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# THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

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This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the Shares or other securities in the Company.

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## Newtree Group Holdings Limited 友川集團控股有限公司

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1323)**

**(I) PROPOSED OPEN OFFER ON THE BASIS OF  
THREE (3) OFFER SHARES FOR EVERY TWO (2) EXISTING SHARES  
HELD ON THE RECORD DATE AT HK\$0.164 PER OFFER SHARE;  
(II) CLOSURE OF REGISTER OF MEMBERS;  
AND  
(III) NOTICE OF EXTRAORDINARY GENERAL MEETING**

**Financial Adviser to the Company**



**Underwriter**

**CheonG Lee**  
昌利證券

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

***Hercules***

**Hercules Capital Limited**

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Capitalised terms used on this cover page shall have the same meanings as those defined in the section headed "Definitions" in this circular.

A letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders is set out on pages 39 to 64 of this circular. The letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 37 to 38 of this circular.

To qualify for the Open Offer, a Qualifying Shareholder must be registered as a member of the Company at the close of business on the Record Date. In order to be registered as a member of the Company on the Record Date, Shareholders must lodge any transfers of the Shares (together with the relevant share certificates) with the Registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong by no later than 4:30 p.m. on Tuesday, 19 July 2016. It is expected that the last day of dealings in the Shares on a cum-entitlement basis is Friday, 15 July 2016 and the Shares will be dealt with on an ex-entitlement basis from Monday, 18 July 2016.

A notice convening the EGM to be held at Suites 3505-08, 35/F, Tower 6, The Gateway, Harbour City, Kowloon, Hong Kong at 10:00 a.m. on Thursday, 14 July 2016 is set out on pages EGM-1 to EGM-3 of this circular. Whether or not you intend to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM (i.e. 10:00 a.m. on Tuesday, 12 July 2016) or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so desire. In such event, the instrument appointing a proxy will be deemed to be revoked.

24 June 2016

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# CONTENTS

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	<i>Page</i>
<b>Definitions</b> .....	1
<b>Expected Timetable</b> .....	8
<b>Letter from the Board</b> .....	10
<b>Letter from the Independent Board Committee</b> .....	37
<b>Letter from the Independent Financial Adviser</b> .....	39
<b>Appendix I — Financial information of the Group</b> .....	I-1
<b>Appendix II — Pro forma financial information of the Group</b> .....	II-1
<b>Appendix III — General information</b> .....	III-1
<b>Notice of EGM</b> .....	EGM-1

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## DEFINITIONS

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

“acting in concert”	has the meaning ascribed to it under The Hong Kong Code on Takeovers and Mergers
“Announcement”	the announcement of the Company dated 17 May 2016 in relation to, among other things, the Open Offer
“Application Form(s)”	the form(s) of application to be issued to the Qualifying Shareholders in respect of their assured entitlements under the Open Offer
“associates”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Business Day”	a day (other than a Saturday, Sunday or public holiday or a day on which a typhoon signal number 8 or above or a “black” rainstorm signal is hoisted in Hong Kong between 9:00 a.m. to 5:00 p.m.) on which licensed banks in Hong Kong are generally open for business throughout their normal business hours
“BVI”	British Virgin Islands
“CB Holders”	Fulledge and Mr. Lee
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Cheong Lee Securities”	Cheong Lee Securities Limited, a licensed corporation to carry out business in type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities) and type 5 (advising on futures contracts) regulated activities under the SFO

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## DEFINITIONS

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“CL Group”	CL Group (Holdings) Limited, a company incorporated in Cayman Islands with limited liability and the issued ordinary shares of which are listed on the Growth Enterprise Market of the Stock Exchange (stock code: 8098)
“Company”	Newtree Group Holdings Limited, a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on the Main Board of the Stock Exchange (stock code: 1323)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“controlling shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Convertible Bonds”	the convertible bonds of the Company in the principal amount of HK\$100 million, details of which are contained in the announcements of the Company dated 11 June 2014 and 19 June 2014 respectively
“Deed of Amendments”	the deed of amendments dated 17 May 2016 entered into between the Company and the CB Holders for amending certain terms and conditions of the Convertible Bonds
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened and held at which an ordinary resolution will be proposed to consider, and, if thought fit, to approve, among other things, the Open Offer and the Underwriting Agreement
“Excluded Shareholder(s)”	the Overseas Shareholder(s), whom the Directors, after making enquiry regarding the legal restrictions under the laws of the relevant place and the requirements of the relevant regulatory body or stock exchange, consider necessary or expedient to be excluded from the Open Offer

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## DEFINITIONS

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“Fulledge”	Fulledge Limited, a company incorporated in the BVI with limited liability
“Fulledge Undertaking”	the irrevocable undertaking given by Fulledge in favour of the Company and Cheong Lee Securities on 17 May 2016 pursuant to which Fulledge has undertaken (i) it shall not exercise any of the conversion rights attached to the Convertible Bonds nor transfer any of the Convertible Bonds held by it from the date of the Fulledge Undertaking up to the close of business on the Record Date; and (ii) it has agreed with the Company to extend the maturity date of the Convertible Bonds to 31 August 2016
“Group”	the Company and its subsidiaries
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent committee of the Board, comprising all three independent non-executive Directors, namely Mr. Kwok Kam Tim, Dr. Hui Chik Kwan and Mr. Tso Ping Cheong, Brian, established to give a recommendation to the Independent Shareholders in respect of the Open Offer and the Underwriting Agreement
“Independent Financial Adviser” or “Hercules Capital”	Hercules Capital Limited, a corporation licensed to carry on type 6 (advising on corporate finance) regulated activity under the SFO and the independent financial adviser appointed by the Company with the approval of the Independent Board Committee for the purpose of advising the Independent Board Committee and the Independent Shareholders of the Company on the terms of the Open Offer and the Underwriting Agreement

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## DEFINITIONS

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“Independent Shareholders”	Shareholders other than (i) the controlling shareholders and their associates or, where there is no controlling shareholder, the Directors (excluding independent non-executive Directors) and the chief executive of the Company and their respective associates, i.e. Mr. Wong, Mr. Chum and Twin Star; and (ii) those who have a material interest in the Open Offer, i.e. Metro Capital, Mr. Chen and Mr. Chen’s father
“Last Trading Day”	16 May 2016, being the last trading day immediately prior to the date of the Announcement
“Latest Acceptance Date”	Monday, 8 August 2016, or such later date as may be agreed between the Company and Cheong Lee Securities, being the last day for acceptance of and payment for the Offer Shares
“Latest Practicable Date”	21 June 2016, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular
“Latest Time for Acceptance”	4:00 p.m. on the Latest Acceptance Date, or such later time as may be agreed between the Company and Cheong Lee Securities
“Latest Time for Termination”	4:00 p.m. on the third Business Day following (but excluding) the Latest Acceptance Date, or such later time or date as may be agreed between the Company and Cheong Lee Securities, being the latest time to terminate the Underwriting Agreement
“Lee Undertaking”	the irrevocable undertaking given by Mr. Lee in favour of the Company and Cheong Lee Securities on 17 May 2016 pursuant to which Mr. Lee has undertaken (i) he shall not exercise any of the conversion rights attached to the Convertible Bonds nor transfer any of the Convertible Bonds held by him from the date of the Lee Undertaking up to the close of business on the Record Date; and (ii) he has agreed with the Company to extend the maturity date of the Convertible Bonds to 31 August 2016

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## DEFINITIONS

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“Listing Committee”	has the same meaning ascribed to it under the Listing Rules
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Metro Capital”	Metro Capital Securities Limited, a licensed corporation to carry out type 1 (dealing in securities) regulated activity under the SFO
“Mr. Chen”	Mr. Chen Xiufeng
“Mr. Chum”	Mr. Chum Hon Sing, the executive Director and Vice Chairman of the Company
“Mr. Lee”	Mr. Lee Fan Shing
“Mr. Wong”	Mr. Wong Wai Sing, the executive Director, Chairman and Chief Executive Officer of the Company
“Offer Share(s)”	the new Share(s) to be allotted and issued in respect of the Open Offer
“Open Offer”	the issue of 1,405,519,920 Offer Shares at the Subscription Price on the basis of three (3) Offer Shares for every two (2) existing Shares held on the Record Date
“Overseas Shareholder(s)”	the Shareholder(s) with registered address(es) (as shown in the register of members of the Company on the Record Date) which are outside Hong Kong
“PRC”	the People’s Republic of China, for the purpose of this circular, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Prospectus”	the prospectus to be issued by the Company in relation to the Open Offer
“Prospectus Documents”	the Prospectus and the Application Form(s)

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## DEFINITIONS

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“Prospectus Posting Date”	Monday, 25 July 2016, or such later date as may be agreed between the Company and Cheong Lee Securities for the despatch of the Prospectus Documents
“Qualifying Shareholder(s)”	the Shareholders whose names appear on the register of members of the Company on the Record Date, other than the Excluded Shareholders
“Record Date”	Friday, 22 July 2016, or such other date as may be agreed between the Company and Cheong Lee Securities, being the record date to determine entitlements under the Open Offer
“Registrar”	Tricor Investor Services Limited, the Company’s branch share registrar and transfer office in Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the issued Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Price”	the subscription price in respect of each Offer Share, being HK\$0.164 per Offer Share
“substantial shareholder”	has the meaning ascribed to it under the Listing Rules
“Total Redemption Amount”	has the meaning ascribed to it under the section headed “Proposed amendments to the terms of the Convertible Bonds” of the letter from the Board in this circular
“Twin Star”	Twin Star Global Limited, a company incorporated in the BVI with limited liability, which is owned as to 50% by Mr. Wong and 50% by Mr. Chum



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## DEFINITIONS

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“Underwriting Agreement”	the underwriting agreement dated 17 May 2016 entered into between the Company and Cheong Lee Securities in relation to the Open Offer
“Underwritten Shares”	the Offer Shares underwritten by Cheong Lee Securities subject to the terms and conditions of the Underwriting Agreement (being 1,248,088,920 Offer Shares)
“Untaken Shares”	any of the Underwritten Shares not taken up by the Qualifying Shareholders under the Open Offer
“HK\$”	Hong Kong dollars, the lawful currency for the time being of Hong Kong
“%”	per cent.

# *The English translation of Chinese names or words, where indicated in this circular, is indicated for information purpose only and should not be regarded as the official English translation of such Chinese names or words.*

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## EXPECTED TIMETABLE

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The expected timetable for the Open Offer set out below is indicative only. The expected timetable is subject to change, and any such change will be announced in a separate announcement by the Company as and when appropriate.

**2016**

Latest time for Shareholders to lodge transfer of the Shares in order to attend and vote at the EGM . . . . .	4:30 p.m. on Friday, 8 July
Closure of register of members of the Company for determining the identity of the Shareholders entitled to attend and vote at the EGM (both dates inclusive) . . . . .	From Monday, 11 July to Thursday, 14 July
Latest time for lodging proxy forms for the EGM . . . . .	10:00 a.m. on Tuesday, 12 July
Expected time and date of the EGM. . . . .	10:00 a.m. on Thursday, 14 July
Announcement of poll results of the EGM . . . . .	Thursday, 14 July
Last day of dealings in the Shares on a cum-entitlement basis . . . . .	Friday, 15 July
First day of dealings in the Shares on an ex-entitlement basis . . . . .	Monday, 18 July
Latest time for the Shareholders to lodge transfer of the Shares in order to qualify for the Open Offer . . . . .	4:30 p.m. on Tuesday, 19 July
Closure of register of members of the Company for determining entitlements under the Open Offer (both dates inclusive) . . . . .	From Wednesday, 20 July to Friday, 22 July
Record Date for determining entitlements to the Open Offer. . . . .	Friday, 22 July
Register of members of the Company re-opens. . . . .	Monday, 25 July
Despatch of the Prospectus Documents (in the case of the Excluded Shareholders, the Prospectus only). . . . .	Monday, 25 July
Latest time for Acceptance and payment for the Offer Shares . . . .	4:00 p.m. on Monday, 8 August

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## EXPECTED TIMETABLE

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Latest Time for Termination and for the Open Offer to become unconditional . . . . .	4:00 p.m. on Thursday, 11 August
Announcement of the results of the Open Offer . . . . .	Monday, 15 August
Despatch of certificates for the Offer Shares . . . . .	Tuesday, 16 August
Despatch of refund cheques if the Open Offer is terminated . . . . .	Tuesday, 16 August
Expected first day of dealings in the Offer Shares . . . . .	9:00 a.m. on Wednesday, 17 August
Designated brokers starting to stand in the market to provide matching services for sale and purchase of odd lots of Shares . . . . .	9:00 a.m. on Wednesday, 17 August
Designated brokers ceasing to stand in the market to provide matching services for sale and purchase of odd lots of Shares . . . . .	4:00 p.m. on Tuesday, 6 September

### **EFFECT OF BAD WEATHER ON THE LATEST TIME FOR ACCEPTANCE AND PAYMENT FOR THE OFFER SHARES**

All times in this circular refer to Hong Kong time. If there is a “black” rainstorm warning or a typhoon signal number 8 or above in force in Hong Kong on Monday, 8 August 2016, being the Latest Acceptance Date:

- (i) at any time before 12:00 noon and no longer in force after 12:00 noon, the Latest Acceptance Date will be postponed to 5:00 p.m. on the same Business Day; or
- (ii) at any time between 12:00 noon and 4:00 p.m., the Latest Time for Acceptance will be rescheduled to 4:00 p.m. on the next Business Day which does not have either of those warnings in force in Hong Kong at any time between 9:00 a.m. and 4:00 p.m..

Under such circumstances, the dates mentioned in the expected timetable above (including, without limitation, the Latest Time for Termination) may be affected.

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## LETTER FROM THE BOARD

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### **Newtree Group Holdings Limited** **友川集團控股有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1323)**

*Executive Directors:*

Mr. Wong Wai Sing (*Chairman and  
Chief Executive Officer*)  
Mr. Chum Hon Sing (*Vice-Chairman*)  
Mr. Lee Chi Shing, Caesar  
Ms. Yick Mi Ching, Dawnibilly  
Mr. Chan Kin Lung  
Mr. Wong Jeffrey

*Independent non-executive Directors:*

Mr. Kwok Kam Tim  
Dr. Hui Chik Kwan  
Mr. Tso Ping Cheong, Brian

*Registered office:*

Cricket Square  
Hutchins Drive  
P.O. Box 2681  
Grand Cayman, KY1-1111  
Cayman Islands

*Headquarters:*

Flat L, 12th Floor  
Macau Finance Centre  
Rua de Pequim  
Macau

*Principal place of business in*

*Hong Kong:*  
Suites 3505-08, 35/F.  
Tower 6, The Gateway  
Harbour City  
Kowloon, Hong Kong

24 June 2016

*To the Shareholders and, for information purposes only, the CB Holders*

Dear Sir or Madam,

**(I) PROPOSED OPEN OFFER ON THE BASIS OF  
THREE (3) OFFER SHARES FOR EVERY TWO (2) EXISTING SHARES  
HELD ON THE RECORD DATE AT HK\$0.164 PER OFFER SHARE;  
(II) CLOSURE OF REGISTER OF MEMBERS; AND  
(III) NOTICE OF EXTRAORDINARY GENERAL MEETING**

#### **INTRODUCTION**

On 17 May 2016, the Board announced, among other things, the proposed Open Offer. As disclosed in the Announcement, the Board proposed to raise gross proceeds of approximately HK\$230.5 million by

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## LETTER FROM THE BOARD

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allotment and issue of 1,405,519,920 Offer Shares at the Subscription Price of HK\$0.164 per Offer Share on the basis of three Offer Shares for every two existing Shares held on the Record Date.

The purpose of this circular is to provide you with, among other things, (i) the details of the Open Offer and the Underwriting Agreement; (ii) the letter of recommendation from the Independent Board Committee to the Independent Shareholders in relation to the Open Offer and the Underwriting Agreement; (iii) the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Open Offer and the Underwriting Agreement; and (iv) the notice of the EGM.

### THE OPEN OFFER

The Board proposed the Open Offer, details of which are summarised below:

#### Open Offer statistics

Basis of the Open Offer	:	three (3) Offer Shares for every two (2) existing Shares held on the Record Date
Subscription Price	:	HK\$0.164 per Offer Share
Number of Shares in issue as at the Latest Practicable Date	:	937,013,281
Number of Offer Shares	:	1,405,519,920 Offer Shares (assuming no exercise of the conversion rights attaching to the Convertible Bonds and no issue of new Shares from the Latest Practicable Date up to the Record Date)
Aggregate nominal value of the Offer Shares	:	HK\$14,055,199.2
Enlarged issued share capital of the Company upon completion of the Open Offer	:	2,342,533,201 Shares
Underwriter	:	Cheong Lee Securities
Total funds raised before expenses	:	approximately HK\$230.5 million

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## LETTER FROM THE BOARD

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As at the Latest Practicable Date, the Company had outstanding Convertible Bonds which are convertible into 31,250,000 Shares upon full conversion of such Convertible Bonds (based on the existing conversion price of HK\$3.20, subject to adjustment). Save for the foregoing, as at the Latest Practicable Date, the Company had no outstanding warrants, options, derivatives or securities convertible into or exchangeable for Shares.

Assuming there is no change in the issued share capital of the Company from the Latest Practicable Date up to the Record Date, the 1,405,519,920 Offer Shares to be allotted and issued pursuant to the terms of the Open Offer represent (i) 150% of the total issued share capital of the Company as at the Latest Practicable Date; and (ii) 60% of the enlarged issued share capital of the Company immediately upon completion of the Open Offer.

### **The Subscription Price**

The Subscription Price of HK\$0.164 per Offer Share is payable in full when a Qualifying Shareholder accepts his/her/its provisional allotment under the Open Offer.

The Subscription Price represents:

- (i) a discount of approximately 56.84% to the closing price of HK\$0.38 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a discount of approximately 57.84% to the average of the closing prices of HK\$0.389 per Share as quoted on the Stock Exchange for the last 5 consecutive trading days up to and including the Last Trading Day;
- (iii) a discount of approximately 58.0% to the average of the closing prices of HK\$0.3905 per Share as quoted on the Stock Exchange for the last 10 consecutive trading days up to and including the Last Trading Day;
- (iv) a discount of approximately 34.50% to the theoretical ex-entitlement price of approximately HK\$0.2504 per Share based on the closing price of HK\$0.38 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (v) a discount of approximately 54.44% to the closing price of HK\$0.36 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (vi) a discount of approximately 32.34% to the theoretical ex-entitlement price of approximately HK\$0.2424 per Share based on the closing price of HK\$0.36 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and

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## LETTER FROM THE BOARD

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- (vii) a discount of approximately 31.95% to the unaudited consolidated net tangible asset value per Share of approximately HK\$0.241 as at 30 September 2015 (which is calculated based on the unaudited consolidated net tangible assets of the Group as at 30 September 2015 of approximately HK\$225.7 million and 937,013,281 Shares in issue as at the Latest Practicable Date).

The terms of the Open Offer, including the Subscription Price, were determined at after arm's length negotiations between the Company and Cheong Lee Securities with reference to the following factors: (i) the market prices of the Shares under the prevailing market and economic conditions around the time prior to the entering into of the Underwriting Agreement; (ii) the net loss of the Group for the two consecutive financial years since 2014; (iii) the Company's funding need for redemption of the outstanding Convertible Bonds; and (iv) the abovementioned unaudited consolidated net tangible assets of the Group as at 30 September 2015 of approximately HK\$225.7 million and the unaudited consolidated net tangible asset value per Share of approximately HK\$0.241.

The performance of the Hong Kong stock market has been sluggish in recent months with the benchmark index, the Hang Seng Index, having dropped sharply by more than 1,400 points from the beginning of 2016 up to the Last Trading Day. Amid the weak overall market sentiment, the price of the Share has been declining from above HK\$2 per Share early this year to the current price of below HK\$1 per Share. The trading volume of the Shares has also been low with an average volume (as a percentage of the total number of issued Shares at the relevant date) for the past 12 months up to the Last Trading Day of merely 1.6%. Meanwhile, the Company's financial performance has continued to be unsatisfactory with net losses recorded for the past two consecutive financial years and the last reported financial period for the six months ended 30 September 2015. Despite the positive net tangible asset position of the Company as shown in its last reported balance sheet as at 30 September 2015, in view of the illiquidity of the Shares (as indicated by the low trading volume), declining Share price and the currently bearish market condition, the Directors have worries that some Qualifying Shareholders may be reluctant to participate in the Open Offer. However, the Convertible Bonds shall be due for redemption by end of August 2016 (pursuant to the Deeds of Amendments, which will be discussed further in the section headed "Use of proceeds and reasons for the Open Offer" below of this letter from the Board) and the Company has an imperative fund-raising need. As the Offer Shares are offered to all Qualifying Shareholders and each Qualifying Shareholder is entitled to subscribe for the Offer Shares at the same price in proportion to his/her/its shareholding in the Company held on the Record Date, the Directors (including the independent non-executive Directors who have taken into account the advice of the Independent Financial Adviser) consider the Subscription Price, which has been set at a discount as described above with an objective to encourage the existing Shareholders to take up their entitlements so as to participate in the potential growth of the Company, to be fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM THE BOARD

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### Conditions of the Open Offer

The Open Offer is conditional upon the Underwriting Agreement having become unconditional and not being terminated in accordance with its terms or otherwise. The conditions of the Underwriting Agreement are set out under the paragraph headed “Conditions of the Underwriting Agreement” under the section headed “Underwriting Arrangement for the Open Offer” of this letter from the Board below.

