industry relate to the growth of the coal industry. In recent years, the rapid growth of coal industry has led to a sustainable development in the coal equipment manufacturing industry and higher year-on-year output.

The JV Company offers comprehensive coal mining machinery consultation and support service and the JV Partner is one of the largest coal mining state owned enterprises in the PRC. They are able to provide a huge source of customers while the Company provides financial support to the business of the JV Company.

Since its establishment, the JV Company has partnered with companies with expertise and strong presence in the market, riding on its strong funding position for acquisition and formation of various professional product manufacturing companies. The strong partnership of the JV Partner Group with the Company would sustain the future development of external markets.

It is the corporate strategy of the Group to strengthen its existing business and at the same time identify and develop new opportunities to achieve financial growth for the Group and to maximize Shareholders' value. The Group's core business, manufacturing of knitwears, was adversely effected by the global economy growth. The Directors consider that it is beneficial for the Group to seek suitable investment opportunities from time to time to diversify its existing business portfolio and to broaden its source of income from Finance Leasing Business and to this end, the Directors consider the entering into of the Transfer Agreement as an opportunity for the Group to further expand its business in the sector of coal mining machinery, which is in line with the Group's business development strategy to diversify its business risk by diversifying the resources of the Company into the investment on the JV Company. The Directors also consider the entering into of the Transfer Agreement is a strategically important opportunity for the Company to participate in and entitle it to share results from the business operation of the JV Company with the view of strengthening the operation base and broadening the future income base of the Enlarged Group which will have a positive impact on the Group's earnings.

As at the Latest Practicable Date, save for the Transfer Agreement and the purchase and proposed purchase of coal mining related equipments for the purpose of Finance Leasing Business as disclosed in the announcements of the Company dated 24 December 2013, 30 December 2013 and 13 January 2014, the Company has not entered or proposed to enter into any agreement, arrangement, understanding or undertaking, whether formal or informal and whether express or implied, and negotiation (whether concluded or not) with an intention to acquire any new assets/businesses/companies and/or dispose of the existing business of the Group.

#### **4. WORKING CAPITAL**

Upon Transfer Completion, the Capital Injection Amount is to be satisfied by the net proceeds from the Share Placing and the CB Placing. If the Share Placing and the CB Placing are not completed, the Transfer Agreement will be terminated immediately and the Group will be released from all obligations stated in the Transfer Agreement. The Directors are of the opinion that, taking into account the present available financial resources, the banking and other facilities presently available, and subject to the completion of the Share Placing and the CB Placing, and in the absence of unforeseeable circumstances, the Enlarged Group will have sufficient working capital for its business for the next twelve months from the date of this circular.

In the event that the Share Placing and the CB Placing are not completed, and hence the Transfer Completion does not take place, the Directors are of the opinion that, taking into account the present available financial resources, the banking and other facilities presently available, and in the absence of unforeseeable circumstances, the Group will still have sufficient working capital for its business for the next twelve months from the date of this circular.

#### **5. MATERIAL ADVERSE CHANGE**

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 December 2012, the date to which the latest audited financial statement of the Group were made up. On 3 January 2014, the Group published a profit warning announcement, based on the Board's preliminary review of the unaudited consolidated management accounts of the Group, the Group is expected to record a significant decrease in profit or a loss for the year ended 31 December 2013, as compared with the profit recorded by the Group for the year ended 31 December 2012. It was primarily attributable to

- (i) the decreases in turnover and gross profit margin of the Group as a result of the worsening of the market conditions and business environment and the severe competition of the textile industry;
- (ii) additional general and administrative expenses in seeking new revenue stream to diversify a business risk on single segment of manufacturing and trading of high quality fashion apparels; and
- (iii) additional compliance and professional expenses incurred for the proposed placing of new shares and convertible bonds.

**1. ACCOUNTANTS' REPORT OF THE JV COMPANY**

SHINEWING (HK) CPA Limited  
43/F., The Lee Gardens  
33 Hysan Avenue  
Causeway Bay, Hong Kong

17 February 2014

The Directors  
Fornton Group Limited

**INTRODUCTION**

Dear Sirs,

We set out below our report on the financial information regarding Shanxi Coking Coal Machinery Electric Co., Ltd.\* (山西焦煤機械電氣有限公司) (the “Target Company”), which comprises the statement of financial position as at 31 October 2013, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the period from 30 July 2013 (date of establishment) to 31 October 2013 (the “Relevant Period”), and notes thereto (the “Financial Information”) for inclusion in a circular of Fornton Group Limited (“Fornton Group”) dated 17 February 2014 (the “Circular”) in connection with the proposed placing of new shares and convertible bonds, and major transaction in relation to transfer of 8% of equity interest in the Target Company to Fornton Group.

The Target Company was established in the People’s Republic of China (the “PRC”) with limited liability on 30 July 2013 with a registered capital of approximately RMB1,840,418,000.

The Target Company has adopted 31 December as its financial year end date.

Up to the date of this report, no statutory financial statements have been required for the Target Company as it has not reached its financial year ended date.

We have, however, reviewed all the relevant transactions of the Target Company since its date of establishment to 31 October 2013 and carried out such procedures as we considered necessary for inclusion of the financial information relating to the Target Company in the Financial Information.

**BASIS OF PREPARATION**

For the purpose of this report, the directors of the Target Company have prepared the financial statements of the Target Company for the Relevant Period in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) (the “Underlying Financial Statements”). The Underlying Financial Statements for the Relevant Period were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Financial Information of the Target Company for the Relevant Period as set out in this report have been prepared by the directors of the Target Company based on the Underlying Financial Statements and in accordance with HKFRSs. No adjustments are considered necessary to adjust the Underlying Financial Statements for the Relevant Period in preparing our report for inclusion in the Circular.

**RESPECTIVE RESPONSIBILITIES OF THE DIRECTORS**

The directors of the Target Company is responsible for the preparation of the Financial Information that give a true and fair view in accordance with HKFRSs, issued by the HKICPA, the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited, and for such internal control as the directors of the Target Company determines is necessary to enable the preparation of the Financial Information that is free from material misstatement, whether due to fraud or error.

**RESPECTIVE RESPONSIBILITIES OF REPORTING ACCOUNTANTS**

Our responsibility is to form an independent opinion on the Financial Information based on our procedures performed in accordance with Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by HKICPA and to report our opinion thereon to you. We have not audited any financial statements of the Target Company in respect of any period subsequent to 31 October 2013.

**OPINION**

In our opinion, for the purpose of this report, the Financial Information gives a true and fair view of the state of affairs of the Target Company as at 31 October 2013, and of its results and cash flows for the Relevant Period.

## A. FINANCIAL INFORMATION

**Statement of Profit or Loss and Other Comprehensive Income**

For the period from 30 July 2013 (date of establishment) to 31 October 2013

	<i>Notes</i>	<i>RMB'000</i>
Turnover		—
Administrative expenses		<u>(700)</u>
Loss before taxation		(700)
Income tax expense	9	<u>—</u>
Loss and total comprehensive expenses for the period	10	<u><u>(700)</u></u>

**Statement of Financial Position**

As at 31 October 2013

	<i>Notes</i>	<i>RMB'000</i>
Non-current asset		
Plant and equipment	12	<u>1,012,266</u>
Current assets		
Other receivables	13	505
Bank balances and cash	14	<u>79,243</u>
		<u>79,748</u>
Current liabilities		
Other payables		17
Amount due to ultimate holding company	15	<u>1,241</u>
		<u>1,258</u>
Net current assets		<u>78,490</u>
		<u><u>1,090,756</u></u>
Capital and reserve		
Paid in capital	16	1,091,456
Accumulated losses		<u>(700)</u>
		<u><u>1,090,756</u></u>

**Statement of Changes in Equity**

For the period from 30 July 2013 (date of establishment) to 31 October 2013

	<b>Paid in capital</b>	<b>Accumulated losses</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 30 July 2013 (date of establishment)	—	—	—
Capital injection	1,091,456	—	1,091,456
Loss and total comprehensive expenses for the period	<u>—</u>	<u>(700)</u>	<u>(700)</u>
At 31 October 2013	<u><u>1,091,456</u></u>	<u><u>(700)</u></u>	<u><u>1,090,756</u></u>

**Statement of Cash Flows**

For the period from 30 July 2013 (date of establishment) to 31 October 2013

	<i>RMB'000</i>
<b>OPERATING ACTIVITIES</b>	
Loss before taxation and operating cash flows before movements in working capital	(700)
Increase in other receivables	(505)
Increase in other payables	<u>17</u>
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<u>(1,188)</u>
<b>PURCHASE OF PLANT AND EQUIPMENT AND NET CASH USED IN INVESTING ACTIVITY</b>	
	<u>(36)</u>
<b>FINANCING ACTIVITIES</b>	
Proceeds from the capital contribution	79,226
Advance from ultimate holding company	<u>1,241</u>
<b>NET CASH FROM FINANCING ACTIVITIES</b>	<u>80,467</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS AND CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD, represented by bank balances and cash</b>	<u><u>79,243</u></u>

## Notes to the Financial Information

### 1. GENERAL INFORMATION

The Target Company was established in the PRC with limited liability on 30 July 2013 with a registered capital of approximately RMB1,840,418,000.

The principal business scope of the Target Company includes (i) design, manufacture, sales, maintenance, and combination of coal mining machinery and equipment and related electrical equipment; (ii) leasing business, purchase of leased assets in the PRC and abroad, disposal of residual value of leased properties and maintenance of leased properties; (iii) import and export of equipment; (iv) provide automatic system engineering, software system engineering and etc. service, and (v) provide engineering and technological consulting services. The Target Company is inactive during the Relevant Period.

As at the date of this report, the directors of the Target Company consider Shanxi Coking Coal Group Co., Ltd.\* (山西焦煤集團有限責任公司) to be the Target Company's ultimate holding company. The address of its registered office and principal place of business of the Target Company is 9 Song Zhuang Road, Min Ying Jing Ji Ji Shu Kai Fa Qu, Tai Yuan Shi, Shanxi Province, the PRC.

The functional currency of the Target Company is RMB which is the same as its presentation currency.

### 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

For the purpose of preparing and presenting the Financial Information for the Relevant Period, the Target Company has consistently adopted all the new and revised Hong Kong Accounting Standards (“HKASs”), HKFRSs, amendments and interpretations (“Ints”) (hereinafter collectively referred to as “new and revised HKFRSs”) issued by the HKICPA which are effective for the financial year beginning on 30 July 2013 (date of establishment).

The Target Company has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

Amendments to HKFRSs	Annual Improvements to HKFRSs 2010–2012 Cycle <sup>2</sup>
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011–2013 Cycle <sup>2</sup>
HKFRS 9	Financial Instruments <sup>3</sup>
Amendments to HKFRS 7 and HKFRS 9	Mandatory Effective Date of HKFRS 9 and Transition Disclosures <sup>3</sup>
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities <sup>1</sup>
Amendments to HKAS 19	Defined Benefit Plans: Employee Contribution <sup>2</sup>
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities <sup>1</sup>
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets <sup>1</sup>
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting <sup>1</sup>
HK(IFRIC)-Int 21	Levies <sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2014.

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2014 unless otherwise stated in respective standards.

<sup>3</sup> Available for application — the mandatory effective date will be determined when the outstanding phases of HKFRS 9 are finalised.

The directors of the Target Company anticipate that the adoption of the above new and revised HKFRSs will have no material impact on the results and the financial position of the Target Company.

### 3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The Financial Information has been prepared under the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange of goods.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Target Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the Financial Information is determined on such a basis.

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

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

The principal accounting policies adopted are as follows:

#### **Plant and equipment**

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

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

#### **Impairment losses**

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

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

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

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

#### **Financial instruments**

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

#### *Financial assets*

The Target Company's financial assets are classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

#### *Effective interest method*

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

Interest income is recognised on an effective interest basis for debt instruments.

#### *Loans and receivables*

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

#### *Impairment loss on financial assets*

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

Objective evidence of impairment could include:

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

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

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

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

#### ***Financial liabilities and equity instruments***

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

#### ***Equity Instruments***

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

#### ***Effective interest method***

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

Interest expenses are recognised on an effective interest basis.

#### ***Other financial liabilities***

Other financial liabilities including other payables and amount due to ultimate holding company are subsequently measured at amortised cost, using the effective interest method.

***Derecognition***

The Target Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

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

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

**Retirement benefit costs**

Payments to state-managed retirement benefits schemes are recognised as an expense when employees have rendered service entitling them to the contribution.

**Taxation**

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

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

Deferred tax is recognised on temporary difference between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised.

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

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

Current and deferred tax are recognised in profit or loss.

#### 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

##### **Impairment loss recognised in respect of plant and equipment**

Plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets exceeds its recoverable amount. The recoverable amount is determined with reference to the present value of estimated future cash flows. An impairment loss is measured as the difference between the asset's carrying amount and the recoverable amount. Where the future cash flows are less than expected or there are unfavourable events and change in facts and circumstance which result in revision of future estimate cash flow, a material impairment loss may arise.

No impairment loss was recognised during the Relevant Period.

#### 5. CAPITAL RISK MANAGEMENT

The Target Company manages its capital to ensure the Target Company will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Target Company's overall strategy remains unchanged throughout the Relevant Period.

The capital structure of the Target Company consists of amount due to ultimate holding company and equity attributable to owners of the Target Company, comprising issued share capital and reserve.

The directors of the Target Company review the capital structure regularly. As part of the review, the directors of the Target Company considers the cost of capital and risks associated with each class of capital. The Target Company will balance its overall capital structure through the increase of the registered capital, the payment of dividends as well as the issue of new debt or the redemption of existing debt.