**If the conditions of the Underwriting Agreement which include but not limited to, the Independent Shareholders’ approval at the EGM, are not fulfilled, the Open Offer will not proceed.**

### Status of the Offer Shares

The Offer Shares, when allotted, issued and fully paid, will rank pari passu with the existing Shares then in issue on the date of allotment and issue of the Offer Shares in all respects. Holders of such Offer Shares will be entitled to receive all future dividends and distributions which may be declared, made or paid on or after the date of the allotment and issue of the Offer Shares.

### Qualifying Shareholders

The Open Offer will only be available to the Qualifying Shareholders. The Company will send the Prospectus Documents to the Qualifying Shareholders and the Prospectus, for information only, to the Excluded Shareholders.

To qualify for the Open Offer, a Qualifying Shareholder must be registered as a member of the Company at the close of business on the Record Date.

In order to be registered as a member of the Company on the Record Date, Shareholders must lodge any transfers of the Shares (together with the relevant share certificates) with the Registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong by no later than 4:30 p.m. on Tuesday, 19 July 2016. It is expected that the last day of dealings in the Shares on a cum-entitlement basis is Friday, 15 July 2016 and the Shares will be dealt with on an ex-entitlement basis from Monday, 18 July 2016.

### Excluded Shareholders

The Prospectus Documents are not intended to be registered or filed under the applicable securities legislation of any jurisdiction other than Hong Kong. Overseas Shareholders may not be eligible to take part in the Open Offer as explained below.



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## LETTER FROM THE BOARD

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The Company has checked its register of members and confirmed that, as at the Latest Practicable Date, the Company did not have any Overseas Shareholders. However, if there are any Overseas Shareholders from the Latest Practicable Date up to the Record Date, in compliance with Rule 13.36(2)(a) of the Listing Rules, the Company will make enquiries regarding the feasibility of extending the Open Offer to the Overseas Shareholders (if any). If, based on legal advice, the Board is of the opinion that it would be necessary or expedient not to offer the Offer Shares to the Overseas Shareholders on account either of the legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place, the Offer Shares will not be available to such Overseas Shareholders. Further information in this connection will be set out in the Prospectus Documents. The Company will send copies of the Prospectus to the Excluded Shareholders for their information only, but will not send any Application Form to them.

**Overseas Shareholders (if any) should note that they may or may not be entitled to the Open Offer, subject to the results of enquiries made by the Directors pursuant to Rule 13.36(2)(a) of the Listing Rules. Accordingly, the Overseas Shareholders should exercise caution when dealing in the Shares, and if they are in any doubt about their position, they should consult their professional advisers.**

### **Fractional entitlement to the Offer Shares**

The Company will not provisionally allot fractions of Offer Shares. All fractions of Offer Shares will be aggregated and underwritten by Cheong Lee Securities pursuant to the terms of the Underwriting Agreement.

### **No application for excess Offer Shares**

No application for excess Offer Shares will be offered to the Qualifying Shareholders. Any Untaken Shares will be taken up by Cheong Lee Securities pursuant to the terms of the Underwriting Agreement.

Each Qualifying Shareholder will be given an equal and fair opportunity to maintain their pro rata shareholding interests in the Company through the Open Offer and accordingly the Board has resolved not to adopt an excess application mechanism. The additional work which may be required to prepare for and administer the excess application arrangement (such as printing and despatch of excess application forms and incurring professional fees to process and handle the excess applications) may not be justified as the Company is seeking to reduce all unnecessary expenses so as to receive the maximum net proceeds from the Open Offer. It is estimated by the Company that the additional costs and expenses, including additional fees payable to the Registrar, legal advisers and other professional services providers, would be approximately HK\$200,000. In addition, the

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## LETTER FROM THE BOARD

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excess application mechanism may be abused by the Qualifying Shareholders by splitting their shareholdings into odd lots to enable them to submit multiple top-up applications and be possibly allocated more excess Offer Shares, which is not considered to be fair and equitable.

Further, as detailed under the paragraph headed “Principal terms of the Underwriting Agreement” under the section headed “Underwriting Arrangement for the Open Offer” of this letter from the Board, Cheong Lee Securities indicated that it would only enter into the Underwriting Agreement on the basis that no new substantial shareholders shall be introduced to the Company and no material change shall be made to the existing Board. However, the excess application mechanism may result in an unexpected introduction of a new substantial shareholder or controlling shareholder to the Company which may cast uncertainties on the Company’s future direction and may not be in the interests of the Company and the Shareholders as a whole.

In light of the above and that the Independent Shareholders are given the opportunity to express their views on the terms of the Open Offer (including no excess application for the Offer Shares) through their votes at the EGM, the Board (including the independent non-executive Directors who have taken into account the advice of the Independent Financial Adviser) believes that it is fair and reasonable and in the interests of the Company and the Shareholders as a whole not to offer any excess application to the Qualifying Shareholders.

**Qualifying Shareholders who do not take up the Offer Shares to which they are entitled should note that their shareholdings in the Company will be diluted.**

### **Share certificates for the Offer Shares**

Subject to fulfillment of the conditions of the Open Offer, share certificates for the Offer Shares are expected to be posted by Tuesday, 16 August 2016 to those entitled thereto by ordinary post at their own risks.

### **Application for listing of the Offer Shares**

The Company will apply to the Listing Committee for the listing of, and the permission to deal in, the Offer Shares on the Stock Exchange.

Subject to the granting of the listing of, and the permission to deal in, the Offer Shares on the Stock Exchange, the Offer Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Offer Shares on the Stock Exchange or such other dates as may be determined by HKSCC. Settlement of

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## LETTER FROM THE BOARD

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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.

Dealings in the Offer Shares will be subject to the payment of stamp duty in Hong Kong.

### **Irrevocable undertakings from Mr. Wong and Twin Star**

Mr. Wong, who was interested in 8,030,000 Shares as at the date of the Underwriting Agreement and the Latest Practicable Date (representing approximately 0.86% of the total issued share capital of the Company as at the Latest Practicable Date), had irrevocably undertaken to each of the Company and Cheong Lee Securities that: (i) he shall not dispose of, or agree to dispose of, 8,030,000 Shares held by him from the date of his irrevocable undertaking up to the close of business on the Record Date; (ii) he shall accept or procure the acceptance for the 12,045,000 Offer Shares for which he is entitled to pursuant to the Open Offer; and (iii) he shall lodge the Application Form in respect of the 12,045,000 Offer Shares accompanied by the appropriate remittances which shall be honoured on first presentation and otherwise comply with the procedures for such acceptance and application as described in the Prospectus Documents prior to the Latest Time for Acceptance.

Twin Star, which was interested in 96,924,000 Shares as at the date of the Underwriting Agreement and the Latest Practicable Date (representing approximately 10.34% of the total issued share capital of the Company as at the Latest Practicable Date), had irrevocably undertaken to each of the Company and Cheong Lee Securities that: (i) it shall not dispose of, or agree to dispose of, 96,924,000 Shares held by it from the date of its irrevocable undertaking up to the close of business on the Record Date; (ii) it shall accept or procure the acceptance for the 145,386,000 Offer Shares for which it is entitled to pursuant to the Open Offer; and (iii) it shall lodge the Application Form in respect of the 145,386,000 Offer Shares accompanied by the appropriate remittances which shall be honoured on first presentation and otherwise comply with the procedures for such acceptance and application as described in the Prospectus Documents prior to the Latest Time for Acceptance.

### **THE FULLEDGE UNDERTAKING**

As at the date of the Underwriting Agreement and the Latest Practicable Date, Fulfilledge held the outstanding Convertible Bonds in the principal amount of HK\$82 million, which are convertible into 25,625,000 Shares upon full conversion of such Convertible Bonds (based on the existing conversion price of HK\$3.20, subject to adjustment). Fulfilledge is a company incorporated in the BVI with limited liability and is a member of VMS Investment Group, an investment group with diversified businesses

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## LETTER FROM THE BOARD

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covering proprietary investments, asset management, securities brokerage and corporate finance advisory. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Fulfilledge and its ultimate beneficial owner are third parties independent of the Company and its connected persons.

Fulfilledge had irrevocably undertaken and confirmed to the Company and Cheong Lee Securities that (i) it shall not exercise any of the conversion rights attached to the Convertible Bonds nor transfer any of the Convertible Bonds held by it from the date of the Fulfilledge Undertaking up to the close of business on the Record Date; and (ii) it had agreed with the Company to extend the maturity date of the Convertible Bonds to 31 August 2016.

### THE LEE UNDERTAKING

As at the date of the Underwriting Agreement and the Latest Practicable Date, Mr. Lee held the outstanding Convertible Bonds in the principal amount of HK\$18 million, which are convertible into 5,625,000 Shares upon full conversion of such Convertible Bonds (based on the existing conversion price of HK\$3.20, subject to adjustment). To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Mr. Lee is a third party independent of the Company and its connected persons.

Mr. Lee had irrevocably undertaken and confirmed to the Company and Cheong Lee Securities that (i) he shall not exercise any of the conversion rights attached to the Convertible Bonds nor transfer any of the Convertible Bonds held by him from the date of the Lee Undertaking up to the close of business on the Record Date; and (ii) he had agreed with the Company to extend the maturity date of the Convertible Bonds to 31 August 2016.

Fulfilledge and Mr. Lee, both being the CB Holders, entered into the Deed of Amendments on 17 May 2016 with the Company to amend certain terms of the Convertible Bonds, including the aforesaid extension of the maturity date. Details of the Deed of Amendments are set out in the section headed "Proposed amendments to the terms of the Convertible Bonds" below of this letter from the Board.

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## LETTER FROM THE BOARD

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### UNDERWRITING ARRANGEMENT FOR THE OPEN OFFER

#### Principal terms of the Underwriting Agreement

**Date** : 17 May 2016

**Parties** : (i) The Company; and

(ii) Cheong Lee Securities, an indirect wholly-owned subsidiary of CL Group, which is principally engaged in provision of securities and futures brokerage and trading, placing and underwriting services, loan and financing service and securities advisory services.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Cheong Lee Securities and CL Group are third parties independent of the Company and its connected persons.

**Number of the Underwritten Shares** : Cheong Lee Securities has conditionally agreed pursuant to the Underwriting Agreement to underwrite up to 1,248,088,920 Offer Shares at the Subscription Price, being the total number of Offer Shares under the Open Offer excluding an aggregate of 157,431,000 Offer Shares undertaken to be subscribed by Mr. Wong and Twin Star under the paragraph headed "Irrevocable undertakings from Mr. Wong and Twin Star" under the section headed "The Open Offer" above of this letter from the Board. The Open Offer is therefore fully underwritten.

**Commission** : Pursuant to the Underwriting Agreement, the Company shall pay Cheong Lee Securities an underwriting commission of 4% of the Subscription Price on the Underwritten Shares. Cheong Lee Securities shall be entitled to underwriting commission of approximately HK\$8.2 million.

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## LETTER FROM THE BOARD

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The commission rate was determined after arm's length negotiation between the Company and Cheong Lee Securities by reference to, among other things, the size of the Open Offer, the current and expected market condition, the deteriorating financial condition of the Group and the prevailing market rate for the underwriting commission. The Directors (including the independent non-executive Directors who have taken into account the advice of the Independent Financial Adviser) consider the terms of the Underwriting Agreement including the commission rate are fair and reasonable so far as the Company and the Shareholders are concerned.

The Company had approached several financial institutions (including Cheong Lee Securities) who are independent of the Company and its connected persons for negotiation of equity fund raising exercises such as rights issue, open offer and placing of new Shares before entering into the Underwriting Agreement. However, the Company did not receive any positive feedback from any of them except Cheong Lee Securities. During the negotiation with Cheong Lee Securities, in view of the deteriorating financial position of the Group, Cheong Lee Securities indicated that it would only enter into the Underwriting Agreement on the basis that no new substantial shareholders shall be introduced to the Company and no material change shall be made to the existing Board.

Cheong Lee Securities has subsequently entered into a sub-underwriting arrangement with Metro Capital, which is a licensed corporation to carry out type 1 (dealing in securities) regulated activity under the SFO and whose ordinary course of business includes underwriting. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, Metro Capital, together with its ultimate beneficial owners, are third parties independent of the Company and its connected persons.

Pursuant to such sub-underwriting arrangement, Metro Capital shall sub-underwrite 1,100,000,000 Offer Shares of the total of 1,248,088,920 Offer Shares underwritten by Cheong Lee Securities, being approximately 78.3% and approximately 88.1% of the total number of the Offer Shares and the total number of the Underwritten Shares, respectively. Save for this sub-underwriting arrangement, Cheong Lee Securities had not entered into, and did not have any intention to enter into, other sub-underwriting arrangements as at the Latest Practicable Date. As advised by Cheong Lee Securities, subsequent to the entering into of the sub-underwriting arrangement with Cheong Lee Securities, Metro Capital has also been soliciting and entering into further sub-underwriting arrangement with other parties independent of itself, the Company, Cheong Lee Securities and their respective connected persons. As at the Latest Practicable Date, Metro Capital had sub-underwritten (i) 673,000,000 Offer Shares to Mr. Chen, a client of Metro Capital; and (ii) 427,000,000 Offer Shares to Sun International Securities Limited ("**Sun International**"), which is an indirect wholly-owned

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## LETTER FROM THE BOARD

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subsidiary of Sun International Resources Limited (stock code: 8029) (“**Sun Resources**”), a company listed on the Growth Enterprise Market of the Stock Exchange. Sun International subsequently sub-underwrote 427,000,000 Offer Shares to Mr. Yang Jinshu (“**Mr. Yang**”), a client of Sun International. The ordinary course of business of Sun International includes underwriting. It is not in the ordinary course of business for Mr. Chen and Mr. Yang to underwrite issue of securities. Metro Capital would assist Mr. Chen in further sub-underwriting part of the 673,000,000 Offer Shares and Sun International would assist Mr. Yang in further sub-underwriting part of the 427,000,000 Offer Shares to other parties on reasonable endeavours, in order for each of these sub-underwriters to have not more than 10% interest in the Shares upon completion of the Open Offer.

The Company had not entered into any sub-underwriting arrangements as at the Latest Practicable Date.

### **Conditions of the Underwriting Agreement**

The Underwriting Agreement is conditional upon:

- (i) the passing by the Independent Shareholders at the EGM of an ordinary resolution to approve the Underwriting Agreement and the transactions contemplated thereunder, including but not limited to the allotment and issue of the Offer Shares and the absence of excess application arrangement in the Open Offer by no later than the Prospectus Posting Date;
- (ii) the delivery to the Stock Exchange for authorisation and the registration with the Registrar of Companies in Hong Kong respectively one copy of each of the Prospectus Documents duly signed by two Directors (or by their agents duly authorised in writing) as having been approved by resolution of the Directors (and all other documents required to be attached thereto) and otherwise in compliance with the Listing Rules and the Companies (Winding Up and Miscellaneous Provisions) Ordinance by no later than the Prospectus Posting Date;
- (iii) the posting of the Prospectus Documents to the Qualifying Shareholders and the posting of the Prospectus and a letter in the agreed form to the Excluded Shareholders pursuant to the Underwriting Agreement, if any, for information purpose only explaining the circumstances in which they are not permitted to participate in the Open Offer on or before the Prospectus Posting Date;

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## LETTER FROM THE BOARD

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- (iv) the Listing Committee granting or agreeing to grant (subject to allotment) and not having withdrawn or revoked listing of and permission to deal in all the Offer Shares by no later than the Prospectus Posting Date;
- (v) compliance with and performance of all the undertakings and obligations of the Company under the terms of the Underwriting Agreement and the representations and warranties given by the Company under the Underwriting Agreement remaining true, correct and not misleading in all material respects;
- (vi) compliance with and performance of all undertakings and obligations of Fulledge under the Fulledge Undertaking;
- (vii) compliance with and performance of all undertakings and obligations of Mr. Lee under the Lee Undertaking;
- (viii) compliance with and performance of all undertakings and obligations of Mr. Wong under the irrevocable undertaking from Mr. Wong;
- (ix) compliance with and performance of all undertakings and obligations of Twin Star under the irrevocable undertaking from Twin Star; and
- (x) the obligations of Cheong Lee Securities becoming unconditional and that the Underwriting Agreement is not terminated in accordance with its terms at or before the Latest Time for Termination.

None of the conditions above is waivable. In the event that the above conditions are not satisfied by the Latest Time for Termination, or where appropriate, the respective prescribed time, or such later date or dates as Cheong Lee Securities may agree with the Company in writing, the Underwriting Agreement shall terminate and no party shall have any claim against the other parties for costs, damages, compensation or otherwise (save for any antecedent breaches and claims thereof).



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## LETTER FROM THE BOARD

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### Termination of the Underwriting Agreement

If, prior to the Latest Time for Termination:

- (i) in the absolute opinion of Cheong Lee Securities, the success of the Open Offer would be materially and adversely affected by:
  - (a) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the sole and absolute opinion of Cheong Lee Securities materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or is materially adverse in the context of the Open Offer; or
  - (b) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date of the Underwriting Agreement) of a political, military, financial, economic or other nature (whether or not ejusdem generis with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the sole and absolute opinion of Cheong Lee Securities, materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or materially and adversely prejudice the success of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or
- (ii) any adverse change in market conditions (including without limitation, any change in fiscal or monetary policy, or foreign exchange or currency markets, suspension or material restriction or trading in securities) occurs which in the sole and absolute opinion of Cheong Lee Securities is likely to materially or adversely affect the success of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or
- (iii) any event of force majeure including, without limiting the generality thereof, any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out; or
- (iv) any matter which, had it arisen or been discovered immediately before the date of the Prospectus Documents and not having been disclosed in the Prospectus Documents, would have constituted, in the absolute opinion of Cheong Lee Securities, a material omission in the context of the Open Offer; or

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## LETTER FROM THE BOARD

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- (v) any suspension in the trading of securities generally or the Company's securities on the Stock Exchange for a period of more than ten consecutive Business Days, excluding any suspension in connection with the clearance of the Announcement or this circular or the Prospectus Documents or other announcements or circulars in connection with the Open Offer,

Cheong Lee Securities shall have the absolute right to issue a notice in writing to the Company, served prior to the Latest Time for Termination, to terminate the Underwriting Agreement.

**If Cheong Lee Securities terminates the Underwriting Agreement, the Open Offer will not proceed.**

### **ODD LOTS ARRANGEMENT AND MATCHING SERVICES**

In order to facilitate the trading of odd lots (if any) arising from the Open Offer, the Company has appointed Cheong Lee Securities as an agent to provide matching services on a best effort basis for sale and purchase of odd lots of the Shares at the relevant market price per Share, to those Shareholders who wish to top up or sell their holdings of odd lots of the Shares from 9:00 a.m. on Wednesday, 17 August 2016 to 4:00 p.m. on Tuesday, 6 September 2016, both dates inclusive.

Holders of the Shares in odd lots who wish to take advantage of this facility either to dispose of their odd lots of the Shares or to top up their odd lots to a full board lot may directly or through their brokers contact Ms. Casey Lee of Cheong Lee Securities at Unit B, 16/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong (telephone number 3426 6320) during office hours (i.e. 9:00 a.m. to 5:00 p.m.) within such period.

Shareholders should note that matching of the sale and purchase of odd lots of the Shares is on a best effort basis and successful matching of the sale and purchase of such odd lots is not guaranteed. Shareholders are recommended to consult their professional advisers if they are in doubt about the above facility.

## LETTER FROM THE BOARD

### CHANGES IN THE SHAREHOLDING STRUCTURE OF THE COMPANY ARISING FROM THE OPEN OFFER

For illustration purpose only, the following table illustrates the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately upon completion of the Open Offer assuming full acceptance by all Qualifying Shareholders under the Open Offer; and (iii) immediately upon completion of the Open Offer assuming nil acceptance by the Qualifying Shareholders (except Mr. Wong and Twin Star) under the Open Offer:

	(i) As at the Latest Practicable Date		(ii) Immediately upon completion of the Open Offer assuming full acceptance by all Qualifying Shareholders under the Open Offer		(iii) Immediately upon completion of the Open Offer assuming nil acceptance by the Qualifying Shareholders (except Mr. Wong and Twin Star) under the Open Offer	
	Number of Shares	%	Number of Shares	%	Number of Shares	%
Mr. Wong	8,030,000	0.86	20,075,000	0.86	20,075,000	0.86
Twin Star (Note 1)	96,924,000	10.34	242,310,000	10.34	242,310,000	10.34
Mr. Wong and parties acting in concert with him	104,954,000	11.20	262,385,000	11.20	262,385,000	11.20
Cheong Lee Securities (Note 2)	—	—	—	—	148,088,920	6.32
Metro Capital (Note 2)	400,000	0.04	1,000,000	0.04	400,000	0.02
Mr. Chen and his associate (Note 2)	5,864,000	0.63	14,660,000	0.63	678,864,000	28.98
Mr. Yang (Note 2)	—	—	—	—	427,000,000	18.23
Other public Shareholders	825,795,281	88.13	2,064,488,201	88.13	825,795,281	35.25
<b>Total</b>	<b>937,013,281</b>	<b>100.00</b>	<b>2,342,533,201</b>	<b>100.00</b>	<b>2,342,533,201</b>	<b>100.00</b>

*Notes:*

1. Twin Star is owned as to 50% by Mr. Wong and 50% by Mr. Chum.
2. Cheong Lee Securities has entered into a sub-underwriting arrangement with Metro Capital, pursuant to which Metro Capital shall sub-underwrite 1,100,000,000 Offer Shares of the 1,248,088,920 Underwritten Shares. The sub-underwriting arrangement is to ensure that Cheong Lee Securities will, together with parties acting in concert with it, hold less than 10% of the total number of Shares in issue upon the completion of the Open Offer. Cheong Lee Securities shall also use all reasonable endeavours to procure that each of the subscribers of the Untaken Shares (including Metro Capital, and other direct or indirect sub-underwriters) (i) shall be third party independent of the Company and connected persons of the Company; and (ii) shall not, together with any parties acting in concert with

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## LETTER FROM THE BOARD

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it, hold 10% or more of the voting rights of the Company upon completion of the Open Offer. As advised by Cheong Lee Securities, subsequent to the entering into of the sub-underwriting arrangement with Cheong Lee Securities, Metro Capital has also been soliciting and entering into further sub-underwriting arrangement with other parties independent of itself, the Company, Cheong Lee Securities and their respective connected persons. As at the Latest Practicable Date, Metro Capital had sub-underwritten (i) 673,000,000 Offer Shares to Mr. Chen; and (ii) 427,000,000 Offer Shares to Sun International, an indirect wholly-owned subsidiary of Sun Resources. Sun International subsequently sub-underwrote 427,000,000 Offer Shares to Mr. Yang. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Mr. Chen held 3,544,000 Shares or approximately 0.38% of the total issued share capital of the Company as at the Latest Practicable Date and Mr. Chen's father held 2,320,000 Shares or approximately 0.25% of the total issued share capital of the Company as at the Latest Practicable Date, while none of Sun International, Sun Resources or Mr. Yang held any Shares. Metro Capital would assist Mr. Chen in further sub-underwriting part of the 673,000,000 Offer Shares and Sun International would assist Mr. Yang in further sub-underwriting part of the 427,000,000 Offer Shares to other parties on reasonable endeavours, in order for each of these sub-underwriters to have not more than 10% interest in the Shares upon completion of the Open Offer. Accordingly, each of Cheong Lee Securities and Metro Capital will, together with the respective parties acting in concert with it, hold less than 10% of the total number of Shares in issue upon completion of the Open Offer.

As illustrated above, if no Qualifying Shareholders take up the Offer Shares, the shareholding of the existing public Shareholders (excluding Metro Capital, Mr. Chen and his associate, and Mr. Yang) would be reduced from approximately 88.13% as at the Latest Practicable Date to approximately 35.25% upon completion of the Open Offer. Moreover, taking into account the monetary effect of the Open Offer, if a Qualifying Shareholder does not take up the Offer Shares entitled to him/her/it, the dilution impact on his/her/its shareholding will be approximately 32.67%, estimated based on the closing price of HK\$0.36 per Share on the Latest Practicable Date and the corresponding theoretical ex-entitlement price of approximately HK\$0.2424 per Share. There will be a significant dilution to the shareholding interest of the existing public Shareholders (excluding Metro Capital, Mr. Chen and his associate, and Mr. Yang) as a result of the Open Offer.

However, having taken into account the reasons for the Open Offer as set out in the section headed "Use of proceeds and reasons for the Open Offer" below of this letter from the Board, the Directors (including the independent non-executive Directors who have taken into account the advice of the Independent Financial Adviser) consider that the dilution effect to the shareholding interest of the existing public Shareholders as a result of the Open Offer is acceptable.

### USE OF PROCEEDS AND REASONS FOR THE OPEN OFFER

The Group is principally engaged in (i) manufacturing and trading of the household and clinical hygienic disposables and trading of related raw materials; (ii) wholesale and retail of household consumables; (iii) coal trading business; (iv) sales and distribution of jewelries and watches under the brand "Cosi Moda"; (v) digital technology business; and (vi) education business.

The Group has suffered from net loss for the past two consecutive financial years. The Group recorded a net loss of approximately HK\$137.4 million for the year ended 31 March 2014 and the net loss of the Group expanded to approximately HK\$259.1 million in the subsequent financial year

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## LETTER FROM THE BOARD

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ended 31 March 2015. The Group continued to incur net loss of approximately HK\$60.2 million for the six months ended 30 September 2015. Having excluded the discontinued operations resulting from the disposal of the Methyl Tertiary Butyl Ether products trading business (the “**MTBE Business**”) in late 2015, the net loss position of the Group stalled at approximately HK\$60.2 million. In view of such, the Company has been actively looking for new business opportunities to achieve sustainable growth of the Group and maximise value for the Shareholders.

As at 30 September 2015, the Group had net assets of approximately HK\$533.7 million. However, having excluded goodwill and other intangible assets, the Group had net tangible assets of only approximately HK\$225.7 million. Among the net tangible assets of the Group, the Group’s cash level was low with bank deposits and cash balance of approximately HK\$32.2 million (including pledged bank deposit of approximately HK\$7.8 million). On the contrary, the Group has outstanding Convertible Bonds in the principal amount of HK\$100 million which shall be due for redemption on 18 June 2016 pursuant to the original terms and conditions of the Convertible Bonds. This led the Company to negotiate with the CB Holders and Cheong Lee Securities for the entering into the Deed of Amendments and the terms and conditions of the Open Offer, respectively, to avoid a potential liquidation of the Company. Pursuant to the Deed of Amendments, the sum of the maximum amount of the Total Redemption Amount and the accrued interest thereon shall be approximately HK\$132.1 million.

Taking into account the above, the Directors consider that there is an imminent funding need of the Group and believe that the Open Offer represents an opportunity for the Group to raise a substantial amount of fund that matches the cashflow schedule of the Group.

The gross proceeds from the Open Offer are expected to be approximately HK\$230.5 million before expenses. The net proceeds from the Open Offer after deducting related expenses of approximately HK\$10.8 million are estimated to be approximately HK\$219.7 million. The net Subscription Price per Offer Share is expected to be approximately HK\$0.156. The Company intends to apply not more than approximately HK\$132.1 million for the redemption of the Convertible Bonds (being the sum of the maximum amount of the Total Redemption Amount of approximately HK\$126.5 million and the maximum amount of the accrued interest thereon of approximately HK\$5.6 million). The balance of the net proceeds of not less than approximately HK\$87.6 million shall be retained for expected working capital requirements of the Group (for the period from August 2016, the month of expected completion of the Open Offer to December 2017) as to payment to suppliers of approximately HK\$17.0 million, staff costs and Directors’ remuneration of approximately HK\$45.2 million, payment of rental expenses, management fees and rates of approximately HK\$10.5 million, legal and professional fees and corporate expenses of approximately HK\$8.3 million, transportation expenses of approximately HK\$3.4 million, and other office expenses (including general office supply, IT support and utilities, etc.) of approximately HK\$3.2 million. Further details of the use of such part of net proceeds are set out in the section headed “Funding needs and working capital requirements” below of this letter from the Board.

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## LETTER FROM THE BOARD

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The Company had considered other fund raising alternatives before resolving to the Open Offer such as bank borrowing, rights issues and placing of new shares or convertible bonds. As disclosed under the paragraph headed “Principal terms of the Underwriting Agreement” under the section headed “Underwriting Arrangement for the Open Offer” above of this letter from the Board, the Company had approached several financial institutions to negotiate other fundraising alternatives and did not receive any positive feedback from any of them except Cheong Lee Securities. The Directors believe that it would be in the best interests of the Company and the Shareholders as a whole to raise long-term equity capital through the Open Offer after having considered that: (i) bank borrowing would result in additional interest burden to and higher gearing ratio for the Group and, given the unsatisfactory financial conditions of the Company, it may involve lengthy due diligence and negotiations with banks which are also relatively uncertain and time consuming as compared to equity financing for the Group; (ii) the nil-paid trading of rights issue will create uncertainty on the shareholding structure of the Company; and (iii) placing of new shares or convertible bonds will preclude existing Shareholders from participating in the capital raising exercise which will inevitably result in dilution to the equity interest of the existing Shareholders.

In view of the aforesaid and other relevant factors as disclosed in this circular, notwithstanding the potential dilution impact of the Open Offer as set out in the section headed “Changes in the shareholding structure of the Company arising from the Open Offer” above of this letter from the Board, which the Directors consider should be balanced against the following factors:

- (i) the Independent Shareholders are offered a chance to express their view on the terms of the Open Offer through their votes at the EGM;
- (ii) the Qualifying Shareholders have their choice whether to accept the Offer Shares or not; and
- (iii) the Open Offer offers the Qualifying Shareholders a chance to subscribe for their pro-rata Offer Shares for the purpose of maintaining their respective existing shareholding interests in the Company at a relatively low price as compared to the prevailing market prices of Shares,

the Directors (including the independent non-executive Directors who have taken into account the advice of the Independent Financial Adviser) consider that the terms and conditions of the Open Offer (including the Subscription Price and the ratio of the Open Offer) to be fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM THE BOARD

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### FUNDING NEEDS AND WORKING CAPITAL REQUIREMENTS

As at the Latest Practicable Date, based on the information available to the Board, the Board's latest estimates on the Company's expected funding needs would be approximately the amount of net proceeds from the Open Offer. In arriving at such estimation, the Board had taken into account the following principal assumptions:

- (i) the intention of the Company to repay the Total Redemption Amount of the Convertible Bonds and the accrued interest thereon immediately after completion of the Open Offer;
- (ii) no significant changes to the Group's operations nor any extraordinary items or events to occur since the Latest Practicable Date that would adversely affect the Group in the next 12 months;
- (iii) no material changes to the prevailing interest rates or foreign currency exchange rates as at the Latest Practicable Date;
- (iv) an expected inflation rate of 3% per annum;
- (v) the estimated funding needs required for the general working capital of the Group which are based on historical trends, current market situation and the management experience, detailed assumptions for which are set out in the paragraph below; and
- (vi) that the Group's key management and personnel could be retained or adequately replaced.

## LETTER FROM THE BOARD

In addition, as discussed in the section headed “Use of proceeds and reasons for the Open Offer” above of this letter from the Board, part of the net proceeds from the Open Offer (i.e. approximately HK\$87.6 million) will be retained for the expected working capital requirements of the Group from August 2016 to December 2017. The detailed breakdown for the use of such part of net proceeds is shown as follows:

	<b>3<sup>rd</sup> Quarter</b>	<b>4<sup>th</sup> Quarter</b>	<b>1<sup>st</sup> Quarter</b>	<b>2<sup>nd</sup> Quarter</b>	<b>3<sup>rd</sup> Quarter</b>	<b>4<sup>th</sup> Quarter</b>	<b>Total</b>
	<b>2016 (Note 1)</b>	<b>2016</b>	<b>2017</b>	<b>2017</b>	<b>2017</b>	<b>2017</b>	<b>(Note 2)</b>
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Payment to suppliers . . . . .	2.6	2.9	3.2	2.7	2.8	2.8	17.0
Staff costs and							
Directors’							
remuneration . . . . .	5.3	8.0	8.0	8.0	8.0	8.0	45.2
Payment of rental							
expenses,							
management fees							
and rates . . . . .	1.1	1.7	1.7	2.0	2.0	2.0	10.5
Legal and							
professional fees							
and corporate							
expenses . . . . .	1.0	1.4	1.4	1.5	1.5	1.5	8.3
Transportation							
expenses . . . . .	0.4	0.6	0.6	0.6	0.6	0.6	3.4
Other office expenses							
(including general							
office supply, IT							
support and							
utilities, etc.) . . . . .	0.4	0.6	0.6	0.6	0.6	0.6	3.2
<b>Total . . . . .</b>	<b>10.7</b>	<b>15.2</b>	<b>15.5</b>	<b>15.4</b>	<b>15.5</b>	<b>15.5</b>	<b>87.6</b>

*Notes:*

1. For the purpose of this breakdown, the third quarter of 2016 includes the two months from August 2016 to September 2016.
2. The quarterly breakdown figures may not add up to the total figures due to rounding.



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## LETTER FROM THE BOARD

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The breakdown set out above has been made by the Directors with reference to the historical figures after due and careful enquiries. Particularly, the following principal assumptions and bases have been adopted:

- (i) the payment to suppliers is estimated based on the shortfall between the receipt of trade receivables and the amount of tradable payables with reference to the figures for the year ended 31 March 2016;
- (ii) the staff cost and Directors' remuneration are estimated based on the average monthly staff cost and Directors' remuneration for the year ended 31 March 2016 (excluding the discretionary bonus for the Directors), assuming no change to the number of staff and Directors and their respective salaries;
- (iii) the payment of rental expenses, management fees and rates is based on the actual fees under the current tenancy agreement, which will be expired in the end of March 2017, and an estimated 20% increment to the current fee rate upon renewal of the tenancy which is assumed to be effective immediately after the expiry of the current tenancy agreement;
- (iv) the legal and professional fees and corporate expenses are based on the Group's historical spending for professional services and compliance, including audit, company secretarial services, valuation, tax consultancy, printing, share registrar, listing fees, annual return filing, etc., as adjusted by an estimated inflation rate of 3% per annum, and the additional fees that are expected to be incurred for the compliance of the new environmental social responsibility and internal control reporting requirements;
- (v) the transportation expenses are estimated based on the Group's historical spending on overseas and domestic business travel and maintenance for the Group's vehicles, as adjusted by an estimated inflation rate of 3% per annum; and
- (vi) the other office expenses are estimated with reference to historical figures as adjusted an estimated inflation rate of 3% per annum.

The part of the net proceeds retained for the working capital requirements of the Group has been arrived at based on the breakdown shown above. The Directors confirmed that the breakdown of the working capital requirements had been estimated after their due and careful enquiries and, therefore, consider that the part of the net proceeds of approximately HK\$87.6 million for the aforesaid working capital requirements is justifiable, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM THE BOARD

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### FUND RAISING EXERCISE IN THE PRECEDING 12-MONTH PERIOD

The Company has not conducted any fund raising activities in the past 12 months immediately prior to the Latest Practicable Date.

### CLOSURE OF REGISTER OF MEMBERS

To qualify for the Open Offer, a Qualifying Shareholder must be registered as a member of the Company at the close of business on the Record Date.

In order to be registered as a member of the Company on the Record Date, Shareholders must lodge any transfers of the Shares (together with the relevant share certificates) with the Registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong by no later than 4:30 p.m. on Tuesday, 19 July 2016. It is expected that the last day of dealings in the Shares on a cum-entitlement basis is Friday, 15 July 2016 and the Shares will be dealt with on an ex-entitlement basis from Monday, 18 July 2016.

The register of members of the Company will be closed from Monday, 11 July 2016 to Thursday, 14 July 2016 (both days inclusive) for determining the identity of the Shareholders entitled to attend and vote at the EGM.

The register of members of the Company will be closed from Wednesday, 20 July 2016 to Friday, 22 July 2016 (both days inclusive) for determining the entitlements to the Open Offer.

No transfer of Shares will be registered during the above book closure periods.

### PROPOSED AMENDMENTS TO THE TERMS OF THE CONVERTIBLE BONDS

As disclosed in the Announcement, on 17 May 2016, the Company and the CB Holders entered into the Deed of Amendments to amend certain terms and conditions of the Convertible Bonds, which include:

- (i) the maturity date of the Convertible Bonds shall be extended to 31 August 2016;
- (ii) unless previously redeemed, converted or purchased and cancelled under the terms of the Convertible Bonds, the Company will redeem all the outstanding Convertible Bonds at 100% of the outstanding principal amount of the Convertible Bonds plus a premium of 12% per annum (calculated based on the actual number of days elapsed from the date of issue of the Convertible Bonds until the day of the actual receipt of the redemption amount by the CB Holders on a 365-day per year basis) (the "**Total Redemption Amount**") on 31 August 2016;

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## LETTER FROM THE BOARD

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- (iii) if the Open Offer is completed more than five Business Days before 31 August 2016, the Company shall redeem all the outstanding Convertible Bonds within five (5) Business Days after completion of the Open Offer at the Total Redemption Amount and shall be deemed to have delivered a redemption notice to the CB Holders with respect to such early redemption; and
- (iv) all outstanding and unpaid interest on the outstanding principal amount of the Convertible Bonds accrued as at the date thereof and interest which will further accrue on the outstanding principal amount of the Convertible Bonds shall be payable by the Company on 31 August 2016 or the date of early redemption under the terms of Convertible Bonds, whichever is earlier.

The amendments under the Deed of Amendments shall be conditional upon and subject to all necessary consents and approvals required to be obtained on the part of the Company and the CB Holders in respect of the amendments and the transactions contemplated under the Deed of Amendments (including but not limited to the approval of the Stock Exchange under the Listing Rules, if required) having been obtained. If any of the above conditions are not fulfilled on or before 18 June 2016 or such later date as the Company and the CB Holders may agree, the Deed of Amendments will lapse and become null and void and the parties thereto shall be released from all obligations thereunder, save for the liabilities for any antecedent breaches thereof.

The original maturity date of the Convertible Bonds is 18 June 2016 which is before the expected completion date of the Open Offer. The amendments to the terms and conditions of the Convertible Bonds were made in order to facilitate the payment of the outstanding principal amount and accrued interest of the Convertible Bonds by part of the net proceeds of the Open Offer. The original redemption amount at maturity (which is two years after the date of issue of the Convertible Bonds) under the terms and conditions of the Convertible Bonds was 124% of the outstanding principal amount of the Convertible Bonds, representing a 12% premium per annum over the outstanding principal amount of the Convertible Bonds. Since the term of the Convertible Bonds has been extended beyond its original maturity date, the redemption amount is also amended to stipulate that such 12% premium per annum will cover the extended term of the Convertible Bonds.

The amendments have been arrived at after arm's length negotiation between the Company and the CB Holders. The Directors consider that the terms of the Deed of Amendments are fair and reasonable, and are in the interests of the Company and the Shareholders as a whole.

The Company has applied for, and the Stock Exchange has subsequently granted, the approval under Rule 28.05 of the Listing Rules for the above alterations to the terms of the Convertible Bonds. Save for the changes as mentioned above, the terms and conditions of the Convertible Bonds remain unchanged.

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## LETTER FROM THE BOARD

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### LISTING RULES IMPLICATIONS

As the Open Offer will increase the number of issued Shares by more than 50%, pursuant to Rule 7.24(5)(a) of the Listing Rules, the Open Offer is subject to the approval from the Independent Shareholders at the EGM.