#### 6. FINANCIAL INSTRUMENTS

##### **Categories of financial instruments**

	<b>At 31 October 2013 RMB'000</b>
<b>Financial assets</b>	
Loans and receivables (including bank balances and cash)	<u>79,243</u>
<b>Financial liabilities</b>	
Other financial liabilities at amortised cost	<u>1,258</u>

**7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Target Company's major financial instruments include other receivables, bank balances and cash, other payables and amount due to ultimate holding company. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The directors of the Target Company manage and monitor these exposures to ensure appropriate measures are implemented on a timely and effective manner.

**Market risk***Interest rate risk*

The Target Company is exposed to cash flow interest rate risk in relation to variable-rate bank balances.

The Target Company's bank balances are short-term in nature and the exposure of the interest rate risk is minimal and no sensitivity to interest rate risk is presented.

**Credit risk**

As at 31 October 2013, the Target Company's maximum exposure to credit risk which will cause a financial loss to the Target Company due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the statement of financial position.

The credit risk on the Target Company's liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

**Liquidity risk**

In the management of the liquidity risk, the Target Company monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Target Company's operations and mitigate the effects of fluctuations in cash flows.

All financial liabilities are non-interest bearing and their maturity dates are within one year.

**8. FAIR VALUE**

The directors of the Target Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Financial Information approximate to their fair values due to their short-term or immediate maturities.

**9. INCOME TAX EXPENSE**

No provision for Hong Kong Profits Tax has been made as the Target Company's income neither arisen in nor is derived from Hong Kong.

Pursuant to the income tax rules and regulations of the PRC, taxation of the Target Company is charged at 25%. No provision for PRC taxation has been made as the Target Company has no assessable profits for the Relevant Period.

The income tax expense for the period can be reconciled to the loss before taxation per the statement of profit or loss and other comprehensive income as follows:

	<i>RMB'000</i>
Loss before taxation	<u>(700)</u>
Tax at domestic income tax rate of 25%	(175)
Tax effect of expense not deductible for tax purpose	<u>175</u>
Income tax expense	<u>—</u>

There was no material unprovided deferred tax during the Relevant Period and at the end of the reporting period.

#### 10. LOSS FOR THE PERIOD

	<i>RMB'000</i>
Loss for the period has been arrived at after charging:	
Auditor's remuneration	—
Directors' emoluments ( <i>note a</i> )	—
Employee benefits (excluding director's emoluments) ( <i>note b</i> ):	
— Salaries and allowances	293
— Retirement benefit scheme contributions	<u>20</u>
Total staff costs	<u>313</u>

*Notes:*

##### (a) Director's emoluments

During the Relevant Period, no fees or other emoluments were paid or payable by the Target Company to its directors.

During the Relevant Period, no emoluments were paid by the Target Company to its directors as an inducement to join or upon joining the Target Company or as compensation for loss of office. None of the directors has waived any emoluments during the Relevant Period.

##### (b) Employees' emoluments

The five highest paid individuals of the Target Company for the Relevant Period are as follows:

	<i>RMB'000</i>
Salaries and allowances	120
Retirement benefit scheme contributions	<u>8</u>
	<u>128</u>

The emoluments of each of the five highest paid individuals for the Relevant Period were below HK\$1,000,000.

#### 11. LOSS PER SHARE

No loss per share information is presented as its inclusion, for the purpose of this report, is not considered meaningful.

**12. PLANT AND EQUIPMENT**

	Plant and machinery <i>RMB'000</i>	Office equipment <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Total <i>RMB'000</i>
<b>COST AND CARRYING VALUES</b>				
At 30 July 2013 (date of establishment)	—	—	—	—
Additions from capital injection	1,000,010	6,619	5,601	1,012,230
Additions during the period	<u>—</u>	<u>36</u>	<u>—</u>	<u>36</u>
At 31 October 2013	<u>1,000,010</u>	<u>6,655</u>	<u>5,601</u>	<u>1,012,266</u>

The fair value of additions from capital injection was revalued by independent qualified professional valuers not connected with the Target Company on the date of the injection. Those valuers have appropriate qualifications and have recent experiences in the valuation of similar plant and equipment in the relevant location. The valuations were determined using the cost approach that reflects the cost to market participant to construct assets of comparable utility and age, adjusted for obsolescence.

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

Plant and machinery	10%
Office equipment	20%
Motor vehicles	20%

**13. OTHER RECEIVABLES**

	<i>RMB'000</i>
Advances to staff	358
Prepayments	<u>147</u>
	<u>505</u>

**14. BANK BALANCES AND CASH**

Bank balances carry interest at the prevailing market rates.

**15. AMOUNT DUE TO ULTIMATE HOLDING COMPANY**

The amount is unsecured, non-interest bearing and repayable on demand.

**16. PAID-UP CAPITAL**

	Registered capital <i>RMB'000</i>	Paid-up capital <i>RMB'000</i>
At 30 July 2013	1,840,418	—
Capital injection	<u>—</u>	<u>1,091,456</u>
At 31 October 2013	<u>1,840,418</u>	<u>1,091,456</u>

The Target Company was established with registered capital of RMB1,840,418,000. On 31 October 2013, capital of approximately RMB1,012,230,000 and RMB79,226,000 were injected by the equity owners in form of plant and equipment and cash respectively.

Pursuant to the Memorandum and Articles of association of the Target Company, the unpaid registered capital of approximately RMB748,962,000 should be contributed by shareholders within six months from the date of establishment of the Target Company.

#### 17. RETIREMENT BENEFIT SCHEME

The employees of the Target Company established in the PRC are members of state-managed retirement benefit schemes operated by the PRC government. The Target Company is required to contribute certain percentage of its payroll to the retirement benefit schemes to fund the benefits. The only obligation of the Target Company with respect to the retirement benefit schemes is to make the required contributions under the scheme.

The Target Company made contributions to the retirement benefit schemes of approximately RMB20,000 for the Relevant Period.

#### 18. RELATED PARTY TRANSACTIONS

- (a) Save as disclosed elsewhere in the Financial Information, the Target Company did not have material related party transactions during the Relevant Period.
- (b) Other than the emoluments paid to the directors and employees of the Target Company as set out in note 10, who are considered as the key management personnel of the Target Company, the Target Company did not have any other significant compensations to key management personnel.

#### 19. MAJOR NON-CASH TRANSACTION

On 31 October 2013, equity owners of the Target Company contributed plant and equipment with total capital value of RMB1,012,230,000 to the target Company as capital injection.

### B. EVENTS AFTER THE REPORTING PERIOD

No significant subsequent events took place subsequent to 31 October 2013.

### C. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Company in respect of any period subsequent to 31 October 2013.

Yours faithfully  
**SHINEWING (HK) CPA Limited**  
*Certified Public Accountants*  
**Wong Hon Kei, Anthony,**  
Practising Certificate Number P05591  
Hong Kong

## 2. MANAGEMENT DISCUSSION AND ANALYSIS

The management discussion and analysis of the JV Company as at 31 October 2013 is set out below.