In compliance with Rule 7.24(5)(a) of the Listing Rules, the Open Offer must be made conditional on approval of the Independent Shareholders by way of poll at the EGM and any controlling shareholders and their associates or where there is no controlling shareholder, the Directors (other than the independent non-executive Directors), the chief executive of the Company and their respective associates shall abstain from voting in favour of the resolution relating to the Open Offer. Mr. Wong, the executive Director, Chairman and Chief Executive Officer of the Company, was personally interested in 8,030,000 Shares, representing approximately 0.86% of the total issued share capital of the Company as at the Latest Practicable Date. Twin Star, a company owned as to 50% by Mr. Wong and 50% by Mr. Chum, was interested in 96,924,000 Shares, representing approximately 10.34% of the total issued share capital of the Company as at the Latest Practicable Date. Save as disclosed above, none of the Directors or the chief executive of the Company and their respective associates held any Shares as at the Latest Practicable Date. In addition, as at the Latest Practicable Date, (i) Metro Capital held 400,000 Shares, representing approximately 0.04% of the total issued share capital of the Company as at the Latest Practicable Date; (ii) Mr. Chen held 3,544,000 Shares, representing approximately 0.38% of the total issued share capital of the Company as at the Latest Practicable Date; and (iii) Mr. Chen's father held 2,320,000 Shares, representing approximately 0.25% of the total issued share capital of the Company as at the Latest Practicable Date. Save as aforesaid, none of Metro Capital's associates and other associates of Mr. Chen held any Shares as the Latest Practicable Date. Mr. Wong, Mr. Chum, Twin Star, Metro Capital, Mr. Chen and Mr. Chen's father shall abstain from voting in favour of the resolution relating to the Open Offer at the EGM. Apart from them, none of the Shareholders has a material interest in the Open Offer and the Underwriting Agreement and is required to abstain from voting on the relevant resolution at the EGM. None of Cheong Lee Securities, Sun International, Mr. Yang and their respective associates held any Shares as at the Latest Practicable Date.

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## LETTER FROM THE BOARD

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### GENERAL

The Independent Board Committee, comprising all three independent non-executive Directors, namely Mr. Kwok Kam Tim, Dr. Hui Chik Kwan and Mr. Tso Ping Cheong, Brian, has been established to make recommendations to the Independent Shareholders as to whether the terms of the Open Offer and the Underwriting Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole and to advise the Independent Shareholders on how to vote at the EGM. Its letter of recommendation is set out on pages 37 to 38 of this circular.

Hercules Capital has been appointed by the Company with the approval by the Independent Board Committee to advise the Independent Board Committee and the Independent Shareholders in relation to the terms of the Open Offer and the Underwriting Agreement. Its letter of advice is set out on pages 39 to 64 of this circular.

The EGM will be convened and held to consider, and, if thought fit, to approve, the Open Offer and the Underwriting Agreement. Upon the approval of the Open Offer and the Underwriting Agreement by the Independent Shareholders at the EGM, the Prospectus Documents will be despatched to the Qualifying Shareholders as soon as practicable and the Prospectus, without the Application Form, will be despatched to the Excluded Shareholders (if any) for their information only.

### EGM

A notice convening the EGM at Suites 3505-08, 35/F, Tower 6, The Gateway, Harbour City, Kowloon, Hong Kong at 10:00 a.m. on Thursday, 14 July 2016 is set out on pages EGM-1 to EGM-3 of this circular. Whether or not you are able to attend the meeting in person, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the Registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as practicable but in any event not later than 48 hours before the time appointed for the holding of the meeting (i.e. 10:00 a.m. on Tuesday, 12 July 2016) or the adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting at the meeting or any adjourned meeting thereof (as the case may be) should you so desire. In such event, the instrument appointing a proxy will be deemed to be revoked.

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## LETTER FROM THE BOARD

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### RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on pages 37 to 38 of this circular, respectively, containing recommendation of the Independent Board Committee to the Independent Shareholders, and the letter from Hercules Capital set out on pages 39 to 64 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders in relation to the Open Offer and the Underwriting Agreement.

The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, considers that the terms of the Open Offer are on normal commercial terms and are fair and reasonable insofar as the Company and the Independent Shareholders are concerned, and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolution to approve the Open Offer and the Underwriting Agreement at the EGM.

The Directors believe that the terms of the Open Offer are on normal commercial terms and are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the ordinary resolution to approve the Open Offer and the Underwriting Agreement at the EGM.

### ADDITIONAL INFORMATION

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

On behalf of the Board  
**Newtree Group Holdings Limited**  
**Wong Wai Sing**  
*Chairman and Chief Executive Officer*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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*The following is the text of the letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders in relation to the Open Offer and the Underwriting Agreement.*



### **Newtree Group Holdings Limited**

**友川集團控股有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1323)**

24 June 2016

*To the Independent Shareholders*

Dear Sir or Madam,

**(I) PROPOSED OPEN OFFER ON THE BASIS OF  
THREE (3) OFFER SHARES FOR EVERY TWO (2) EXISTING SHARES  
HELD ON THE RECORD DATE AT HK\$0.164 PER OFFER SHARE;  
(II) CLOSURE OF REGISTER OF MEMBERS; AND  
(III) NOTICE OF EXTRAORDINARY GENERAL MEETING**

We refer to the circular of the Company dated 24 June 2016 (the “**Circular**”) of which this letter forms part. Unless the context specifies otherwise, capitalised terms used herein have the same meanings as defined in the Circular.

We have been appointed by the Board to advise the Independent Shareholders as to whether the terms of the Open Offer and the Underwriting Agreement are fair and reasonable insofar as the Independent Shareholders are concerned. Hercules Capital has been appointed as the Independent Financial Adviser to advise you and us in this respect.

Having taken into account the principal reasons and factors considered by, and the advice of, the Independent Financial Adviser as set out in its letter of advice to you and us on pages 39 to 64 of the Circular, we are of the opinion that the Open Offer and the Underwriting Agreement

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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are on normal commercial terms, are in the interests of the Company and the Shareholders as a whole and the terms of which are fair and reasonable insofar as the Company and the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Open Offer and the Underwriting Agreement.

Yours faithfully,

For and on behalf of the Independent Board Committee

**Mr. Kwok Kam Tim**  
*Independent non-executive*  
*Director*

**Dr. Hui Chik Kwan**  
*Independent non-executive*  
*Director*

**Mr. Tso Ping Cheong, Brian**  
*Independent non-executive*  
*Director*



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*The following is the text of a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders regarding its advice on the Open Offer prepared for the purpose of incorporation into this circular.*

### *Hercules* **Hercules Capital Limited**

1503 Ruttonjee House  
11 Duddell Street  
Central  
Hong Kong

24 June 2016

*To the Independent Board Committee and the Independent Shareholders*

Dear Sirs,

**PROPOSED OPEN OFFER ON THE BASIS OF  
THREE OFFER SHARES FOR EVERY TWO EXISTING SHARES  
HELD ON THE RECORD DATE AT HK\$0.164 PER OFFER SHARE**

#### **INTRODUCTION**

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Open Offer, details of which are set out in the Letter from the Board contained in the circular of the Company dated 24 June 2016 to the Shareholders (the “Circular”), of which this letter forms part. Capitalized terms used in this letter have the same meanings as defined elsewhere in the Circular, unless the context requires otherwise.

On 17 May 2016, the Company announced that it proposed to raise gross proceeds of approximately HK\$230.5 million by allotting and issuing 1,405,519,920 Offer Shares at the Subscription Price of HK\$0.164 per Offer Share on the basis of three Offer Shares for every two existing Shares held by the Qualifying Shareholders on the Record Date.

As at the Latest Practicable Date, Mr. Wong and Twin Star, which were respectively interested in 8,030,000 Shares and 96,924,000 Shares, representing approximately 0.86% and 10.34% of the issued share capital of the Company, have irrevocably undertaken to the Company and Cheong Lee Securities that they will accept their respective entitlement of 12,045,000 Offer Shares and 145,386,000 Offer Shares under the Open Offer.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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As the Open Offer will increase the number of issued Shares by more than 50%, pursuant to Rule 7.24(5)(a) of the Listing Rules, the Open Offer must be made conditional on approval of the Independent Shareholders by way of poll at the EGM and any controlling shareholders and their associates or, where there are no controlling shareholders, the Directors (other than independent non-executive Directors), the chief executive of the Company and their respective associates shall abstain from voting in favour of the resolution relating to the Open Offer. Mr. Wong, the executive Director, Chairman and Chief Executive Officer of the Company, was personally interested in 8,030,000 Shares, representing approximately 0.86% of the issued share capital of the Company as at the Latest Practicable Date. Twin Star, a company owned as to 50% by Mr. Wong and 50% by Mr. Chum, was interested in 96,924,000 Shares, representing approximately 10.34% of the issued share capital of the Company as at the Latest Practicable Date. Save as disclosed above, none of the Directors or the chief executive of the Company and their respective associates held any Share as at the Latest Practicable Date. In addition, as at the Latest Practicable Date, (i) Metro Capital held 400,000 Shares, representing approximately 0.04% of the total issued share capital of the Company; (ii) Mr. Chen held 3,544,000 Shares, representing approximately 0.38% of the total issued share capital of the Company; and (iii) Mr. Chen's father held 2,320,000 Shares, representing approximately 0.25% of the total issued share capital of the Company. Save as aforesaid, none of Metro Capital's associates and other associates of Mr. Chen held any Share as the Latest Practicable Date. Therefore, Mr. Wong, Mr. Chum, Twin Star, Metro Capital, Mr. Chen and Mr. Chen's father shall abstain from voting in favour of the resolution relating to the Open Offer at the EGM. Apart from them, none of the Shareholders has a material interest in the Open Offer and the Underwriting Agreement and is required to abstain from voting on the relevant resolution at the EGM. None of Cheong Lee Securities, Sun International Securities Limited ("Sun International"), Mr. Yang Jinshu and their respective associates held any Share as at the Latest Practicable Date.

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Kwok Kam Tim, Dr. Hui Chik Kwan and Mr. Tso Ping Cheong, Brian, has been established to advise the Independent Shareholders on the Open Offer and the Underwriting Agreement. We, Hercules Capital Limited, have been appointed, with the approval of the Independent Board Committee, to advise the Independent Board Committee and the Independent Shareholders in connection with the Open Offer and the Underwriting Agreement, in particular as to whether the terms of the Open Offer and the Underwriting Agreement are fair and reasonable and on normal commercial terms so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

We are not associated with the Group and its associates and do not have any shareholding in any member of the Group or right (whether legally enforceable or not) to subscribe for, or to nominate persons to subscribe for, securities in any member of the Group. Save for this appointment, we have not acted as a financial adviser or an independent financial adviser to the Company in the past two years. Apart from normal professional fees payable to us in connection with this appointment, no arrangements exist whereby we will receive any fee or benefit from the Group and its associates.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### BASIS OF OUR OPINION

In formulating our opinion and recommendation, we have relied on the information and representations supplied, and the opinions expressed, by the Directors and management of the Company and have assumed that such information and statements, and representations made to us or referred to in the Circular are true, accurate and complete in all material respects as of the date hereof and will continue as such at the date of the EGM. The Directors have collectively and individually accepted full responsibility of the Circular, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group, and having made all reasonable enquiries, confirmed that to the best of their knowledge and belief the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in the Circular misleading. We have no reasons to suspect that any material information has been withheld by the Directors or management of the Company, or is misleading, untrue or inaccurate, and consider that they may be relied upon in formulating our opinion.

We consider that we have reviewed sufficient information to reach an informed view, to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation. We have not, however, for the purposes of this exercise, conducted any independent detailed investigation or audit into the businesses or affairs or future prospects of the Group and the related subject of, and parties to, the Underwriting Agreement. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change this opinion.

We have not considered the tax consequences on the Independent Shareholders arising from the subscription for, holding of, or dealing in, the Offer Shares or exercising any right attached thereto or otherwise, since these are particular to their individual circumstances. Independent Shareholders who are in any doubt as to their tax position, or who are subject to overseas tax or Hong Kong taxation on securities dealing, should consult their own professional advisers without delay.

# LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

## PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Open Offer, we have taken into consideration the following principal factors and reasons:

### 1. Information of the Group

The Group is principally engaged in (i) manufacturing and trading of household and clinical hygienic disposables and trading of related raw materials (the “Hygienic Disposables Business”); (ii) wholesale and retail of household consumables (the “Household Consumables Business”); (iii) coal trading business (the “Coal Business”); (iv) sales and distribution of jewelries and watches under the brand “Cosi Moda” (the “Jewelries and Watches Business”); (v) design and development of three-dimensional animations, augmented reality technology applications and e-learning web application (the “Digital Technology Business”); and (vi) provision of educational technology solutions through online education programs and provision of English language proficiency tests (the “Education Business”). In December 2015, the Group completed the disposal of its entire interest in Sino-Singapore (Offshore) Chemical Resources Trading Company Limited, which together with its subsidiary (collectively, the “Sino-Singapore Group”) are principally engaged in the trading business of methyl tertiary butyl ether (MTBE) products (the “MTBE Business”).

The consolidated financial information of the Group for the years ended 31 March 2014 and 31 March 2015, as extracted from the annual report of the Company, and the six months ended 30 September 2015, as extracted from the interim report of the Company, is summarized as follows:

	For the six months ended 30 September		For the year ended 31 March	
	2015	2014	2015	2014
	<i>HK\$'000</i> (unaudited)	<i>HK\$'000</i> (unaudited) (restated)	<i>HK\$'000</i> (audited)	<i>HK\$'000</i> (audited)
Revenue				
— Hygienic Disposables Business . . .	31,831	48,725	98,388	186,799
— MTBE Business . . . . .	—	—	247,940	185,527
— Coal Business . . . . .	52,901	57,000	111,675	131,654
— Household Consumables Business .	33,450	41,975	73,363	77,291
— Jewelries and Watches Business . .	5,179	83	8,974	—
— Digital Technology Business . . . . .	3,486	—	3,213	—
— Education Business . . . . .	11,329	—	6,684	—
	<u>138,176</u>	<u>147,783</u>	<u>550,237</u>	<u>581,271</u>
Gross profit . . . . .	25,407	11,579	42,663	21,542
Loss before tax . . . . .	(58,060)	(64,556)	(257,391)	(138,120)
Loss for the period/year attributable to owners of the Company . . . . .	<u>(60,184)</u>	<u>(64,685)</u>	<u>(258,875)</u>	<u>(137,128)</u>

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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	As at 30 September 2015
	<i>HK\$'000</i> (unaudited)
Non-current assets .....	520,959
Current assets .....	613,433
Total assets .....	1,134,392
Non-current liabilities .....	18,147
Current liabilities .....	582,525
Total liabilities .....	600,672
Net assets .....	533,720
Net asset attributable to owners of the Company .....	529,408

The revenue of the Group for the year ended 31 March 2015 amounted to approximately HK\$550.2 million, of which approximately 17.9% (2014: 32.1%) was derived from the Hygienic Disposables Business, approximately 45.1% (2014: 31.9%) was derived from the MTBE Business, approximately 20.3% (2014: 22.6%) was derived from the Coal Business, approximately 13.3% (2014: 13.3%) was derived from the Household Consumables Business and the remaining of approximately 3.4% was derived from the Jewelries and Watches Business, Digital Technology Business and the Education Business, which were acquired by the Group during the year ended 31 March 2015 (collectively, the “New Businesses”). As a result of the substantial decrease in demand of hygienic disposables products from the European and United States markets and the decrease in sales volume and the average selling price of the coal products, the revenue of the Group for the year ended 31 March 2015 decreased by approximately 5.3% as compared to the previous year although revenue from the MTBE Business increased as a result of increase in trading volume of MTBE products. The gross profit of the Group increased by approximately 98.6% from approximately HK\$21.5 million for the year ended 31 March 2014 to approximately HK\$42.7 million for the year ended 31 March 2015. The increase was mainly attributable to the relatively high gross profit margins of the New Businesses, which were in the range of approximately 53.7% to 83.5%, and the increase in gross profit margin on Hygienic Disposables Business from approximately 1.3% for the year ended 31 March 2014 to approximately 10.1% for the year ended 31 March 2015 resulting from the increase in average selling price of approximately 11.1% and a slight decrease in material cost of approximately 1.8%. However, with the impairment losses on goodwill, interest in an associate, other intangible assets and trade and other receivables recognized during the year ended 31 March 2015 in an aggregate amount of approximately HK\$155.2 million (2014: HK\$71.0 million) and the increase in administrative expenses of approximately HK\$63.5 million resulted from the increase in staff

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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costs, the loss before tax for the year ended 31 March 2015 increased by approximately 86.4% as compared to the last year to approximately HK\$257.4 million. The loss attributable to the owners of the Company for the year ended 31 March 2015 amounted to approximately HK\$258.9 million, representing a rise of approximately 88.8% as compared to the prior year.

During the six months ended 30 September 2015, the Group discontinued the MTBE Business, the results of which was classified as discontinued operation and the related assets and liabilities were classified as assets held for sale and liabilities directly associated with assets held for sale respectively. The revenue of the Group from continuing operations for the six months ended 30 September 2015 amounted to approximately HK\$138.2 million, of which approximately 23.0% (2014: 33.0%) was derived from the Hygienic Disposables Business, approximately 38.3% (2014: 38.6%) was derived from the Coal Business, approximately 24.2% (2014: 28.4%) was derived from the Household Consumables Business and the remaining of approximately 14.5% was derived from the New Businesses. Despite the additional revenue in total of approximately HK\$20.0 million contributed by the New Businesses, the revenue from continuing operations for the six months ended 30 September 2015 reduced by approximately 6.5%, as compared to the previous corresponding period, as (i) the loss of major customers from the Hygienic Disposables Business led to a significant decrease in sales amount by approximately HK\$16.9 million; (ii) the fall of global coal price lowered the revenue from the Coal Business by approximately HK\$4.1 million; and (iii) the change in product mix for higher profit margin contribution products of the Household Consumables Business resulted in decrease in revenue by approximately HK\$8.5 million. The gross profit from continuing operations increased by approximately 119.0% from approximately HK\$11.6 million for the six months ended 30 September 2014 to approximately HK\$25.4 million for the six months ended 30 September 2015. The increase was mainly attributable to the increase in gross profit margin of Household Consumables Business from approximately 12.8% for the six months ended 30 September 2014 to approximately 17.8% for the six months ended 30 September 2015 as a result of the change in product mix for higher profit margin contribution products and the relatively high gross profit margins of the New Businesses which were in the range of approximately 68.7% to 71.8% for the six months ended 30 September 2015. During the six months ended 30 September 2015, the administrative expenses and other expenses of the Group reduced by approximately HK\$13.1 million as a result of the decreases in staff costs and professional service and consultancy fee. Therefore, the loss before income tax from continuing operations for the six months ended 30 September 2015 decreased by approximately 10.1% from approximately HK\$64.6 million for the prior corresponding period to approximately HK\$58.1 million although a fair value loss on contingent consideration receivables of approximately HK\$19.8 million was recognized for the six months ended 30 September 2015 (2014: nil). Taking into account of the profit for the six months ended 30 September 2015 from discontinued operation of approximately HK\$39,000, the loss attributable to the owners of the Company for the six months ended 30 September 2015 amounted to approximately HK\$60.2 million, representing a decrease of approximately 7.0% as compared to the prior corresponding period.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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As at 30 September 2015, the current assets and current liabilities of the Group amounted to approximately HK\$613.4 million and HK\$582.5 million respectively. Accordingly, the Group had net current assets of approximately HK\$30.9 million and current ratio of approximately 1.05, as calculated as current assets over the current liabilities. The current assets of the Group mainly comprised trade and other receivables and prepayments of approximately HK\$229.1 million, inventories of approximately HK\$26.3 million, contingent consideration receivables of approximately HK\$19.9 million, bank balances and cash of approximately HK\$24.4 million, pledged bank deposit of approximately HK\$7.8 million and assets held for sale of approximately HK\$305.7 million, being the assets attributable to the Sino-Singapore Group which are expected to be sold within the next twelve months from 30 September 2015. The current liabilities of the Group mainly consisted of trade and other payables and accruals, convertible bonds as well as liabilities directly associated with assets held for sale of approximately HK\$164.8 million, HK\$114.0 million and HK\$291.8 million respectively.

As at 30 September 2015, the Group's non-current assets amounted to approximately HK\$521.0 million, which mainly included other intangible assets of approximately HK\$109.2 million, goodwill of approximately HK\$198.8 million and available-for-sale financial assets of approximately HK\$157.3 million while the Group's non-current liabilities, being deferred tax liabilities, amounted to approximately HK\$18.2 million. As at 30 September 2015, the Group's total assets and total liabilities amounted to approximately HK\$1,134.4 million and HK\$600.7 million respectively. Thus, the Group had net assets of approximately HK\$533.7 million and a gearing ratio, representing a percentage of total liabilities over total assets, of approximately 53.0% as at 30 September 2015 (31 March 2015: 47.6%). Excluding the net assets of the non-controlling interests of approximately HK\$4.3 million, the net assets attributable to the owners of the Company amounted to approximately HK\$529.4 million as at 30 September 2015.