### **Business Overview**

The JV Company is a joint venture company established in the PRC, which is owned as to 45% by Top Wealth and as to 55% by JV Partner Group immediately before Transfer Completion.

The JV Company is principally engaged in (i) design, manufacture, sales, maintenance and combination of coal mining machinery and equipment and related electricity equipment; (ii) leasing business, purchase of leased assets in the PRC and abroad, disposal of residual value of leased assets and maintenance of leased assets; (iii) import and export of equipment; (iv) automatic system engineering, software system engineering and etc., and (v) provide engineering and technological consulting services. The JV Company has commenced its business in November 2013.

### **Financial Review**

#### *Revenue and cost of sales*

For the period ended 31 October 2013, the JV Company has no revenue or cost of sales generated. The JV Company has commenced its business in November 2013.

#### *Expenses and costs*

For the period ended 31 October 2013, the JV Company recorded of RMB700,000 of administrative expenses. Such expenses mainly represented the start up cost of the JV Company and staff cost.

#### *Staff costs*

For the period ended 31 October 2013, the staff costs of approximately RMB313,000 comprise of salary of administrative staff.

#### *Other receivables*

For the period ended 31 October 2013, other receivables represented the prepayment of administrative expenses and cash in advance to senior staff.

#### *Plant and equipment*

For the period ended 31 October 2013, the plant and equipment solely represented of plant and equipment.

*Cash and cash equivalents*

For the period ended 31 October 2013, the cash and cash equivalents include cash in hand, deposits held with banks.

*Current Asset*

As at 31 October 2013, current assets mainly comprised of cash and bank balance of approximately RMB79,243,000 which represented the capital injection of Top Wealth.

*Amount due to ultimate holding company*

For the period ended 31 October 2013, the amount due to ultimate holding company represented the loan from the JV partner, it is unsecured, non- interest bearing and repayable on demand.

*Current Liabilities*

As at 31 October 2013, current liabilities mainly comprise of amount due to ultimate holding company — which is RMB1,241,000. The said balance represented advance from JV partner for daily operation.

*Contingent Liability*

As at 31 October 2013, the JV Company had not involved in any current, pending or potential material legal proceedings.

*Number of employees*

For the period ended 31 October 2013, there are total of 19 full time employees in the JV Company. Since the business establishment date to 31 October 2013, the staff cost was approximately RMB313,000 in total. The number of employees consists of 4 senior staff and 15 general staff. The employee benefits included housing subsidies, allowances and social insurance contribution. According to the article of association on the JV Company, the remuneration policy had complied with the Labor Law of People Republic of China. There is no bonus, share option schemes and training schemes to employees so far.

*Liquidity, Financial Resources and Capital Structure**Overview*

The JV Company generally financed its operations through a combination of internally generated funds. The following table presents cash flow data from the JV Company for the five months period ended 31 October 2013.

	<i>RMB'000</i>
<b>OPERATING ACTIVITIES</b>	
Loss before tax and operating cash flows before movements in working capital	(700)
Increase in other receivables	(505)
Increase in accruals and other payables	<u>17</u>
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<u>(1,188)</u>
<b>ADDITION OF PLANT AND EQUIPMENT AND CASH USED IN INVESTING ACTIVITY</b>	
	<u>(36)</u>
<b>FINANCING ACTIVITIES</b>	
Advance from an ultimate holding company	1,241
Proceeds from the capital contribution	<u>79,226</u>
<b>NET CASH FROM FINANCING ACTIVITIES</b>	<u>80,467</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS AND CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD,</b> represented by bank balances and cash	<u><u>79,243</u></u>

Before the commencement of business, the JV Company mainly relied on the proceeds from the capital contribution and cash in advance from an ultimate holding company. The cash outflow mainly represented the expenses of setting up the JV Company and the daily operating cost of the Company.

The current ratios of the JV Company as at 31 October 2013 was approximately 63.39.

*Gearing Ratio and capital structure*

The gearing ratios of the JV Company as at 31 October 2013 was approximately 0.11%.

*Significant investment, material acquisition and disposals*

The JV Company did not have any significant investments, material acquisition and disposals during the period end 31 Oct 2013.

*Market Risk**Credit Risk*

The credit risk on the JV Company's liquid funds is limited because the counterparty is banks with high credit rating assigned by international credit-rating agencies.

*Interest rate risk*

The JV Company has no bank loan, and the bank balances are short term in nature. The management considered that the JV Company's exposure to cash flow interest rate risk is not material, and does not anticipate any significant impact resulting from the changes in interest rate.

*Foreign currency risk*

The business transactions of the JV Company conducted in 31 October 2013 was mainly denominated and settled in RMB. Therefore, no exposure in exchange rate risks and therefore the JV Company currently does not have hedging policy in respect of the foreign currency risk.

*Liquidity risk*

In the management of the liquidity risk, the JV Company monitors and maintains a level of cash and cash equivalents which is deemed adequate by the management to finance the JV Company's operations and mitigate the effects of fluctuations in cash flows.

**UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP**

Pursuant to the Placing Agreement, the Placing Agent has conditionally agreed to (i) place up to an aggregate of 300,000,000 Placing Shares at HK\$1.00 per Placing Share to not less than six Share Placees who and whose beneficial owners are Independent Third Parties; and (ii) place the Convertible Bonds with an aggregate principal amount up to HK\$900,000,000 at an initial price of HK\$1.00 per Conversion Share to not less than six CB Placees who and whose beneficial owners are Independent Third Parties. The Placing Agent will receive a placing commission of 5% of the amount equal to the aggregate principal amount of Placing Shares and Convertible Bonds successfully placed. The Convertible Bonds will mature on the third anniversary of the date of issue and the Convertible Bonds bear interest at a rate of 5% per annum.

Pursuant to the Transfer Agreement as set out in the Circular, the Group has conditionally agreed to contribute the Capital Injection Amount of RMB147,233,440 (equivalent to approximately HK\$187,355,000) in cash to the Target Company which represents 8% equity interest in the Target Company. The Capital Injection is to be satisfied upon the completion of the placing of shares and Convertible Bonds as mentioned above.

The following unaudited pro forma financial information of the Enlarged Group, comprising the unaudited pro forma consolidated statement of financial position at 30 June 2013, prepared by the Directors in accordance with Rule 4.29 of the Listing Rules is for illustrative purposes only, and is set forth here to illustrate the effect of the proposed placing of new shares and convertible bonds and major transaction in relation to transfer of 8% equity interest in the Target Company (the “Transaction”) on the consolidated statement of financial position of the Enlarged Group at 30 June 2013 as if the Transaction had taken place on 30 June 2013.

The unaudited pro forma consolidated statement of financial position of the Enlarged Group, which has been prepared based on the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2013 as extracted from the published interim report of the Group for the six months ended 30 June 2013 after making certain pro forma adjustments to the Transaction as set out below.

The unaudited pro forma financial information has been prepared on the basis as set out in the notes below and is consistent with the accounting policies adopted by the Group. The unaudited pro forma financial information of the Enlarged Group has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of the Enlarged Group had the Transaction been completed as at 30 June 2013 or any future periods or on any future date. Furthermore, the accompanying unaudited pro forma consolidated statement of financial position of the Enlarged Group does not purport to give a true picture of the financial position of the Enlarged Group or predict the future financial position of the Enlarged Group.

The unaudited pro forma financial information should be read in conjunction with the financial information of the Group as set out in the interim report of the Group for the six months ended 30 June 2013 and other financial information included elsewhere in this Circular.

**APPENDIX III**
**UNAUDITED PRO FORMA FINANCIAL INFORMATION  
OF THE ENLARGED GROUP**

	The Group as at 30 June 2013 HK\$'000 Note 1	HK\$'000 Note 2	Pro forma adjustments		HK\$'000 Note 5	Unaudited pro forma of the Enlarged Group as at 30 June 2013 HK\$'000
			HK\$'000 Note 3	HK\$'000 Note 4		
<b>Non-current assets</b>						
Plant and equipment	36,997					36,997
Deposits for acquisition of property, plant and equipment	1,944					1,944
Deferred tax assets	1,952					1,952
Available-for-sales financial assets	—			187,355		187,355
	<u>40,893</u>					<u>228,248</u>
<b>Current assets</b>						
Inventories	70,113					70,113
Trade and other receivables	48,672					48,672
Derivative financial instruments	300					300
Pledged bank deposits	3,000					3,000
Bank balances and cash	<u>43,007</u>	285,000	855,000	(187,355)	(7,000)	<u>988,652</u>
	<u>165,092</u>					<u>1,110,737</u>
<b>Current liabilities</b>						
Trade and other payables	51,107					51,107
Amounts due to directors	587					587
Bank borrowings	21,938					21,938
Obligations under finance leases — due within one year	237					237
Income tax payables	<u>347</u>					<u>347</u>
	<u>74,216</u>					<u>74,216</u>
<b>Net current assets</b>	<u>90,876</u>					<u>1,036,521</u>
<b>Total assets less current liabilities</b>	<u>131,769</u>					<u>1,264,769</u>
<b>Non-current liabilities</b>						
Obligations under finance leases — due after one year	833					833
Convertible bonds	—		801,398			801,398
	<u>833</u>					<u>802,231</u>
<b>Net assets</b>	<u>130,936</u>					<u>462,538</u>
<b>Capital and reserves</b>						
Share capital	4,160	1,500	—	—	—	5,660
Reserves	<u>126,776</u>	283,500	53,602	—	(7,000)	<u>456,878</u>
	<u>130,936</u>					<u>462,538</u>

*Notes:*

1. The amounts are extracted from the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2013 included in the published interim report of the Group for the six months ended 30 June 2013.
2. The adjustment represented the placing up to an aggregate of 300,000,000 placing shares with par value of HK\$0.005 at the share placing price of HK\$1.00 per placing share, after deduction of approximately HK\$15,000,000 placing commission which is directly attributable to issue of new shares and accounted for as a deduction from share premium, for cash.
3. Assuming the Convertible Bonds of HK\$900,000,000 were issued on 30 June 2013, after deduction of approximately HK\$45,000,000 placing commission for cash.

The Company has no right to early redeem the Convertible Bonds at any time prior to the Maturity Date. In accordance with HKAS 32 "Financial Instruments: Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement", the value of Convertible Bonds is split into a liability component and equity component. For the purpose of the preparation of this unaudited pro forma financial information, the fair values of the liability component and equity component of the Convertible Bonds are determined by the Directors by reference to a professional valuation conducted by an independent professional qualified valuer, APAC Asset Valuation and Consulting Limited, not connected to the Group at approximately HK\$843,577,000 and HK\$56,423,000 respectively. On initial recognition, the liability component of the Convertible Bonds is recognised at the fair value of a similar liability that does not have an equity conversion option. Subsequent to initial recognition, the liability component is carried at amortised cost with the effective interest expense recognised directly in profit or loss in the period in which they arise. The equity component is recognised initially at the difference between the fair value of the Convertible Bonds as a whole and the fair value of the liability component. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible loan notes using the effective interest method. Accordingly, approximately HK\$42,179,000 and HK\$2,821,000 are allocated to the liability component and equity component respectively.

The fair value of the liability component is determined by discounting the aggregate amount by effective interest rate. The effective interest rate of 7.4% is adopted. The basis of the effective interest rate is determined by the Directors with reference to the discounted rate suggested by the independent valuer in assessing the liability component which includes the risk free rate based on the current yields of Hong Kong market and credit spread based on comparable bonds. The Directors confirmed that they will apply consistent principal assumptions to assess the discounted rate and the fair value of the Convertible Bonds in subsequent reporting periods.

The fair value of the conversion option is carried as an equity component of the Convertible Bonds included in shareholders' equity until extinguished on conversion or redemption.

The valuer has taken into consideration of the following factors in deriving the fair value of the Convertible Bonds:

Expected volatility	76%
Risk free rate	0.58%
Effective interest rate	7.4%
Life of the Convertible Bonds	3 years
Expected ordinary dividend yield	Nil

The fair values of the Convertible Bonds shall be re-assessed on the actual date of issuance and accordingly, the actual fair value of the Convertible Bonds may be different from that presented above.

4. The adjustment represented the total consideration of approximately HK\$187,355,000 paid by the Group in cash pursuant to the transfer agreement date 20 November 2013. The consideration represents unlisted investment of 8% equity interest in the Target. Such investment is classified as available-for-sales financial assets since the investment is a non-derivative financial asset, is not classified as a loan and receivable or held to maturity investment, is not held for trading and is not designated as at fair value through profit or loss. The available-for-sales financial assets are stated at cost less any identified impairment loss as there is no quoted market price in an active market and the fair value of the financial assets cannot be reliably measured. The Directors confirmed that consistent accounting treatment and measurement on the available-for-sales financial assets will be adopted in subsequent reporting periods.

The Directors have assessed the impairment of the available-for-sales financial assets in accordance with the Hong Kong Accounting Standard 39 “Financial Instruments: Recognition and Measurement”, in which an impairment loss on the available-for-sales financial assets should be regarded as incurred if, and only if, there objective evidence of impairment as a result of one or more events that occurred after initial recognition. As there is no objective evidence of impairment in respect of the available-for-sales financial assets noted, no impairment loss is recognised as at 30 June 2013. The Directors confirmed that consistent accounting policies and principal assumptions will be adopted to assess the impairment of the available-for-sales financial assets in subsequent reporting periods.