The Company had not conducted any fund raising activity in the past 12 months immediately prior to the Latest Practicable Date.

## **2. Reasons for the Open Offer and proposed use of proceeds**

### ***2.1 Reasons for the Open Offer***

As set out in the Letter from the Board, pursuant to the original terms and conditions of the Convertible Bonds, the Convertible Bonds in outstanding principal amount of HK\$100.0 million shall be due for redemption on 18 June 2016 with redemption amount equivalent to 124% of the outstanding principal amount of the Convertible Bonds, representing a 12% premium per annum over the outstanding principal amount of the Convertible Bonds. As at 30 September 2015, the Group had net assets of approximately HK\$533.7 million. However, having excluded goodwill and other intangible assets, the Group had net tangible assets of only approximately HK\$225.7 million, among which, the Group's cash level was low with bank deposits and cash balance of approximately

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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HK\$32.2 million (including pledged bank deposit of approximately HK\$7.8 million). In view of the shortage of liquid assets and the loss-making track record of the Group for the past two financial years and the six months ended 30 September 2015, the Company negotiated with the CB Holders and Cheong Lee Securities for the entering into of the Deed of Amendments and the Underwriting Agreement respectively so as to extend the maturity date of the Convertible Bonds to 31 August 2016 and facilitate the Open Offer for raising approximately HK\$230.5 million to redeem the Convertible Bonds and finance its working capital requirement.

Having considered (i) the unsatisfactory performance and low cash position of the Group; (ii) the maturity date of the Convertible Bonds; and (iii) the necessity for the Group to have sufficient cash as working capital for its daily business operation, we concur with the view of the Directors that the Group has an imminent funding need and the Open Offer is in the interests of the Company and its Shareholders as a whole.

### *2.2 Use of net proceeds*

The gross proceeds and estimated net proceeds (after deducting the estimated expenses directly attributable to the Open Offer of approximately HK\$10.8 million) of the Open Offer will be approximately HK\$230.5 million and HK\$219.7 million respectively. The Company intends to apply (i) not more than approximately HK\$132.1 million for the redemption of the Convertible Bonds (being the sum of the maximum amount of the Total Redemption Amount of approximately HK\$126.5 million and the maximum amount of the accrued interest thereon of approximately HK\$5.6 million); and (ii) the remaining balance of not less than approximately HK\$87.6 million for expected working capital of the Group for the period from August 2016, the month of expected completion of the Open Offer, to December 2017 as to payment to suppliers of approximately HK\$17.0 million, staff costs and Directors' remuneration of approximately HK\$45.2 million, payment of rental expenses, management fees and rates of approximately HK\$10.5 million, legal and professional fees and corporate expenses of approximately HK\$8.3 million, transportation expenses of approximately HK\$3.4 million, and other office expenses (including general office supply, IT support and utilities, etc.) of approximately HK\$3.2 million.

### *Redemption of the Convertible Bonds*

As at 30 September 2015, the Group had bank balances and cash (excluding the pledged bank deposit) of approximately HK\$24.4 million while the outstanding principal amount of the Convertible Bonds was HK\$100.0 million. The cash available to the Group is insufficient for the Group to redeem the Convertible Bonds at its original maturity date of 18 June 2016.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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On 17 May 2016, the Company and the CB Holders entered into the Deed of Amendments to amend certain terms and conditions of the Convertible Bonds, among others, (i) to extend the maturity date of the Convertible Bonds to 31 August 2016; and (ii) unless previously redeemed, converted or purchased and cancelled under the terms of the Convertible Bonds, the Company will redeem all the outstanding Convertible Bonds at 100% of the outstanding principal amount of the Convertible Bonds plus a premium of 12% per annum on 31 August 2016. Pursuant to the Deed of Amendments, the sum of the maximum amount of the Total Redemption Amount and the accrued interest thereon shall be approximately HK\$132.1 million. Details of the Deed of Amendments are set out in the Letter from the Board.

We have reviewed the terms and conditions of the Convertible Bonds, the Deed of Amendments and the calculation of the maximum amount of the Total Redemption Amount and the accrued interest thereon and were satisfied that the calculation of the maximum amount of the Total Redemption Amount and the accrued interest thereon is in accordance with the terms and conditions of the Convertible Bonds and the Deed of Amendments. Having considered that (i) the Convertible Bonds will be due for redemption on 31 August 2016; (ii) the Group's cash level is low; and (iii) it is essential for the Group to have sufficient fund to redeem the Convertible Bonds at its maturity date, we consider it is reasonable for the Company to allocate not more than approximately HK\$132.1 million from the net proceeds of the Open Offer for the redemption of the Convertible Bonds.

### *Working capital requirement*

We have reviewed, and discussed with the management of the Company, the budget of the Group for the period from August 2016 to December 2017 together with the underlying basis and assumptions, details of which are set out in the section headed “**FUNDING NEEDS AND WORKING CAPITAL REQUIREMENTS**” in the Letter from the Board, and were confirmed by the Directors that such budget has been made by them after due and careful enquiry. We noted that the Company intends to apply approximately HK\$17.0 million for payment to suppliers, approximately HK\$45.2 million for staff costs and Directors' remuneration, approximately HK\$10.5 million for payment of rental expenses, management fees and rates, approximately HK\$8.3 million for legal and professional fees and corporate expenses, approximately HK\$3.4 million for transportation expenses, and approximately HK\$3.2 million for other office expenses such as general office supply, IT support and utilities, etc., of which a total of approximately HK\$26.0 million will be utilized for the period from August 2016 to December 2016, approximately HK\$30.9 million will be utilized for the first half of 2017 and approximately HK\$31.0 million will be utilized for the second half of 2017<sub>(Note)</sub>. We are satisfied that the net proceeds from the Open Offer to be allocated to the working capital as mentioned above are generally in line with the budget of the Group for that purposes.

*Note: The breakdown figures may not add up to the total figure due to rounding.*

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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We have also reviewed the historical performance of the Group and noted that the Group has suffered from net loss for the years ended 31 March 2014 and 31 March 2015 and the six months ended 30 September 2015 with operating expenses (including selling and distribution expenses, administrative expenses and other expenses) in the amount of approximately HK\$88.1 million, HK\$142.8 million and HK\$55.3 million respectively. Furthermore, the net cash used in operating activities amounted to approximately HK\$60.3 million, HK\$55.5 million and HK\$22.6 million for the years ended 31 March 2014 and 31 March 2015 and the six months ended 30 September 2015 respectively. As at 30 September 2015, the Group had bank balances and cash of approximately HK\$32.2 million, of which approximately HK\$7.8 million was pledged bank deposit.

Having considered the cash position of the Group as at 30 September 2015, the actual amount of operating expenses incurred in the past years, the projected operating expenses of the Group for the period ending 31 December 2017 and the net loss recorded by the Group in the recent years, we concur with the view of the Directors that the Group might be unable to generate net cash inflow from its operating activities and consider that it is reasonable for the Group to allocate not less than approximately HK\$87.6 million from the net proceeds of the Open Offer for the general working capital of the Group to support its business operation and future development.

### **3. Alternative financing methods**

During our discussion with the management of the Company, we were given to understand that apart from the Open Offer, the Company has also considered other alternative means for fund raising such as bank borrowing, placing of new shares or convertible bonds and rights issue. We were advised by the management of the Company that the Company has approached several financial institutions to negotiate other fund raising alternatives but did not receive any positive feedback from any of them except Cheong Lee Securities.

Given the unsatisfactory financial conditions of the Group, the Directors consider that it may involve lengthy due diligence and negotiations with banks which are also relatively uncertain and time consuming as compared to equity financing for the Group while bank borrowing would also result in additional interest burden to, and higher gearing ratio of, the Group. Furthermore, placing of new Shares or convertible bonds would only be available to certain placees who were not necessarily the existing Shareholders and would dilute the shareholding of the existing Shareholders in the Company. Moreover, as compared to open offer, the nil-paid trading of rights issue will create uncertainty on the shareholding structure of the Company. The Board is of the view that the objective of the Open Offer is to enable the Shareholders to maintain their proportionate interests in the Company should they wish to do so and to participate in the Company's future growth and development, and ensure stability in the shareholders' base of the Company. The Board therefore considers that conducting an open offer, instead of a rights issue, will be more beneficial to the

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Company and the Shareholders in the current circumstances even without the right to trade their nil-paid rights as in a rights issue since the open offer has already given the Qualifying Shareholders an equal and fair opportunity to maintain their respective pro-rata shareholding interests in the Company.

In light of the above, we concur with the view of the Directors that the Open Offer is an appropriate means for the Group to obtain the required funding and is in the interests of the Company and the Shareholders as a whole.

#### 4. Principal terms of the Open Offer

##### 4.1 Open Offer statistics

Basis of the Open Offer:	three Offer Shares for every two existing Shares held on the Record Date
Subscription Price:	HK\$0.164 per Offer Share
Number of Shares in issue as at the Latest Practicable Date:	937,013,281 Shares
Number of Offer Shares:	1,405,519,920 Offer Shares (assuming no exercise of the conversion rights attaching to the Convertible Bonds and no issue of new Shares from the Latest Practicable Date up to the Record Date), representing approximately 150.0% of the issued share capital of the Company as at the Latest Practicable Date and approximately 60.0% of the enlarged issued share capital of the Company immediately upon completion of the Open Offer
Enlarged issued share capital of the Company upon completion of the Open Offer:	2,342,533,201 Shares

As at the Latest Practicable Date, the Company had outstanding Convertible Bonds which are convertible into 31,250,000 Shares upon full conversion of such Convertible Bonds (based on the existing conversion price of HK\$3.20, subject to adjustment). Save for the foregoing, the Company had no outstanding warrants, options, derivatives or securities convertible into or exchangeable for Shares as at the Latest Practicable Date.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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As at the Latest Practicable Date, Fulledge and Mr. Lee held the outstanding Convertible Bonds in the principal amount of HK\$82.0 million and HK\$18.0 million respectively, which are convertible into 25,625,000 Shares and 5,625,000 Shares, respectively, upon full conversion of such Convertible Bonds (based on the existing conversion price of HK\$3.20, subject to adjustment). Each of Fulledge and Mr. Lee has irrevocably undertaken and confirmed to the Company and Cheong Lee Securities that (i) it/he would not exercise any of the conversion right attached to the Convertible Bonds nor transfer any of the Convertible Bonds held by it/him from the date of the Fulledge Undertaking and the Lee Undertaking (as the case may be) up to the close of business on the Record Date; and (ii) it/he had agreed with the Company to extend the maturity date of the Convertible Bonds to 31 August 2016.

Mr. Wong, who was interested in 8,030,000 Shares, representing approximately 0.86% of the total issued share capital of the Company, as at the Latest Practicable Date, has irrevocably undertaken to each of the Company and Cheong Lee Securities that: (i) he would not dispose of, or agree to dispose of, 8,030,000 Shares held by him from the date of his irrevocable undertaking up to the close of business on the Record Date; (ii) he would accept or procure the acceptance for the 12,045,000 Offer Shares for which he is entitled to pursuant to the Open Offer; and (iii) he would lodge the Application Form in respect of the 12,045,000 Offer Shares accompanied by the appropriate remittances which shall be honoured on first presentation and otherwise comply with the procedures for such acceptance and application as described in the Prospectus Documents prior to the Latest Time for Acceptance.

Twin Star, which was interested in 96,924,000 Shares, representing approximately 10.34% of the total issued share capital of the Company, as at the Latest Practicable Date, has irrevocably undertaken to each of the Company and Cheong Lee Securities that: (i) it would not dispose of, or agree to dispose of, 96,924,000 Shares held by it from the date of its irrevocable undertaking up to the close of business on the Record Date; (ii) it would accept or procure the acceptance for the 145,386,000 Offer Shares for which it is entitled to pursuant to the Open Offer; and (iii) it would lodge the Application Form in respect of the 145,386,000 Offer Shares accompanied by the appropriate remittances which shall be honoured on first presentation and otherwise comply with the procedures for such acceptance and application as described in the Prospectus Documents prior to the Latest Time for Acceptance.

The Open Offer is conditional upon the Underwriting Agreement having become unconditional and not being terminated in accordance with its terms or otherwise. Details of the conditions of the Underwriting Agreement are set out in the Letter from the Board.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 4.2 *Subscription Price*

The Subscription Price of HK\$0.164 per Offer Share is payable in full when a Qualifying Shareholder accepts his/her/its provisional allotment under the Open Offer and represents:

- (i) a discount of approximately 54.4% to the closing price of HK\$0.36 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a discount of approximately 56.8% to the closing price of HK\$0.38 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (iii) a discount of approximately 57.8% to the average of the closing price of HK\$0.389 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;
- (iv) a discount of approximately 58.0% to the average of the closing price of HK\$0.3905 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day;
- (v) a discount of approximately 34.5% to the theoretical ex-entitlement price of approximately HK\$0.2504 per Share based on the closing price of HK\$0.38 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (vi) a discount of approximately 32.3% to the theoretical ex-entitlement price of approximately HK\$0.2424 per Share based on the closing price of HK\$0.36 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- (vii) a discount of approximately 32.0% to the unaudited consolidated net tangible asset value per Share of approximately HK\$0.241 as at 30 September 2015 (which is calculated based on the unaudited consolidated net tangible asset value of the Group as at 30 September 2015 of approximately HK\$225.7 million and 937,013,281 Shares in issue as at the Latest Practicable Date).

The terms of the Open Offer, including the Subscription Price, were determined after arm's length negotiations between the Company and Cheong Lee Securities with reference to (i) the market prices of the Shares under the prevailing market and economic conditions around the time prior to the entering into of the Underwriting Agreement; (ii) the net loss of the Group for the two consecutive financial years since 2014; (iii) the Company's funding need for redemption of the outstanding

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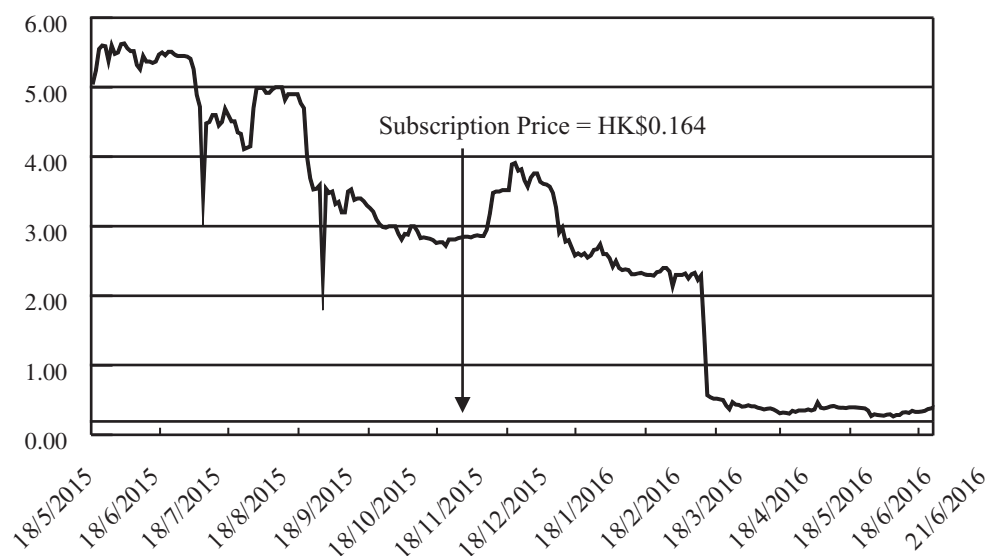
## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Convertible Bonds; and (iv) the abovementioned unaudited consolidated net tangible assets of the Group as at 30 September 2015 of approximately HK\$225.7 million and the unaudited consolidated net tangible asset value per Share of approximately HK\$0.241.

In order to assess the fairness and reasonableness of the Subscription Price, we have reviewed the movements in the closing price of the Shares during the period from 16 May 2015, being 12 months immediately preceding the Last Trading Day, to the Latest Practicable Date (the “Review Period”). We consider that a period of 12 months is adequate to illustrate the recent price movements of the Shares for conducting a reasonable comparison between the closing price of the Shares and the Subscription Price.

**Chart 1 — Closing Price of the Shares during the Review Period**



*Source: the website of the Stock Exchange*

As illustrated in the above chart, the Shares were traded above the Subscription Price throughout the Review Period with an average closing price of the Shares of approximately HK\$2.741. The highest closing price of the Shares and the lowest closing price of the Shares in the Review Period were HK\$5.630 on 2 June 2015 and HK\$0.265 on 27 May 2016 respectively. The Subscription Price represents a discount of approximately 97.1%, 38.1% and 94.0% to the highest, lowest and average closing price of the Shares of the Review Period respectively.

The closing price of the Shares increased from HK\$5.05 on 18 May 2015, being the first trading day of the Review Period, to HK\$5.63, being the highest level during the Review Period, on 2 June 2015 and then decreased to HK\$5.35 on 15 June 2015, being the first trading day following the

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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publication of a profit warning announcement after the trading hours on 12 June 2015. The closing price of the Shares then fluctuated between HK\$5.37 and HK\$5.51 between 16 June 2015 and 24 June 2015. After trading hours on 24 June 2015, the Company announced that the Group had entered into an agreement to dispose of its entire interest in Sino-Singapore (Offshore) Chemical Resources Trading Company Limited, a subsidiary of the Company which is principally engaged in the MTBE Business. The Company also published the annual results announcement for the year ended 31 March 2015 on 26 June 2015. The closing price of the Shares subsequently dropped to HK\$5.26 on 3 July 2015 and further reduced to HK\$3.31, being the short-term lowest level, on 8 July 2015. On the following trading day, the closing price of the Shares rebounded strongly by approximately 35.3% to HK\$4.48. The Directors were not aware of any specific reason for the sudden rise in the Share price. After that, the closing price of the Shares further increased to HK\$4.99 on 31 July 2015. During the period from 3 August 2015 to 19 August 2015, the closing price of the Shares fluctuated in the range of HK\$4.82 and HK\$5.0 and then dropped continuously to HK\$2.1 on 31 August 2015. After trading hours on 31 August 2015, the Company published an announcement stating that apart from the discussion for a possible disposal of 10% equity interests and the shareholder's loan in China Energy Trading Company Limited (the "Possible Disposal"), it was not aware of any reason for the unusual price and trading volume movements. On the same day, the Company published another announcement in relation to the appointment of an executive Director, resignation of the chief financial officer and appointment of joint company secretary of the Company.

The closing price of the Shares rebounded to HK\$3.54 on 1 September 2015 and then decreased gradually to HK\$2.72 on 29 October 2015. The closing price of the Shares subsequently picked up its rising momentum and increased to HK\$3.91, the short-term highest level, on 30 November 2015, following the publication of the interim results announcement of the Company for the six months ended 30 September 2015 on 26 November 2015. Since then, the closing price of the Shares showed a decreasing trend and was HK\$1.47 on 29 February 2016. The Company published an announcement after the trading hours on 29 February 2016 stating that apart from the Possible Disposal, the Company was not aware of any reason for the unusual price and trading volume movements. The Company also announced the resignation of an executive Director and a non-executive Director on the same day. Following the publication of the above-mentioned announcements, the closing price of the Shares crashed to HK\$0.57 on 1 March 2016 and continued to fall to HK\$0.305, the lowest level of the Review Period before the announcement of the Open Offer, on 11 April 2016. The closing price of the Shares rebounded to HK\$0.465 on 22 April 2016. After the trading hours on 22 April 2016, the Company announced that there might be a significant impairment on the Group's account receivables, goodwill and intangible assets. The closing price of the Shares decreased gradually to HK\$0.38 on the Last Trading Day and HK\$0.36 on the Latest Practicable Date.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We have also reviewed the historical trading volume of the Shares during the Review Period. The number of trading days, average daily trading volume of the Shares and the percentages of daily trading volume of the Shares as compared to the total number of issued Shares and the Shares held by the public during the Review Period are shown in Table 1 below.