5. The adjustment represented the direct expenses of legal advisers, financial adviser, reporting accountants, valuer, printer, taxes and other expenses related to the preparation of the Circular of approximately HK\$7,000,000 as estimated by the Directors.
6. No adjustment has been made to reflect any trading results or other transactions of the Enlarged Group entered into subsequent to 30 June 2013.



SHINEWING (HK) CPA Limited  
43/F., The Lee Gardens  
33 Hysan Avenue  
Causeway Bay, Hong Kong

17 February 2014

The Directors  
Fornton Group Limited

Dear Sirs,

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Fornton Group Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) and 8% equity interest in Shanxi Coking Coal Machinery Electric Co., Ltd.\* (山西焦煤機械電氣有限公司) (together with the Group, collectively referred to as the “Enlarged Group”) by the directors of the Company (the “Directors”) for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of assets and liabilities as at 30 June 2013, and related notes as set out in Section A of Appendix III (the “Unaudited Pro Forma Financial Information”) of the circular dated 17 February 2014 (the “Circular”) in connection with the proposed placing of new shares and convertible bonds and major transaction in relation to the transfer of 8% equity interest in Shanxi Coking Coal Machinery Electric Co., Ltd. to the Group (the “Transactions”). The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described in Section A of Appendix III of the Circular.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the Transaction on the Group’s financial position at 30 June 2013 as if the Transaction had taken place at 30 June 2013. As part of this process, information about the Group’s financial position has been extracted by the Directors from the unaudited interim report of the Group for the six months ended 30 June 2013, on which no review report has been published.

### **Directors’ Responsibility for the Unaudited Pro Forma Financial Information**

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” (“AG7”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

### **Reporting Accountant’s Responsibilities**

Our responsibility is to express an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

\* English name is for identification purpose only

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 “Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus” issued by the HKICPA. This standard requires that the reporting accountant comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 29 of Chapter 4 of the Listing Rules and with reference to AG7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of the Unaudited Pro Forma Financial Information is solely to illustrate the impact of the Transaction on the unadjusted financial information of the Group as if the Transaction had been completed at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Transaction at 30 June 2013 would have been as presented.

A reasonable assurance engagement to report on whether the Unaudited Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Unaudited Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the Unaudited Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants’ judgment, having regard to the reporting accountants’ understanding of the nature of the Group, the event or transaction in respect of which the Unaudited Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Unaudited Pro Forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Opinion**

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

**SHINEWING (HK) CPA Limited**

*Certified Public Accountants*

**Wong Hon Kei, Anthony**

Practising Certificate Number: P05591

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 Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other facts not contained in this circular, the omission of which would make any statement herein or this circular misleading.

## 2. DISCLOSURE OF INTERESTS

### (a) Interests of Directors and chief executive

As at the Latest Practicable Date, the following directors or chief executives of the Company or their associates had interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (the “SFO”)(including interests or short positions which they were deemed or taken to have under such provisions of the SFO); (b) to be and were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO; or (c) to otherwise be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”).

Name	Type of interest	Number of Shares	Approximate % of the Company's issued share capital
Integrated Asset Management (Asia) Limited	Beneficial Owner (Note 1)	104,000,000	25.00
Mr. Yam Tak Cheung	Interest of controlled corporation (Note 1)	104,000,000	25.00
	Interest of spouse (Note 2)	104,000,000	25.00
Ever Rosy Limited	Beneficial Owner (Note 3)	104,000,000	25.00

Name	Type of interest	Number of Shares	Approximate % of the Company's issued share capital
Ms. Wong Kan Kan, Kandy	Interest of controlled corporation ( <i>Note 3</i> )	104,000,000	25.00
	Interest of spouse ( <i>Note 4</i> )	104,000,000	25.00
Billion Mission Limited	Beneficial Owner ( <i>Note 5</i> )	104,000,000	25.00
Mr. Zheng Qiang	Interest of controlled corporation ( <i>Note 5</i> )	104,000,000	25.00

*Notes:*

1. Mr. Yam Tak Cheung is the beneficial owner of the entire issued share capital of Integrated Asset Management (Asia) Limited and is deemed to be interested in the 104,000,000 Shares held by Integrated Asset Management (Asia) Limited under the SFO.
2. Mr. Yam Tak Cheung is the spouse of Ms. Wong Kan Kan, Kandy and is deemed to be interested in the Shares held by Ever Rosy Limited.
3. Ms. Wong Kan Kan, Kandy is the beneficial owner of the entire issued share capital of Ever Rosy Limited and is deemed to be interested in the 104,000,000 Shares held by Ever Rosy Limited under the SFO.
4. Ms. Wong Kan Kan, Kandy is the spouse of Mr. Yam Tak Cheung and is deemed to be interested in the Shares held by Integrated Asset Management (Asia) Limited.
5. Mr. Zheng Qiang is the beneficial owner of 100% of the issued share capital of Billion Mission Limited and is deemed to be interested in the 104,000,000 Shares held by Billion Mission Limited under the SFO.

Save as disclosed above, as at the Latest Practicable Date, to the best knowledge of the Directors and chief executive of the Company, no interests or short positions were held or deemed or taken to be held under Part XV of the SFO by any director or chief executives or their respective associates in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or pursuant to the Model Code or which were required to be entered in the register maintained by the Company pursuant to section 352 of the SFO.

**(b) Interests of substantial Shareholders**

As at the Latest Practicable Date, so far as was known to the Directors and chief executive of the Company, the following persons (other than the Directors and chief executive of the Company), had an interest, directly or indirectly, or short position in the Shares or underlying

Shares which would fall to be disclosed to the Company and the Stock Exchange under provisions of Division 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company under Section 336 of the SFO:

Name	Type of interest	Number of Shares	Approximate % of the Company's issued share capital
Integrated Asset Management (Asia) Limited	Beneficial Owner <i>(Note 1)</i>	104,000,000	25.00
Ever Rosy Limited	Beneficial Owner <i>(Note 2)</i>	104,000,000	25.00
Billion Mission Limited	Beneficial Owner <i>(Note 3)</i>	104,000,000	25.00

*Notes:*

1. Mr. Yam Tak Cheung is the beneficial owner of the entire issued share capital of Integrated Asset Management (Asia) Limited and is deemed to be interested in the 104,000,000 Shares held by Integrated Asset Management (Asia) Limited under the SFO.
2. Ms. Wong Kan Kan, Kandy is the beneficial owner of the entire issued share capital of Ever Rosy Limited and is deemed to be interested in the 104,000,000 Shares held by Ever Rosy Limited under the SFO.
3. Mr. Zheng Qiang is the beneficial owner of the entire issued share capital of Billion Mission Limited and is deemed to be interested in the 104,000,000 Shares held by Billion Mission Limited under the SFO.

Save as disclosed above, as at the Latest Practicable Date, so far as is known to the Directors or chief executives of the Company, no other person (not being a Director or chief executives of the Company who had an interests, directly or indirectly, or short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company under Section 336 of the SFO.