**Table 1 — Historical average daily trading volume of the Shares**

Month	Number of trading days	Average daily trading volume	% of average daily trading volume to the total number of Shares <sup>(Note 1)</sup>	% of average daily trading volume to the total number of Shares in public hands <sup>(Note 2)</sup>
<b>2015</b>				
May <sup>(Note 3)</sup> .....	9	16,746,889	1.7873%	2.0280%
June .....	22	9,310,773	0.9937%	1.1275%
July .....	22	5,523,245	0.5895%	0.6688%
August .....	21	3,224,610	0.3441%	0.3905%
September .....	20	6,872,504	0.7334%	0.8322%
October .....	20	5,585,811	0.5961%	0.6764%
November .....	21	3,974,240	0.4241%	0.4813%
December .....	22	4,475,257	0.4776%	0.5419%
<b>2016</b>				
January .....	20	6,802,420	0.7260%	0.8237%
February .....	18	8,924,556	0.9524%	1.0807%
March .....	21	63,327,714	6.7585%	7.6687%
April .....	20	42,075,400	4.4904%	5.0951%
May .....	21	17,681,143	1.8870%	2.1411%
June <sup>(Note 4)</sup> .....	14	15,361,143	1.6394%	1.8602%

*Source: the website of the Stock Exchange*

*Notes:*

1. Calculated based on 937,013,281 Shares in issue as at the Latest Practicable Date.
2. Calculated based on 825,795,281 Shares held in public hands as at the Latest Practicable Date.
3. Represents trading volume for the period from 16 May 2015 to 31 May 2015.
4. Represents trading volume for the period from 1 June 2016 to the Latest Practicable Date.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Table 1 demonstrates that during the Review Period, the average daily trading volume of the Shares were in the range of approximately 0.3441% to 6.7585% as to the total number of issued Shares as at the Latest Practicable Date and approximately 0.3905% to 7.6687% as to the total number of Shares held in public hands as at the Latest Practicable Date. We noted that the average daily trading volume of the Shares to the total number of issued Shares, and the total number of Shares held in public hands, as at the Latest Practicable Date were exceptionally high for the months of March 2016 and April 2016. We understand from the management of the Company that, save for the Possible Disposal and the subjects of the announcements published during the relevant period, the Company was not aware of any reason for the increase in trading volume during the relevant period. The above statistics revealed that, save for the months of March 2016 and April 2016, the liquidity of the Shares was relatively low.

To further evaluate the fairness and reasonableness of the Open Offer, we also considered a broad comparison of open offers conducted by other companies listed on the main board of the Stock Exchange. Based on the information available from the Stock Exchange's website, we have reviewed, so far as we are aware of, all the open offers announced by the companies listed on the main board of the Stock Exchange, save for the open offers announced by the companies which have been suspended in trading for more than 3 months preceding the dates of the respective announcements in relation to the open offer transactions (the "Comparables") during the period from 16 November 2015, being 6 months immediately preceding the Last Trading Day, to the Latest Practicable Date (the "Comparable Period"), which is considered to be exhaustive for comparison purposes. Having considered that the Comparable Period is reasonably long enough to (i) reflect the prevailing market conditions and sentiments in the Hong Kong stock market; (ii) include sufficient number of transactions for comparison purposes; and (iii) allow the Shareholders to have a general understanding of the recent open offer transactions being conducted in the Hong Kong stock market, we considered that the Comparable Period is adequate given the recent volatility of the Hong Kong stock market.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We noted that the businesses, operations, financial position, funding requirements and prospects of the Comparables are not directly comparable to those of the Company. However, given that the terms of open offers of the Comparables were determined under similar market conditions and sentiments as those when the terms of the Open Offer were determined and they reflect the recent trend of the open offer transactions in the market, we are of the opinion that the Comparables are fair and representative samples for comparison purposes and can serve as a reference for the recent market practice and provide an insight to the reasonableness of the major terms of the Open Offer. Details of the trading statistics of the Comparables are summarized in Table 2 below:

**Table 2 — Trading statistics of the Comparables**

Company name (stock code)	Date of announcement (DD/MM/YYYY)	Basis of entitlement	Premium/(discount) of subscription price over/(to) the closing price on the last trading day	the theoretical ex- entitlement price	Commission rate	Maximum dilution <i>(Note 1)</i>	Theoretical diminution <i>(Note 2)</i>	Excess application
			%	%	%	%	%	<i>Yes/No</i>
Deson Development								
International Holdings								
Limited (262) . . . . .	27/11/2015	1 for 2	(40.7)	(31.9)	3.5	33.3	13.0	No
QPL International Holdings								
Limited (243) . . . . .	07/01/2016	5 for 1	(66.0)	(24.4)	1.5	83.3	55.0	No
China Green (Holdings)								
Limited (904) . . . . .	19/01/2016	2 for 1	(46.7)	(22.6)	2.5	66.7	31.1	No
AMCO United Holding								
Limited (630) . . . . .	20/01/2016	1 for 2	(67.5)	(58.1)	2.5	33.3	22.5	No
China Ruifeng Renewable								
Energy Holdings								
Limited (527) . . . . .	28/01/2016	1 for 5	(1.3)	(1.1)	2.0	16.7	0.3	Yes
Sunway International								
Holdings Limited (58) . . .	26/02/2016	3 for 2	(55.6)	(33.3)	2.5	60.0	33.3	No
Amax International Holdings								
Limited (959) . . . . .	24/03/2016	1 for 2	(69.2)	(60.0)	5.0	33.3	23.1	No

# LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Company name (stock code)	Date of announcement (DD/MM/YYYY)	Basis of entitlement	Premium/(discount) of subscription price over/(to) the closing      the price on      theoretical the last      ex- trading      entitlement day      price		Commission rate	Maximum dilution <i>(Note 1)</i>	Theoretical diminution <i>(Note 2)</i>	Excess application
			%	%				
Neptune Group Limited (70)	01/04/2016	1 for 2	(32.3)	(24.1)	3.0	33.3	10.8	Yes
China Innovation Investment Limited (1217) . . . . .	03/05/2016	1 for 2	(5.7)	(3.9)	3.0	33.3	1.9	Yes
Rosan Resources Holdings Limited (578) . . . . .	06/05/2016	1 for 2	(68.3)	(58.9)	0.0	33.3	22.9	Yes
Culture Landmark Investment Limited (674) . . . . .	16/05/2016	1 for 2	(49.2)	(38.8)	0.0	33.3	16.9	No
TC Orient Lighting Holdings Limited (515) . . . . .	25/05/2016	1 for 2	(70.2)	(61.1)	1.25	33.3	23.3	No
United Energy Group Limited (467) . . . . .	02/06/2016	1 for 1	(52.4)	(35.5)	3.0	50.0	26.2	Yes
Tesson Holdings Limited (1201) . . . . .	17/06/2016	3 for 4	1.3	0.8	0.0	42.9	(0.5)	No
<b>Maximum</b> . . . . .			<b>1.3</b>	<b>0.8</b>	<b>5.0</b>	<b>83.3</b>	<b>55.0</b>	
<b>Minimum</b> . . . . .			<b>(70.2)</b>	<b>(61.1)</b>	<b>0.0</b>	<b>16.7</b>	<b>(0.5)</b>	
<b>Average</b> . . . . .			<b>(44.6)</b>	<b>(32.4)</b>	<b>2.1</b>	<b>41.9</b>	<b>20.0</b>	
the Company (1323) . . . . .	17/05/2016	3 for 2	(56.8)	(34.5)	4.0	60.0	34.1	No

Source: the website of the Stock Exchange

Notes:

1. Maximum dilution effect is calculated as: number of offer shares/(number of existing shares entitled for the offer shares + number of offer shares) x 100%.
2. Theoretical diminution is calculated as: (theoretical ex-entitlement share price - share price on the last trading day prior to the release of the open offer announcement)/share price on the last trading day prior to the release of the open offer announcement x -100%.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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We noted from Table 2 that 13 out of 14 Comparables had set the subscription price of their open offers at a discount to the prevailing market price of the relevant shares before the relevant announcements in respect of the open offers were made. We consider, therefore, it is a normal market practice for companies to set the subscription price of open offers at a discount to the prevailing market price of the relevant shares.

As illustrated in Table 2, the subscription prices of the Comparables were set at a range from a premium of approximately 1.3% to a discount of approximately 70.2%, to their respective closing prices as quoted on the last trading day prior to the date of the relevant open offer announcements. The discount of approximately 56.8% of the Subscription Price to the closing price of the Shares on the Last Trading Day falls within the range of those of the Comparables and it is higher than the average discount of the Comparables of approximately 44.6%.

The subscription prices of the Comparables represent a range from a premium of approximately 0.8% to a discount of approximately 61.1% to their respective theoretical ex-entitlement prices as quoted on the last trading day prior to the date of the relevant open offer announcements. The discount of approximately 34.5% of the Subscription Price to the theoretical ex-entitlement prices of the Shares on the Last Trading Day falls within the range of those of the Comparables and it is higher than the average discount of the Comparables of approximately 32.4%.

Based on the above analysis and the facts that (i) the Shares were traded above the Subscription Price throughout the Review Period; (ii) the liquidity of the Shares, save for the months of March 2016 and April 2016, was thin during the Review Period; (iii) it is common for the listed companies in Hong Kong to set the subscription price of open offers at a discount to the market price; (iv) the discounts of the Subscription Price to the closing price of the Shares on the Last Trading Day and to the theoretical ex-entitlement price fall within the range of the Comparables; and (v) the interest of the Qualifying Shareholders will not be prejudiced by the discount of the Subscription Price as long as they are offered with an equal opportunity to participate in the Open Offer and subscribe for the Offer Shares, we consider that the discount on the Subscription Price may encourage the Qualifying Shareholders to participate in the Open Offer and is justifiable and the Subscription Price is on normal commercial term and is fair and reasonable so far as the Independent Shareholders are concerned.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### *4.3 No application for excess Offer Shares*

As stated in the Letter from the Board contained in the Circular, having considered that (i) the Open Offer will give the Qualifying Shareholders an equal and fair opportunity to maintain their pro rata shareholding interests in the Company; (ii) it may not be justified for the Company to arrange excess application as the Company is seeking to reduce all unnecessary expenses so as to receive the maximum net proceeds from the Open Offer while the Company will incur additional work to prepare for and administer the excess application arrangement such as printing and despatch of excess application forms and incur professional fees to process and handle the excess applications, including additional fees payable to the Registrar, legal advisers and other professional services providers, which would be approximately HK\$200,000 if excess application is arranged; (iii) the excess application mechanism may be abused by the Qualifying Shareholders by splitting their shareholdings into odd lots to enable them to submit multiple top-up applications and be possibly allocated more excess Offer Shares, which is not considered to be fair and equitable; and (iv) Cheong Lee Securities would only enter into the Underwriting Agreement on the basis that no new substantial shareholders shall be introduced to the Company and no material changes shall be made to the existing Board, while the excess application mechanism may result in an unexpected introduction of a new substantial shareholder or controlling shareholder to the Company which may cast uncertainties on the Company's future direction and may not be in the interests of the Company and the Shareholders as a whole, no applications for excess Offer Shares will be offered to the Qualifying Shareholders and any Untaken Share will be taken up by Cheong Lee Securities pursuant to the terms of the Underwriting Agreement.

As set out in Table 2, 9 out of 14 Comparables did not offer excess application for their open offers. Given the arrangement of application for excess Offer Shares was absent in a majority of open offers of the Comparables, we consider that the arrangement of no applications for excess Offer Shares is a common market practice and on normal commercial term.

Although the absence of excess application arrangement may not be desirable from the point of view of those Qualifying Shareholders who wish to take up additional Offer Shares in excess of their assured entitlements, we consider that the absence of arrangement for application for excess Offer Shares, on balance, is acceptable and equitable so far as the Independent Shareholders are concerned given that (i) the Open Offer allows the Qualifying Shareholders to exercise their rights to subscribe for the Offer Shares with a fair chance; (ii) the Qualifying Shareholders who choose to accept their respective entitlements under the Open Offer in full can maintain their respective existing shareholdings in the Company after the Open Offer; (iii) the arrangement of excess application would increase the Company's administrative costs of the Open Offer; and (iv) such arrangement is a common market practice.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 5. Underwriting Arrangement

Pursuant to the Underwriting Agreement, Cheong Lee Securities has conditionally agreed to underwrite up to 1,248,088,920 Offer Shares at the Subscription Price, being the total number of Offer Shares under the Open Offer excluding an aggregate of 157,431,000 Offer Shares undertaken to be subscribed by Mr. Wong and Twin Star.

The Company shall pay Cheong Lee Securities an underwriting commission of 4.0% of the Subscription Price on the Underwritten Shares. The commission rate was determined after arm's length negotiation between the Company and Cheong Lee Securities by reference to, among other things, the size of the Open Offer, the current and expected market condition, the deteriorating financial condition of the Group and the prevailing market rate for the underwriting commission.

We understand from the management of the Company that it has approached several financial institutions (including Cheong Lee Securities) who are independent of the Company and its connected persons for negotiation of equity fund raising exercises such as rights issue, open offer and placing of new Shares before entering into the Underwriting Agreement. However, the Company did not receive any positive feedback from any of them except Cheong Lee Securities. During the negotiation with Cheong Lee Securities, in view of the deteriorating financial positions of the Group, Cheong Lee Securities indicated that it would only enter into the Underwriting Agreement on the basis that no new substantial shareholders shall be introduced to the Company and no material changes shall be made to the existing Board.

As illustrated in Table 2, the underwriting commission of 4.0% to be charged by Cheong Lee Securities under the Underwriting Agreement falls within the range of the Comparables of 0.0% to 5.0% but is higher than the average commission rate of the Comparables of approximately 2.1%. Based on the above and the fact that no positive feedbacks were received from other financial institutions to act as the underwriter of the Open Offer, we are of the view that the underwriting commission is fair and reasonable.

We were given to understand that Cheong Lee Securities has entered into a sub-underwriting arrangement with Metro Capital, which together with its ultimate beneficial owners are third parties independent of the Company and its connected persons. Pursuant to the sub-underwriting arrangement, Metro Capital shall sub-underwrite 1,100,000,000 Offer Shares of the total of 1,248,088,920 Underwritten Shares. The sub-underwriting arrangement shall ensure that Cheong Lee Securities will, together with parties acting in concert with it, hold less than 10% of the total number of Shares in issue upon the completion of the Open Offer. Cheong Lee Securities shall also use all

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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reasonable endeavours to procure that each of the subscribers of the Untaken Shares (including Metro Capital and other direct or indirect sub-underwriters) (i) shall be third party independent of the Company and connected persons of the Company; and (ii) shall not, together with any parties acting in concert with it, hold 10% or more of the voting rights of the Company upon completion of the Open Offer. As advised by Cheong Lee Securities, subsequent to the entering into of the sub-underwriting arrangement with Cheong Lee Securities, Metro Capital has also been soliciting and entering into further sub-underwriting arrangements with other parties independent of itself, the Company, Cheong Lee Securities and their respective connected persons. As at the Latest Practicable Date, Metro Capital had sub-underwritten (i) 673,000,000 Offer Shares to Mr. Chen; and (ii) 427,000,000 Offer Shares to Sun International, which subsequently sub-underwrote 427,000,000 Offer Shares to Mr. Yang Jinshu. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Mr. Chen held 3,544,000 Shares or approximately 0.38% of the total issued share capital of the Company as at the Latest Practicable Date and Mr. Chen's father held 2,320,000 Shares or approximately 0.25% of the total issued share capital of the Company as at the Latest Practicable Date, while none of Sun International, Sun International Resources Limited or Mr. Yang Jinshu held any Share as at the Latest Practicable Date. Metro Capital would assist Mr. Chen in further sub-underwriting part of the 673,000,000 Offer Shares, and Sun International would assist Mr. Yang Jinshu in further sub-underwriting part of the 427,000,000 Offer Shares, to other parties on reasonable endeavours, in order for each of these sub-underwriters to have not more than 10% interest in the Shares upon completion of the Open Offer. With the abovementioned arrangements, each of Cheong Lee Securities and Metro Capital will, together with the respective parties acting in concert with it, hold less than 10% of the total number of Shares in issue upon completion of the Open Offer.

It should also be noted that the Open Offer will not proceed if Cheong Lee Securities exercises its termination rights under the Underwriting Agreement. Details of the provisions granting the Underwriter such termination rights are set out in the paragraph headed "Termination of the Underwriting Agreement" contained in the Letter from the Board. We have reviewed the announcements of the Comparables and consider such termination provisions are on normal commercial terms and in line with the market practice.

### **6. Dilution effect of the Open Offer on shareholding interests**

All Qualifying Shareholders are entitled to subscribe for the Offer Shares. For those Qualifying Shareholders who take up their full entitlements under the Open Offer, their shareholding interests in the Company will remain unchanged after the Open Offer. Qualifying Shareholders who do not take up the Offer Shares to which they are entitled should note that their shareholdings in the Company will be diluted upon completion of the Open Offer. As at the Latest Practicable Date, the existing public Shareholders (excluding Metro Capital, Mr. Chen and his associate, and Mr. Yang Jinshu) held approximately 88.1% of the total issued share capital of the Company. Upon completion of the Open Offer (assuming nil acceptance by the Qualifying Shareholders, except Mr. Wong and

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Twin Star), the shareholding of the existing public Shareholders (excluding Metro Capital, Mr. Chen and his associate, and Mr. Yang Jinshu) will be diluted to approximately 35.3%. Moreover, taking into account the monetary effect of the Open Offer, if a Qualifying Shareholder does not take up his/her/its Offer Shares entitlement, the dilution impact on his/her/its shareholding will be approximately 34.1%, estimated based on the closing price of HK\$0.38 per Share on the Last Trading Day and the corresponding theoretical ex-entitlement price of approximately HK\$0.2504 per Share.

As set out in Table 2, the maximum dilution of the Comparables ranging from approximately 16.7% to approximately 83.3% with an average dilution of approximately 41.9%. For the Excluded Shareholders and those Qualifying Shareholders who do not take up their full entitlements under the Open Offer, depending on the extent to which they subscribe for the Offer Shares, their shareholding interests in the Company upon completion of the Open Offer will be diluted by up to a maximum of approximately 60.0%, which fall within the range, but is higher than the average, of the Comparables. The theoretical diminution of the Comparables ranged from approximately -0.5% to 55.0%. The theoretical diminution of the Open Offer of approximately 34.1% falls within the range of the Comparables and it is higher than the average theoretical diminution of the Comparables of approximately 20.0%.

In all cases of open offers, dilution on the shareholding of those qualifying shareholders who do not take up in full their assured entitlements under the open offers is inevitable. In fact, the dilution magnitude of any open offer depends mainly on the extent of the basis of entitlement under such exercise since the higher offering ratio of new shares to existing shares is, the greater the dilution on the shareholding would be.

Having considered that (i) the maximum dilution and the theoretical diminution of the Open Offer falls within the range of the Comparables respectively; (ii) the dilution effect is not prejudicial as all Qualifying Shareholders are offered an equal opportunity to participate in the enlargement of the capital base of the Company and the Independent Shareholders' interests in the Company will not be diluted if they elect to exercise their full entitlements under the Open Offer; (iii) shareholding dilution is inherent in open offers in general; and (iv) the Open Offer shall have positive impacts on the financial position of the Group as detailed in section "7. Financial effects" below, we are of the view that the potential dilution effect on the shareholding which may only happen to the Excluded Shareholders and the Qualifying Shareholders who decide not to subscribe for their pro rata Offer Shares is justifiable.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 7. Financial effects

It should be noted that the analysis below is for illustrative purpose only and does not purport to represent how the financial position of the Group will be upon completion of the Open Offer.

#### 7.1 *Net tangible asset*

According to the unaudited pro forma financial information of the Group as set out in Appendix II to the Circular, had the Open Offer been completed on 30 September 2015, the unaudited pro forma adjusted net tangible assets of the Group attributable to the Shareholders would have increased from approximately HK\$221.4 million to approximately HK\$441.1 million immediately after the completion of the Open Offer.

#### 7.2 *Cash and bank balances*

Upon completion of the Open Offer, the cash and bank balances of the Group will increase by an amount equivalent to the net proceeds of the Open Offer, which is estimated to be approximately HK\$219.7 million.

#### 7.3 *Gearing*

The Open Offer shall increase the total assets of the Group without bringing any change to the total liabilities. As such, the gearing ratio of the Group, as expressed as the ratio of total liabilities to total assets, would decrease after the Open Offer.

Based on the above analysis, we are of the view that the Open Offer would have a positive effect on the Group's net tangible assets, cash position and gearing.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### RECOMMENDATION

Having considered the abovementioned principal factors and reasons, we consider that the terms of the Open Offer and the Underwriting Agreement are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders, as well as the Independent Shareholders, to vote in favour of the resolution to approve the Open Offer and the Underwriting Agreement at the EGM.

Yours faithfully,  
For and on behalf of  
**Hercules Capital Limited**

**Louis Koo**  
*Managing Director*

**Amilia Tsang**  
*Director*

*Notes:*

1. Mr. Louis Koo is a licensed person under the SFO to engage in Type 6 (advising on corporate finance) regulated activities and has over 20 years of experience in investment banking and corporate finance.
2. Ms. Amilia Tsang is a licensed person under the SFO to engage in Type 6 (advising on corporate finance) regulated activities and has over 15 years of experience in corporate finance, investment and corporate management.