### 3. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or their respective associates was interested in any business which competes or is likely to compete, whether directly or indirectly, with the business of the Group as required to be disclosed pursuant to the Listing Rules other than those businesses to which the Directors and his/her associates were appointed to represent the interests of the Company and/or the Group.

#### 4. DIRECTORS' INTERESTS IN ASSETS

On 4 December 2013, Long Rise Investment Development Limited (“**Long Rise**”), which is held by Ms. Wong Kan Kan, Kandy, Mr. Wong Tat Wai Derek, both executive Directors, and their father, entered into a lease agreement with Fornton Knitting Company Limited (“**Fornton Knitting**”), an indirect wholly-owned subsidiary of the Company. Pursuant to the lease agreement, Fornton Knitting agreed to lease Unit A, 32nd Floor, Legend Tower, 7 Shing Yip Street, Kwun Tong, Hong Kong from Long Rise as the headquarter of the Group for a term of three years commencing from 1 December 2013 and ending on 30 November 2016 at an annual rental of HK\$2,700,000.

Saved as disclosed above, as at the Latest Practicable Date, none of the Directors had any interest, directly or indirectly, in any assets which has since 31 December 2012 (being the date to which the latest published audited consolidated financial statements of the Company were made up), up to the Latest Practicable Date, been acquired or disposed of by or leased to, any member of the Group or are proposed to be acquired or disposed of by, or leased to, any member of the Group.

As at the Latest Practicable Date, there was no contract or arrangement subsisting in which any Director was materially interested and which was significant in relation to the business of the Group.

#### 5. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with the Company or any member of the Group which would not expire or was not determinable by the Company or its subsidiaries within one year without payment of compensation (other than statutory compensation).

#### 6. MATERIAL CONTRACTS

Within the two years immediately preceding the date of this circular and ending on the Latest Practicable Date, the following material contracts (not being contracts entered into in the ordinary course of business) have been entered into by any member of the Group.

- (a) the Jan 2014 LOI;
- (b) the VLI LOI;
- (c) the Supply Contract;
- (d) the Sales Contract;
- (e) the lease agreement dated 4 December 2013 entered into between Fornton Knitting, an indirect wholly-owned subsidiary of the Company, and Long Rise, a connected person of the Company in respect of the lease of Unit A, 32nd Floor, Legend Tower, 7 Shing Yip Street, Kwun Tong, Hong Kong from Long Rise to Fornton Knitting for a term of three years commencing from 1 December 2013 and ending on 30 November 2016 at an annual rental of HK\$2,700,000;
- (f) the Transfer Agreement;

- (g) the Placing Agreement and the Supplemental Placing Agreement;
- (h) the July 2013 MOU and the side letter dated 1 November 2013 in relation to the extension of the expiry date of the July 2013 MOU;
- (i) the July 2013 LOI and the side letter dated 31 October 2013 in relation to the extension of the expiry date of the July 2013 LOI; and
- (j) the land acquisition agreement entered on 2 March 2012 between 東莞豐正針織有限公司 (transliterated as Dongguan Fung Ching Knitting Company Limited\*) (“Fung Ching”), a wholly foreign-owned enterprise established in the PRC and an indirect wholly-owned subsidiary of the Company, and 東莞市大朗鎮土地收購儲備辦公室 (transliterated as Dongguan City Dalang Town Land Reserve Acquisition Office\*) in relation to the dispose of a piece of land located in Yangwu Village, Dalang Town, Dongguan City, Guangdong Province, the PRC by Fung Ching at a consideration of RMB15,500,000.

## 7. LITIGATION

On 16 November 2011, the High Court made a judgement (the “Judgement”) in favour of a subsidiary of the Group to dismiss a claim from a supplier (the “Supplier”).

On 23 July 2012, the Supplier has filed a notice of appeal against the Judgement (the “Appeal”) and the Appeal was heard on 8 March 2013.

On 14 March 2013, the Court of Appeal ordered that the Appeal was allowed and the Judgement was set aside. The Court of Appeal also ordered that unless the dispute between the Supplier and the subsidiary of the Group can be settled by other means, the dispute should be remitted for a re-trial by another judge. As informed by the District Court on 17 September 2013, this case has been transferred to the District Court. As at the Latest Practicable Date, this case was still pending.

Based on the legal advice of the legal advisor of the Company on this case, the Directors are of the opinion that (i) the Group has meritorious defenses against the Supplier; and (ii) the amounts involved in the claim is not material; therefore no provision for the claim has been made in the consolidation financial statements for the year ended 31 December 2013. In addition, the claim is not expected to have material impact on the Group and its related business.

Save as disclosed above, the Directors were not aware of any litigation or claims of material importance pending or threatened by or against the members of the Group as at the Latest Practicable Date.

## 8. EXPERT AND CONSENT

The following is the qualification of the experts who have given opinions or advices, which are contained in this circular.

<b>Name</b>	<b>Qualification</b>
Shinewing (HK) CPA Limited “Shinewing”	Certified Public Accountants
King & Wood Mallesons	PRC legal advisers

As at the Latest Practicable Date, each of Shinewing and King & Wood Mallesons did not have any shareholding in any member of the Group and did not have the right to subscribe for or to nominate persons to subscribe for shares in any member of the Group.

As at the Latest Practicable Date, each of Shinewing and King & Wood Mallesons did not have any interest, direct or indirect, in any assets which have been 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 since 31 December 2012, being the date to which the latest published audited accounts of the Company were made up.

Each of Shinewing and King & Wood Mallesons has given and has not withdrawn its written consent to the issue of this circular with the inclusion therein of its reports and/or references to its name in the form and context in which they appear.

## 9. GENERAL

- (a) The registered office of the Company is situated at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.
- (b) The principal place of business in Hong Kong of the Company is at Unit A, 32nd Floor, Legend Tower, 7 Shing Yip Street, Kwun Tong, Kowloon, Hong Kong.
- (c) The company secretary of the Company is Mr. Fong Chu Pong. He obtained his bachelor degree in Accountancy from The Hong Kong Polytechnic University in 2003 and has more than 10 years of experience in auditing, accounting and financial management. Mr. Fong is a member of the Association of Chartered Certified Accountants.
- (d) The branch share registrar and transfer office of the Company in Hong Kong is Union Registrars Limited at 18/F, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong.
- (e) This circular has been prepared in both English and Chinese; the English text of this circular shall prevail over the Chinese text in the event of inconsistency.

**10. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the principal office of business in Hong Kong of the Company at Unit A, 32nd Floor, Legend Tower, 7 Shing Yip Street, Kwun Tong, Kowloon, Hong Kong during normal business hours from 9:00 a.m. to 5:30 p.m., on any business day for a period from the date of this circular up to and including the date of the SGM.