## 1. FINANCIAL INFORMATION OF THE COMPANY

The audited consolidated financial statements of the Group for the years ended 31 March 2013, 31 March 2014 and 31 March 2015, together with accompanying notes have been included in the annual report of the Company for the year ended 31 March 2013 (pages 39 to 97), the annual report of the Company for the year ended 31 March 2014 (pages 45 to 113) and the annual report of the Company for the year ended 31 March 2015 (pages 51 to 135), respectively. The unaudited consolidated financial statements of the Group for the six months ended 30 September 2015, together with accompanying notes, have been included in the interim report of the Company for the six months ended 30 September 2015 (pages 19 to 58).

The said annual reports and interim report of the Company are available on the Company's website at [www.newtreegroupholdings.com](http://www.newtreegroupholdings.com) and the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk).

## 2. INDEBTEDNESS

As at the close of business on 30 April 2016, being the latest practicable date for the purpose of ascertaining the indebtedness of the Group prior to the printing of this circular, the Group had the following indebtedness:

	<i>HK\$'000</i>
Carrying amount:	
Trust receipt loan ( <i>Note 1</i> ) . . . . .	438
Convertible Bonds ( <i>Note 2</i> ). . . . .	124,459
Amount due to a related party ( <i>Note 3</i> ). . . . .	4,295
	<hr/>
<b>Total</b> . . . . .	<b>129,192</b>
	<hr/> <hr/>

### Notes:

- The trust receipt loan is denominated in United State Dollars ("USD") and secured by a pledged bank deposit amounting to USD1,000,000, corporate guarantee in the amount of USD3,500,000 executed by the Company and legally notarised *livanca* (i.e. promissory note) in the amount of USD3,500,000 executed by a subsidiary of the Company. It is repayable within 3 months and interest bearing at London Interbank Money Market Offered Rate plus 1.9% per annum.
- On 19 June 2014, the Company issued HK\$100,000,000 8% guaranteed Convertible Bonds with aggregate principal amount of HK\$100,000,000. The Convertible Bonds mature two years from the date of issue at 124% of its principal amount; can be early redeemed by the Company or the CB Holders after the first anniversary of the date of issue at an amount equal to all outstanding Convertible Bonds at 100% of the principal amount plus a premium of 12% per annum; or can be converted into Shares on and after 19 June 2014 to 18 June 2016 at the holder's option at the initial

conversion price of HK\$3.2 per Share. Interest of 8% per annum are payable semi-annually in arrears until the Convertible Bonds are converted or redeemed. The effective interest rate of the liability component on initial recognition and the subsequent measure of interest expense on the Convertible Bonds is calculated using effective interest rate of 23.24% per annum. The Convertible Bonds are guaranteed by Mr. Wong, an executive Director and the Chairman of the Company (for the purpose of this paragraph, the “**Guarantor**”), who unconditionally and irrevocably guarantees that if the Company does not pay any sum payable by it under the subscription agreement or the Convertible Bonds by the time and on the date specified for such payment, the Guarantor will pay that sum to or to the order of the CB Holders. The CB Holders and the Company subsequently entered into the Deed of Amendments on 17 May 2016 to amend certain terms of the Convertible Bonds, including extension of the maturity date thereof to 31 August 2016.

3. The amount due to a related party is unsecured, interest-free and repayable on demand.

As at the close of business on 30 April 2016, a wholly-owned subsidiary of the Company provided corporate guarantee to a bank for securing a borrowing of an associate of the Company amounting to approximately HK\$9.1 million. Save as aforesaid or otherwise mentioned herein, and apart from intra-group liabilities and normal trade payables in the ordinary course of the business, the Group had no other outstanding mortgages, charges, debentures or other loan capital, bank overdrafts or loans, other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptance or acceptance credit, guarantees or material contingent liabilities at the close of business on 30 April 2016.

### 3. WORKING CAPITAL STATEMENT

The Directors, after due and careful consideration, are of the opinion that in the absence of unforeseeable circumstance, taking into account the internal resources of the Group, currently available bank and other facilities and the estimated net proceeds from the Open Offer, the Group will have sufficient working capital for its present requirements for at least the next twelve months following the date of this circular.

### 4. MATERIAL ADVERSE CHANGE

As disclosed in the Company’s announcement dated 7 June 2016 (the “**Profit Warning Announcement**”), the Group is expected to incur substantial loss (the “**Substantial Loss**”) for the year ended 31 March 2016, which may be higher than the loss for the previous year. The Substantial Loss could be primarily attributable to the impairment losses on goodwill and other intangible assets, trade receivables and prepayment, and interest in an associate and available-for-sale financial assets, as well as the fair value loss on contingent consideration receivables and the loss arising from the payment of earn-out consideration during the year for prior year acquisitions. For details, please refer to the Profit Warning Announcement. Save as aforesaid, the Directors are not aware of any material adverse change in the financial and trading position of the Group since 31 March 2015, being the date to which the latest published audited consolidated financial statements of the Group were made up.

## 5. TRADING AND FINANCIAL PROSPECTS OF THE GROUP

The Board expects the global economy to witness a gradual slowdown in the coming years. The Company will pay attention to the changes in global economy and probe for new business opportunities available in the market which can enhance the Shareholders' value and strengthen the financial position of the Group.

### *Hygienic disposables business*

The Group's hygienic disposables business has been facing increasingly tense competitions among existing market players and new entrants in recent years, and has, therefore, been loss-making since 2014. Nevertheless, the Group has been seeking to outperform its industry rivals by continually striving for improvement in gross profit margin by monitoring and changing product mix, extending sales network and capturing higher value market segments. The Group has started to see positive results from its strategy with the segment gross profit margin having enhanced from merely 1.3% during the year ended 31 March 2014 to more than 10% during the year ended 31 March 2015. The segment gross profit margin remained at around 10% during the six months ended 30 September 2015. Motivated by the remarkable results, the Group has confidence in a turnaround to a profit-making position in the business segment and will deploy more resources into the segment with an aim to improve its performance.

### *Household consumables business*

The Group's household consumables business primarily targets the wholesale and retail customers in the European Union region. However, the unfavourable economic conditions in the region in recent years have been placing increasing pressure on the operations of the Group's household consumables business. This could be signified by the continuing decline in the revenue generated by the segment. For the year ended 31 March 2015, the Group's household consumables business generated revenue of approximately HK\$73.4 million to the Group, representing a drop of approximately 5.1% as compared to the previous financial year. The segment stayed weak during the six months ended 30 September 2015 with revenue contribution of approximately HK\$33.5 million compared to approximately HK\$42.0 million for the corresponding period in 2014. Despite the shrinking sales, the segment profitability has been improving. The segment profit margin was below 1% during the year ended 31 March 2014 and has improved to 7.0% during the year ended 31 March 2015. The segment profit margin for the six months ended 30 September 2015 was at approximately 7.7%. The improvement could be attributed to the Group's optimisation of product mix for higher margin products. Looking ahead, the Group will remain committed to its strategy of product mix optimisation in order to maintain its position in the competitive household consumables market.

*Coal business*

It is expected that the PRC and global coal industry will continue to suffer from coal price decline and oversupply during the coming years, which increase operating pressure for both domestic and overseas coal market players. The coal trading contract for the Group's coal business will be carried out in an inevitably slower pace in coming years. Considering that substantial financial resources have already been deployed to this segment in prior years, the Group will continue to monitor the market development and review its operating position in the long-term development of this business segment.

*Jewelries and watches business*

Since the Group commenced its jewelries and watches business during the year ended 31 March 2015, it has been receiving solid revenue and profit from segment, which mainly targets retail customers in Hong Kong and the PRC. The Board believes that the jewelries and watches market will continue to have prominent growth in demand, despite the recent slowdown of the Hong Kong and PRC retail markets. More efforts will be placed onto developing the Group's established and rapidly growing online sales channels while continuing to strengthen its brand image to capture market share amid growing product demands.

*Digital technology business*

The consumer hunger for new technologies has driven the growth in digital technology sector for years. The Group has therefore acquired a company engaged in the digital technology business (as well as, the education business as further discussed in the paragraph below) during the year ended 31 March 2015 and has managed to earn a segment profit of approximately HK\$1.8 million for the year. During the six months ended 30 September 2015, the segment profit was approximately HK\$1.5 million. In addition, the Group's confidence in the outlook of the digital technology business (as well as, the education business as further discussed in the paragraph below) has been reinforced after the acquired company managed to fulfil the profit guarantee of not less than HK\$10 million in the audited consolidated net profit after tax and before all non-cash items for the financial year ended 31 December 2015 as disclosed in the announcement of the Company dated 29 March 2016. Going forward, the Group will continue to harness new ideas and technologies to improve its efficiency and strengthen the Group's competitive edge in this rapid changing industry.

*Education business*

Through the aforesaid acquisition, the Group also commenced its education business during the year ended 31 March 2015. Since then, the segment has been the key revenue and profit contributor of the Group. During the six months ended 30 September 2015, the segment contributed the biggest portion of segment profit of approximately HK\$4.7 million. The huge demands for education-related products and services in Hong Kong and the PRC have provided a prime opportunity for the Group to develop the segment. Looking ahead, the Board believes that the positive industry outlook will attract more entrants, which could induce more intense competition. Nonetheless, with the nation-wide implementation of the “two-child policy” and incessantly augmenting demand for quality education driven by the rise of middle class, the Group is optimistic that the overall market size will continue to grow and that its education business segment could ride on the industry expansion and contribute robust profitability to the Group.

## APPENDIX II PRO FORMA FINANCIAL INFORMATION OF THE GROUP

### A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS OF THE GROUP

The following is an illustrative and unaudited pro forma statement of adjusted net tangible assets of the Group attributable to the equity holders of the Company, prepared in accordance with Rule 4.29 of the Listing Rules and on the basis of the notes set out below, for the purpose of illustrating the effect of the Open Offer on the consolidated net tangible assets of the Group attributable to the equity holders of the Company as if the Open Offer had taken place on 30 September 2015. The unaudited pro forma statement of adjusted net tangible assets of the Group attributable to the equity holders of the Company has been prepared for illustrative purpose only and because of its hypothetical nature, it may not give a true picture of the consolidated financial position of the Group attributable to the equity holders of the Company had the Open Offer been completed on 30 September 2015 or at any future dates.

Unaudited net tangible assets of the Group attributable to the equity holders of the Company as at 30 September 2015	Estimated net proceeds from the Open Offer	Unaudited pro forma adjusted net tangible assets of the Group attributable to the equity holders of the Company after completion of the Open Offer	Unaudited net tangible assets per Share attributable to the equity holders of the Company as at 30 September 2015	Unaudited pro forma adjusted net tangible assets attributable to the equity holders of the Company after completion of the Open Offer per Share	
<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$</i>	<i>HK\$</i>	
<i>(Note 1)</i>	<i>(Note 2)</i>		<i>(Note 3)</i>	<i>(Note 4)</i>	
Open offer of 1,405,519,920 Offer Shares to be issued at the Subscription Price of HK\$0.164 per Offer Share	221,400	219,717	441,117	0.236	0.188
	221,400	219,717	441,117	0.236	0.188

*Notes:*

- The unaudited consolidated net tangible assets of the Group attributable to the equity holders of the Company as at 30 September 2015 is based on the unaudited equity attributable to the equity holders of the Company as at 30 September 2015 of approximately HK\$529,408,000 as adjusted for the intangible assets and goodwill of the Group as at 30 September 2015 of approximately HK\$308,008,000, as extracted from the published unaudited interim report of the Company for the six months ended 30 September 2015.



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## APPENDIX II      PRO FORMA FINANCIAL INFORMATION OF THE GROUP

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2. The estimated net proceeds from the Open Offer are based on 1,405,519,920 Offer Shares to be issued (in the proportion of three Offer Share for every two Shares held as at the Record Date) at the Subscription Price of HK\$0.164 per Offer Share, after deduction of the estimated related expenses of approximately HK\$10,788,000.
3. The unaudited consolidated net tangible assets per Share attributable to the equity holders of the Company as at 30 September 2015 was calculated based on 937,013,281 Shares which is derived from 902,649,020 Shares in issue as extracted from the published unaudited interim report of the Company for the six months ended 30 September 2015 as adjusted for the 34,364,261 Shares issued pursuant to the announcement of the Company dated 29 March 2016.
4. The unaudited pro forma adjusted consolidated net tangible assets per Share attributable to the equity holders of the Company after completion of the Open Offer is based on 2,342,533,201 Shares in issue immediately following the Open Offer.
5. The unaudited pro forma financial information of the presented above does not take into account of the following transactions:
  - (i) On 11 December 2015, the Company completed the disposal of its entire equity interest and shareholder's loan in Sino-Singapore (Offshore) Chemical Resources Trading Company Limited (i.e. the MTBE Business). The difference between the cash consideration of approximately HK\$16,000,000 and the total net assets classified as assets held for sale, as extracted from the published unaudited interim report of the Company for the six months ended 30 September 2015 is approximately HK\$2,054,000. Such transaction will result in an increase in net tangible assets of the Group attributable to the equity holders of the Company by approximately HK\$2,054,000; and
  - (ii) Any trading results or other transactions of the Group entered into subsequent to 30 September 2015.

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## APPENDIX II PRO FORMA FINANCIAL INFORMATION OF THE GROUP

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### B. REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

*The following is the text of a report, prepared for the purpose of incorporation in this circular, received from the Company's reporting accountants, Moore Stephens CPA Limited, Certified Public Accountants, Hong Kong, in respect of the unaudited pro forma financial information of the Group.*

**MOORE STEPHENS**  
CPA LIMITED

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905 Silvercord, Tower 2  
30 Canton Road  
Tsimshatsui  
Kowloon  
Hong Kong

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大華馬施雲  
會計師事務所有限公司

24 June 2016

The Board of Directors  
Newtree Group Holdings Limited

Dear Sirs,

### INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Newtree Group Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "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 adjusted net tangible assets of the Group attributable to the equity holders of the Company as at 30 September 2015 and the related notes as set out in Part A of Appendix II of the circular dated 24 June 2016 (the "Circular") issued by the Company (the "Unaudited Pro Forma Financial Information") in connection with an open offer of 1,405,519,920 offer shares at the subscription price of HK\$0.164 per offer share on the basis of three offer shares for every two shares by the Company (the "Open Offer"). The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are set out in Part A of Appendix II to the Circular.

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## APPENDIX II PRO FORMA FINANCIAL INFORMATION OF THE GROUP

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The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the Open Offer on the Group's financial position as at 30 September 2015 as if the Open Offer had taken place at 30 September 2015. As part of this process, information about the Group's financial position has been extracted by the Directors from the unaudited condensed consolidated financial information of the interim report of the Group for the six months ended 30 September 2015.

### ***Directors' Responsibilities for the Unaudited Pro Forma Financial Information***

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 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*" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

### ***Our Independence and Quality Control***

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

### ***Reporting Accountants' Responsibilities***

Our responsibility is to express an opinion, as required by paragraph 4.29(7) 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.

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 accountants plan and perform procedures to obtain reasonable assurance about whether the

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## APPENDIX II      PRO FORMA FINANCIAL INFORMATION OF THE GROUP

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Directors have compiled the Unaudited Pro Forma Financial Information, in accordance with paragraph 4.29 of the Listing Rules and with reference to Accounting Guideline 7 “*Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars*” 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 Unaudited Pro Forma Financial Information included in a circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 30 September 2015 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’ judgement, 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.

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## APPENDIX II      PRO FORMA FINANCIAL INFORMATION OF THE GROUP

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### Opinion

In our opinion:

- a) the Unaudited Pro Forma Financial Information has been properly compiled by the Directors 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 4.29(1) of the Listing Rules.

Yours faithfully,

**Moore Stephens CPA Limited**

*Certified Public Accountants*

**Hung, Wan Fong Joanne**

Practising Certificate Number P05419

Hong Kong

**1. RESPONSIBILITY STATEMENT**

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

**2. SHARE CAPITAL**

The authorised and issued share capital of the Company as at the Latest Practicable Date and immediately following completion of the Open Offer were/will be as follows:

## (i) As at the Latest Practicable Date

<i>Authorised:</i>		<i>HK\$</i>
<u>10,000,000,000</u>	Shares of HK\$0.01 each	<u>100,000,000</u>
<i>Issued and fully paid:</i>		
<u>937,013,281</u>	Shares of HK\$0.01 each	<u>9,370,132.81</u>

## (ii) Immediately following the completion of the Open Offer (assuming that there is no change in the shareholding structure of the Company from the Latest Practicable Date up to the Record Date)

<i>Authorised:</i>		<i>HK\$</i>
<u>10,000,000,000</u>	Shares of HK\$0.01 each	<u>100,000,000</u>
<i>Issued and fully paid/to be issued:</i>		
937,013,281	Shares as at the Latest Practicable Date	9,370,132.81
1,405,519,920	Offer Shares to be allotted and issued under the Open Offer	14,055,199.20
<u>2,342,533,201</u>	Shares upon completion of the Open Offer	<u>23,425,332.01</u>

All the existing Shares in issue are fully-paid and rank pari passu in all respects including all rights as to dividends, voting and return of capital. The Offer Shares, when allotted, issued and fully-paid, will rank pari passu with the existing Shares in issue in all respects. Holders of fully-paid Offer Shares will be entitled to receive all future dividends and distributions which may be declared, made or paid on or after the date of allotment of the Offer Shares.

As at the Latest Practicable Date, the Company had Convertible Bonds in the principal amount of HK\$100 million, which entitle the CB Holders the rights to convert into a maximum of 31,250,000 Shares (based on the existing conversion price of HK\$3.20, subject to adjustments).

As at the Latest Practicable Date, save for the Convertible Bonds, the Company had no other outstanding convertible securities, options or warrants in issue which confer any right to subscribe for, convert for or exchange for Shares.

No part of the securities of the Company is listed or dealt in or on which listing or permission to deal is being or is proposed to be sought on any other stock exchange.

As at the Latest Practicable Date, there was no arrangement under which future dividends were waived or agreed to be waived.

No capital of any member of the Group was under option, or agreed conditionally or unconditionally to be put under option as at the Latest Practicable Date.

## 3. DIRECTORS' INTERESTS

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

<u>Name of Directors</u>	<u>Nature of interest</u>	<u>Total number of Shares held (Note)</u>	<u>Approximate percentage of shareholding in the Company</u>
Mr. Wong (Note)	Beneficial owner and interest of a controlled corporation	104,954,000	11.20%
Mr. Chum (Note)	Interest of a controlled corporation	96,924,000	10.34%

*Note:* Mr. Wong held 8,030,000 Shares in personal capacity. He also held 50% equity interest in Twin Star, which was interested in 96,924,000 Shares. Accordingly, both Mr. Wong and Mr. Chum were deemed to be interested in such 96,924,000 shares held by Twin Star.

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



## 4. SUBSTANTIAL SHAREHOLDERS' INTERESTS

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

Name	Nature of interest	Total number of Shares interested	Approximate percentage of shareholding in the Company
Cheong Lee Securities	Beneficial owner	148,088,920(L)	15.80%
CL Group	Interest of a controlled corporation	148,088,920(L)	15.80%
Au Suet Ming Clarea	Interest of a controlled corporation	148,088,920(L)	15.80%
Metro Capital	Beneficial owner	1,100,400,000(L) 1,100,000,000(S)	117.44% 117.39%
Vong Kuoc Meng	Interest of a controlled corporation	1,100,400,000(L) 1,100,000,000(S)	117.44% 117.39%
Mr. Chen	Beneficial owner	676,544,000(L)	72.20%
Sun International	Beneficial owner	427,000,000(L)	45.57%
Infinite Success Investments Limited	Interest of a controlled corporation	427,000,000(L)	45.57%
Galileo Capital Group (BVI) Limited	Interest of a controlled corporation	427,000,000(L)	45.57%
Sun Resources	Interest of a controlled corporation	427,000,000(L)	45.57%
First Cheer Holdings Limited	Interest of a controlled corporation	427,000,000(L)	45.57%
Chau Cheok Wa	Interest of a controlled corporation	427,000,000(L)	45.57%
Cheng Ting Kong	Interest of a controlled corporation	427,000,000(L)	45.57%
Mr. Yang	Beneficial owner	427,000,000(L)	45.57%
Twin Star	Beneficial owner	96,924,000(L)	10.34%

*Note:* "L" denotes long position and "S" denotes short position.

- (ii) Save as disclosed in this circular, so far as is known to the Directors, there is no other person who had an interest or short position in the Shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, had a direct or indirect interests amounting to 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of the Group.