- (a) the Bye-laws;
- (b) the annual report of the Company for each of the two years ended 31 December 2012;
- (c) the interim report of the Company for the six months ended 30 June 2013;
- (d) the accountants' report on the financial information of the JV Company as set out in Appendix II to this circular;
- (e) the report from Shinewing on unaudited pro forma financial information of the Enlarged Group as set out in Appendix III to this circular;
- (f) the written consent from each of Shinewing and King & Wood Mallesons as referred to in the section headed "Expert and Consent" in this appendix;
- (g) the material contracts as referred to in the section headed "Material Contracts" in this appendix; and
- (h) this circular.

## NOTICE OF SGM

# FORNTON GROUP LIMITED

## 豐臨集團有限公司

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 1152)**

**NOTICE IS HEREBY GIVEN THAT** a special general meeting (the “**Meeting**”) of Fornton Group Limited (the “**Company**”) will be held at Unit A, 32nd Floor, Legend Tower, 7 Shing Yip Street, Kwun Tong, Kowloon, Hong Kong on Wednesday, 5 March 2014 at 10:00 a.m. for the purpose of considering and, if thought fit, passing with or without modifications the following resolutions as ordinary resolutions of the Company:

### ORDINARY RESOLUTIONS

1. “**THAT:**

- (a) subject to and conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of, and permission to deal in, the Subdivided Shares (as hereinafter defined), each of the issued and unissued shares of HK\$0.01 in the share capital of the Company be and is hereby subdivided into two shares of HK\$0.005 each (the “**Subdivided Shares**”) with effect from the business day immediately following the day on which this resolution is passed (the “**Share Subdivision**”) and the directors of the Company be authorised to issue new share certificates in respect of the Subdivided Shares to holders of existing shares of the Company pursuant to the Share Subdivision and to do all things and execute all documents in connection with or incidental to the Share Subdivision as the directors think fit or desirable;
- (b) the conditional placing agreement dated 22 October 2013 and supplemental placing agreement dated 5 February 2014 entered into between the Company as issuer and VC Brokerage Limited as placing agent in relation to (1) the placing of a maximum of 300,000,000 new Subdivided Shares (the “**Placing Shares**”) of HK\$0.005 each in the share capital of the Company, on a best effort basis, at a placing price of HK\$1.00 per Placing Share; and (2) the placing of the 3-year 5% per annum coupon rate unsecured non-redeemable convertible bonds in the aggregate principal amount of up to HK\$900,000,000 (the “**Convertible Bonds**”) at an initial conversion price of HK\$1.00 per conversion share (the “**Conversion Shares**”) (subject to adjustments) on a best effort basis, (the “**Placing Agreement**”) (a copy of which marked “A” has been produced to the meeting and signed by the chairman of the Meeting for the purpose of identification), and all transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
- (c) conditional upon, among others, the Listing Committee of The Stock Exchange of Hong Kong Limited granting the approval for the listing of, and permission to deal in, the Placing Shares and the Conversion Shares, the allotment and issue of the Placing Shares and the Conversion Shares, pursuant to and subject to the terms and conditions of the Placing Agreement, be and are hereby approved; and

## NOTICE OF SGM

- (d) any one director of the Company be and is hereby authorised to exercise all the powers of the Company and take all steps as might in his/her opinion be desirable, necessary or expedient in connection with the implementation of the transactions contemplated under the Placing Agreement as well as in relation to the allotment and issue of the Placing Shares and the Conversion Shares, including, without limitation, the execution, amendment, supplement, delivery, submission and implementation of any further documents or agreements (in case of execution of documents under seal, to do so in accordance with the bye-laws of the Company).”
2. **“THAT** subject to the passing of resolution (1) above:
- (a) the transfer agreement dated 20 November 2013 (the **“Transfer Agreement”**) (a copy of which marked **“B”** has been produced to the meeting and signed by the chairman of the Meeting for the purpose of identification) and entered into between Sino Top Capital Resources Limited (**“Sino Top”**) as transferee and Top Wealth Enterprises Limited (**“Top Wealth”**) as transferor in relation to the transfer of 8% equity interest in 山西焦煤機械電氣有限公司(transliterated as Shanxi Coking Coal Machinery Electric Co., Ltd.\*) (**“JV Company”**) from Top Wealth to Sino Top in consideration of Sino Top conditionally agreed to contribute the capital injection amount of RMB147,233,440 (equivalent to approximately HK\$187,354,552) in cash to the JV Company, and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
- (b) any one director of the Company be and is hereby authorised to exercise all the powers of the Company and take all steps as might in his/her opinion be desirable, necessary or expedient in connection with the implementation of the transactions contemplated under the Transfer Agreement, including, without limitation, the execution, amendment, supplement, delivery, submission and implementation of any further documents or agreements (in case of execution of documents under seal, to do so in accordance with the bye-laws of the Company).”

By order of the Board  
**Fornton Group Limited**  
**Yam Tak Cheung**  
*Chairman*

Hong Kong, 17 February 2014

## NOTICE OF SGM

*Notes:*

1. A member entitled to attend and vote at the Meeting is entitled to appoint one or more than one proxy to attend and, subject to the provisions of the bye-laws of the Company, to vote on his behalf. A proxy need not be a member of the Company but must be present in person at the Meeting to represent the member. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.
2. A form of proxy for use at the Meeting is enclosed. Whether or not a member is able to attend the Meeting in person, he/she/it is requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the Meeting or any adjourned meeting, should he/she/it so wish.
3. To be valid, a proxy form, together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of that power or authority, must be lodged at the Company's branch share registrar and transfer office in Hong Kong, Union Registrars Limited, 18/F, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong, not less than 48 hours before the time fixed for holding of the Meeting or any adjournment thereof. Completion and return of the proxy will not preclude any member from attending and voting in person at the Meeting or any adjournment thereof if he/she/it so desire and, in such event, the instrument appointing such a proxy shall be deemed to be revoked.
4. In the case of joint holders of shares, any one of such holders may vote at the Meeting, either personally or by proxy, in respect of such share as if he/she/it were solely entitled thereto, but if more than one of such joint holder are present at the Meeting personally or by proxy, the persons so present whose name stands first on the register of members of the Company in respect of such shares shall alone be entitled to vote in respect thereof.
5. Votes on the ordinary resolutions set out herein and are to be passed at the Meeting will be taken by way of poll.
6. If Typhoon Signal No. 8 or above, or a "black" rainstorm warning is in effect any time after 8:00 a.m. on the date of the special general meeting, the meeting will be postponed. The Company will post an announcement on the website of Company at [www.fornton.com](http://www.fornton.com) and on the HKExnews website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) to notify Shareholders of the date, time and place of the rescheduled meeting.

*As at the date hereof, the board of directors of the Company comprises five executive Directors, namely, Mr. Yam Tak Cheung (Chairman), Ms. Wong Kan Kan Kandy, Mr. Wong Tat Wai Derek, Mr. Zheng Qiang and Mr. Han Hanting, one non-executive Director, namely, Mr. Chan Yee, Herman and three independent non-executive Directors, namely, Mr. Wang Wei Hung Andrew, Mr. Cheng Dickson and Mr. Sin Ka Man.*