#### **5. INTERESTS IN CONTRACT OR ARRANGEMENT**

As at the Latest Practicable Date, none of the Directors was materially interested in contract or arrangement subsisting which is significant in relation to the business of the Group, nor had any Director had any direct or indirect interest in any assets which have been acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 March 2015, the date to which the latest published audited consolidated financial statements of the Group were made up.

#### **6. LITIGATION**

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and there is no litigation or claim of material importance known to the Directors to be pending or threatened by or against any member of the Group.

#### **7. SERVICE CONTRACTS**

None of the Directors has a service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

#### **8. MATERIAL CONTRACTS**

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

- (i) the acquisition agreement dated 10 July 2014 entered into between Golden Star Group Holdings Limited (a direct wholly-owned subsidiary of the Company), as purchaser, Sinochoze Investments Limited and Jin Ding Investment Limited, as vendors, and Mr. Lo Man Piu and Mr. Jiang Zhiyong, as vendors' guarantors, in relation to the acquisition of approximately 10% equity interest in Goldbell Holdings Limited at a cash consideration of HK\$159 million, which was completed on 16 July 2014;

- (ii) the acquisition agreement dated 16 September 2014 entered into between Star Guardian Holdings Limited (a direct wholly-owned subsidiary of the Company), as purchaser, and Mr. So Siu Kwan, Ms. Chan Sze Ching and Mr. Chan Hin Wing James, as vendors, in relation to the acquisition of the entire issued share capital of Tiger Global Group Limited at a consideration of HK\$81 million, satisfied by the issue of an aggregate of 33,360,790 consideration Shares at the issue price of HK\$2.428 per Share, which was completed on 25 September 2014;
- (iii) the placing agreement dated 15 October 2014 entered into between the Company, as issuer, and Orient Securities (Hong Kong) Limited, as placing agent, in relation to the placing of up to 27,000,000 new Shares at HK\$2.40 per Share on a best effort basis, which was completed on 29 October 2014;
- (iv) the acquisition agreement dated 16 October 2014 entered into between Virtual Garden Investments Limited (a direct wholly-owned subsidiary of the Company), as purchaser, Rosymount Limited, Bright Form Limited, Smart Great International Limited and Mr. Chan Poon Yau Adrian, as vendors, and Mr. Lau Isaac Bok-man Kaleo, Mr. Chan Kai Wing and Ms. Tsang Wai Man Elsa, as vendors' guarantors, in relation to the acquisition of the entire issued share capital and shareholder's loan of DigiSmart (Group) Limited at an initial consideration of HK\$200 million (satisfied as to HK\$15 million in cash and HK\$185 million by the issue of an aggregate of 79,467,353 consideration Shares at the issue price of HK\$2.328 per Share) and an earn-out consideration of up to HK\$80 million (satisfied in full by the issue of up to 34,364,261 consideration Shares at the issue price of HK\$2.328 per Share), which was completed on 28 November 2014;
- (v) the memorandum of understanding dated 7 November 2014 entered into between Mr. Tsang Mo Chau, as vendor, and Starry Zone Global Limited (a direct wholly-owned subsidiary of the Company), as purchaser, in relation to the possible acquisition of 95% equity interest in Eco-Mining Innovative Tech Limited at a consideration of HK\$209 million;
- (vi) the placing agreement dated 23 January 2015 entered into between the Company, as issuer, and Cheong Lee Securities Limited, as placing agent, in relation to the placing of up to 16,000,000 new Shares at HK\$2.53 per Share on a best effort basis, which was completed on 4 February 2015;
- (vii) the acquisition agreement dated 4 February 2015 (as supplemented on 26 February 2015) entered into between the Company, Starry Zone Global Limited (a direct wholly-owned subsidiary of the Company), as purchaser, China Coal International Holdings Limited and Mr. Tsang Mo Chau, as vendors, and Mr. Chen Bozi, as guarantor of one of the vendors, in relation to the acquisition of 95% equity interest in Eco-Mining Innovative Tech Limited at a consideration of HK\$209 million, which was lapsed on 31 March 2015;

(viii) the sale and purchase agreement dated 24 June 2015 entered into between Star Fantasy International Limited (a direct wholly-owned subsidiary of the Company), as vendor, and Nowucmee Limited, as purchaser, in relation to the disposal of entire equity interests in and shareholder's loan of Sino-Singapore (Offshore) Chemical Resources Trading Company Limited at a consideration of HK\$16 million;

(ix) the Deed of Amendments; and

(x) the Underwriting Agreement.

## **9. COMPETING BUSINESS**

As at the Latest Practicable Date, none of the Directors nor his/her close associates (as defined in the Listing Rules) was interested in any business apart from the business of the Group, which competes or is likely to compete, either directly or indirectly, with that of the Group.

## **10. EXPERTS AND CONSENTS**

The following is the qualifications of the experts whose statements have been included in this circular:

<b>Name</b>	<b>Qualification</b>
Moore Stephens CPA Limited ("Moore Stephens")	Certified Public Accountants
Hercules Capital	a corporation licensed to carry on Type 6 (advising on corporate finance) regulated activity under the SFO

Each of Moore Stephens and Hercules Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letters or opinions or reports or references to its name in the form and context in which it appears.

As at the Latest Practicable Date, each of Moore Stephens and Hercules Capital had not had any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, each of Moore Stephens and Hercules Capital had not had any direct or indirect interests in any assets which have been, since 31 March 2015 (being the date to which the latest published audited consolidated financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group.

## 11. CORPORATE INFORMATION AND PARTIES INVOLVED IN THE OPEN OFFER

<b>Registered office</b>	Cricket Square, Hutchins Drive P.O. Box 2681 Grand Cayman, KY1-1111 Cayman Islands
<b>Headquarters</b>	Flat L, 12th Floor Macau Finance Centre Rua de Pequim Macau
<b>Principal place of business in Hong Kong</b>	Suites 3505-08, 35/F. Tower 6, The Gateway Harbour City, Kowloon Hong Kong
<b>Underwriter</b>	Cheong Lee Securities Limited Unit B, 16/F Bank of East Asia Harbour View Centre 56 Gloucester Road Wanchai Hong Kong
<b>Financial adviser to the Company</b>	Optima Capital Limited Suite 1501, 15th Floor Jardine House 1 Connaught Place, Central Hong Kong
<b>Legal advisers to the Company as to Hong Kong laws</b>	Michael Li & Co. 19/F, Prosperity Tower 39 Queen's Road Central Central Hong Kong

<b>Reporting accountants and auditors</b>	Moore Stephens CPA Limited 905 Silvercord, Tower 2 30 Canton Road Tsimshatsui Kowloon Hong Kong
<b>Independent financial adviser</b>	Hercules Capital Limited 1503 Ruttonjee House 11 Duddell Street Central Hong Kong
<b>Principal bankers</b>	Bank of China Huizhou Huihuan Sub-branch Bank of China, Macau Branch Bank of East Asia, Limited Bank of Communications Co. Ltd. Hong Kong Branch
<b>Principal share registrar and transfer office</b>	Royal Bank of Canada Trust Company (Cayman) Limited 4th Floor, Royal Bank House 24 Shedden Road, George Town Grand Cayman KY1-1110 Cayman Islands
<b>Hong Kong branch share registrar and transfer office</b>	Tricor Investor Services Limited Level 22, Hopewell Centre 183 Queen's Road East Hong Kong

**Authorised representatives** Mr. Wong Jeffrey  
Suites 3505-08, 35/F.  
Tower 6, The Gateway  
Harbour City, Kowloon  
Hong Kong

Ms. Kwok Ka Huen  
Suite 802-803  
Harcourt House  
39 Gloucester Road  
Wanchai  
Hong Kong

**Company secretary** Ms. Kwok Ka Huen

## 12. PROFILES OF DIRECTORS, SENIOR MANAGEMENT AND COMPANY SECRETARY

- (i) Business addresses of Directors, senior management and company secretary of the Company

The business address of all the Directors and senior management of the Company is the same as the principal place of business of the Company in Hong Kong at Suites 3505-08, 35/F, Tower 6, The Gateway, Harbour City, Kowloon, Hong Kong.

The business address of the company secretary is at Suite 802-803, Harcourt House, 39 Gloucester Road, Wanchai, Hong Kong.

- (ii) Profiles of Directors, senior management and company secretary of the Company

### *Executive Directors*

**Mr. Wong Wai Sing** (i.e. Mr. Wong), aged 30, joined the Company in October 2011 and is currently the Chairman of the Board, Chief Executive Officer and an executive Director of the Company. Mr. Wong was also the Vice Chairman of the Company from October 2011 to June 2013, and the Chief Executive Officer of the Company from May 2012 to July 2014. Mr. Wong has taken up the management role as an executive director of a number of subsidiaries of the Company. Mr. Wong is a member of the Hong Kong Institute of Directors. Mr. Wong holds a Bachelor of Science degree in international business from the Canterbury University, London, an international master degree of business administration from the Stratford University, Falls Church, Virginia, the United States of America and a master of arts and a doctor of philosophy from the Universidad Empresarial De Costa Rica. He also obtained a certificate of three-tiers'

integrate coal mine's safety (三級煤礦安全技術綜合考試) from the Bureau of Xinjiang Coal Mine Safety Supervision, the PRC (中國新疆煤礦安全監察局). Mr. Wong is also the Diplomatic Adviser to the Special Representatives for the PRC of the Sovereign Order of Saint John of Jerusalem, Knights of Malta, Federation of the Autonomous Priorities.

Mr. Wong has experience in a wide range of businesses, including coal mining, natural resources industry, international coal trading, business consultation, property investment, provision of internet e-gaming, rendering of travel agent services, entertainment programme production, events organisation, television series production, operation of an artist training school, provision of motor vehicles beauty services, provision of underwriting services for general insurance and reinsurance business, manufacture and trading of hygienic disposables for household and clinical uses, trading of Methyl Tertiary Butyl Ether and wholesale and retail of household consumables. He was the owner of Colors Securities Limited, which is principally engaged in dealing in securities (type 1), advising on securities (type 4) and asset management (type 9) regulated activities under the SFO, and Colors Commodities Limited, which is principally engaged in dealing in futures contracts (type 2) and advising on futures contracts (type 5) regulated activities under the SFO.

Mr. Wong was a consultant of a Hong Kong-based medium-sized certified public accounting firm for more than one year. He was initially appointed as a non-executive director of Capital Finance Holdings Limited (“**Capital Finance**”) (formerly known as Ming Kei Holdings Limited), a company whose shares are listed on the Growth Enterprise Market of the Stock Exchange (stock code: 8239) in November 2008, and subsequently resigned from his final positions of Vice Chairman and executive director in April 2016.

As at the Latest Practicable Date, Mr. Wong was interested in 104,954,000 Shares, representing approximately 11.20% of the issued share capital of the Company, of which 96,924,000 Shares were held by a controlled entity within the meaning of Part XV of the SFO (i.e. Twin Star).

**Mr. Chum Hon Sing** (i.e. Mr. Chum), aged 37, joined the Company in June 2010, and is currently an executive Director and Vice Chairman of the Company. Mr. Chum was also the Chairman of the Company from May 2012 to June 2013. He is also a director of a number of subsidiaries of the Company. He graduated from University Hill Secondary School in British Columbia, Canada in 1996. Mr. Chum is primarily responsible for devising the Group's business development strategies and overseeing their due execution. Mr. Chum is also responsible for overseeing the manufacturing and sales functions as well as the daily operations of the Group. Mr. Chum has taken up roles in different functions within the Group. Prior to assuming his current position of the Group, Mr. Chum worked as the production manager, purchasing manager and sales manager of the Group where he was responsible for overseeing the



production and design of the Group's products, purchase of raw materials and machinery as well as expansion of the Group's overseas markets. Mr. Chum has successfully led the Group to become an exporter of clinical and household hygienic disposables with innovative designs which include products made with oxo-biodegradable materials, and secured and maintained stable business relationships with various well-established customers in the European Union region and the United States of America. He also expanded the Company's reach to the markets in the United Kingdom of Great Britain and Northern Ireland by acquisition.

Mr. Chum was the executive director of Sky Forever Supply Chain Management Group Limited ("**Sky Forever**") (formerly known as Rising Power Group Holdings Limited) (stock code: 8047), a company listed on the Growth Enterprise Market of the Stock Exchange, from July 2013 to December 2013.

As at the Latest Practicable Date, Mr. Chum was interested in 96,924,000 Shares, which were held by a controlled entity within the meaning of Part XV of the SFO (i.e. Twin Star).

**Mr. Chan Kin Lung ("Mr. Chan")**, aged 48, joined the Company in October 2013 as an executive Director and is the Chief Investment Officer of the Company. Mr. Chan holds a bachelor's degree of Management of the Economy<sup>#</sup> (經濟管理) from the Air Force Engineering University of People's Liberation Army, the PRC<sup>#</sup> (中國人民解放軍空軍工程大學) and holds a diploma of Senior Energy Valuer<sup>#</sup> (能源審計評估師 (高級)) from the Ministry of Human Resources and Social Security of the PRC<sup>#</sup> (中華人民共和國人力資源和社會保障部). Mr. Chan has over 8 years of experience in the coal mining industry (being both open-pits and undergrounds respectively), exploration, exploitation, production in the Xinjiang Uyghur Autonomous Region, the PRC and the Guizhou Province, the PRC. Mr. Chan also has over 11 years of experience in corporate management. Mr. Chan adopted a proactive management approach and delivered outstanding performances in various areas, specifically in the areas of corporate managements and providing mining's technical supports and solutions to the senior managements.

**Mr. Lee Chi Shing, Caesar ("Mr. Lee")**, aged 52, joined the Company in October 2011 as an executive Director. He graduated from the Department of Accountancy and obtained a Master degree in International Accountancy, both from the Hong Kong Polytechnic University. He is a fellow member of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants and also a member of the Society of Registered Financial Planners. He is experienced in corporate management and internal control. He was the senior manager of Ernst and Young and has worked in the Inland Revenue Department for over 15 years.

Mr. Lee was an executive director of Sun International Resources Limited (stock code: 8029), a company listed on the Growth Enterprise Market of the Stock Exchange, from August 2006 to November 2015.

**Ms. Yick Mi Ching, Dawnibilly (“Ms. Yick”)**, aged 56, joined the Company in June 2012 as an executive Director. Ms. Yick holds a Master of Business Administration and a Master of Management from Macquarie Graduate School of Management, Australia and Honours Degree of Bachelor of Arts in Business Administration from the University of Portsmouth, the United Kingdom. Ms. Yick has also completed a diploma in secretarial and administration from the City and Guilds of London Institute and an advanced diploma in secretarial and administrative studies from the Hong Kong Management Association. Ms. Yick has over 21 years of experience in the field of administration. Ms. Yick has adopted a proactive management approach and delivered outstanding performances in various areas, specifically in the areas of corporate management and providing secretarial support to the senior executives.

**Mr. Wong Jeffrey (“Mr. Jeffrey Wong”)**, aged 29, joined the Company in September 2015 as an executive Director. Mr. Jeffrey Wong obtained a Bachelor degree of Applied Science (Laboratory Medicine) from the Royal Melbourne Institute of Technology University in Australia in 2008 and a Master degree of Business Administration (International) from the Deakin University in Australia in 2013. Mr. Jeffrey Wong is also a member of the Hong Kong Institute of Directors. Prior to joining the Group, Mr. Jeffrey Wong worked as medical scientist in various hospitals in Australia from February 2007 to June 2013.

Mr. Jeffrey Wong joined the Group in July 2013 as the chairman assistant and was subsequently promoted to the project coordinator and the senior project officer of Bright Rising Holdings Limited, a wholly-owned subsidiary of the Company, in July 2014 and January 2015 respectively. Mr. Jeffrey Wong served as the chairman assistant in Sky Forever from July 2013 to December 2014. He subsequently served as the project co-ordinator of Sky Forever from December 2014 to August 2015 and has been appointed as a director of Star Engine Company Limited, a subsidiary of Sky Forever since December 2014. Mr. Jeffrey Wong also served as the chairman assistant of Capital Finance from July 2013 to August 2015.

#### *Independent Non-Executive Directors*

**Mr. Kwok Kam Tim (“Mr. Kwok”)**, aged 39, joined the Company in April 2012 as an independent non-executive Director. Mr. Kwok is currently the Chairman of each of the Audit Committee and the Remuneration Committee of the Company, and a member of the Nomination Committee of the Company. Mr. Kwok is a fellow member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants, the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and

Administrators. Mr. Kwok holds a Bachelor of Engineering degree from the Hong Kong University of Science and Technology, a Bachelor of Arts degree in Accountancy and a Master degree in Corporate Governance from the Hong Kong Polytechnic University. He had worked in an international accounting firm and has over 14 years of experience in accounting, auditing and financial management.

Mr. Kwok is currently a financial controller of the Loudong General Nice Resources (China) Holdings Limited (stock code: 988), a company listed on the Main Board of the Stock Exchange. He was an independent non-executive director of both Capital Finance and Sky Forever, both companies listed on the Growth Enterprise Market of the Stock Exchange, from October 2009 to September 2015 and from June 2014 to July 2014 respectively.

**Dr. Hui Chik Kwan** (“**Dr. Hui**”), aged 42, joined the Company in April 2012 as an independent non-executive Director. Dr. Hui is currently a member of each of the Audit Committee, Nomination Committee and Remuneration Committee of the Company. Dr. Hui holds a bachelor degree of medicine and a bachelor degree of surgery from the University of Hong Kong, a postgraduate diploma in practical dermatology from the University of Wales, College of Medicine, the United Kingdom. Dr. Hui has completed a certificate of specialist registration under the specialty of family medicine of the Medical Council of Hong Kong. He is also a fellow of the Royal Australia College of General Practitioners, Australia and a fellow of the Hong Kong Academy of Medicine in the specialty of Family Medicine. Dr. Hui has over 16 years of experience in the field of family medicine and worked in the Queen Mary Hospital, Tuen Mun Hospital, United Christian Hospital, UMP Park Island Medical Center and Hong Kong Sanatorium & Hospital. Dr. Hui has received all round training in community based family medicine during his practicing in different public and private hospitals and private clinic respectively. During the Severe Acute Respiratory Syndrome attack in 2002, Dr. Hui volunteered to work in the accident and emergency department of Queen Mary Hospital. Dr. Hui is now running his own private family medical clinic, and is the family doctor of Mr. Wong.

**Mr. Tso Ping Cheong** (“**Mr. Tso**”), aged 36, joined the Company in February 2015 as an independent non-executive Director. Mr. Tso is currently the Chairman of the Nomination Committee of the Company, and a member of each of the Audit Committee and Remuneration Committee of the Company. He graduated from the Hong Kong Polytechnic University in Hong Kong, with a bachelor’s degree of arts in accountancy in November 2003 and obtained a master degree of corporate governance from the Hong Kong Polytechnic University in October 2013. Mr. Tso has over 11 years of experience in accounting and financial management. From September 2003 to July 2007 and August 2007 to November 2008, Mr. Tso worked at Ernst & Young Hong Kong office and Ernst & Young Shenzhen office, a multinational accounting firm,

respectively, with the last position as manager. Mr. Tso is currently a fellow member of each of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants, the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries.

Since January 2013, Mr. Tso has been the sole proprietor of Teton CPA Company, an accounting firm. Mr. Tso was a non-executive director of Kong Shum Union Property Management (Holding) Limited (stock code: 8181), a company listed on the Growth Enterprise Market of the Stock Exchange, from July 2014 to February 2015. Mr. Tso is currently an independent non-executive director of both Larry Jewelry International Company Limited (stock code: 8351) and Guru Online (Holdings) Limited (stock code: 8121), both companies listed on the Growth Enterprise Market of the Stock Exchange. Mr. Tso is also an independent non-executive director and the Chairman of GreaterChina Professional Services Limited (stock code: 8193), a company listed on the Growth Enterprise Market of the Stock Exchange, and the company secretary of China Infrastructure Investment Limited (stock code: 600), a company listed on the Main Board of the Stock Exchange, and a joint company secretary of China Yu Tian Holdings Limited (stock code: 8230), a company listed on the Growth Enterprise Market of the Stock Exchange.

#### *Senior Management*

**Mr. Chan Kin Yip** (“**Mr. Chan KY**”), aged 43, has joined the Company as the Chief Financial Officer since September 2015. Mr. Chan KY has graduated from The Hong Kong Polytechnic University with a Bachelor of Arts Degree in Accountancy. He served as an internal control consultant of Evershine Group Holdings Limited (“**Evershine**”) (stock code: 8022) from September 2007 to March 2009 and was appointed as an executive director of Evershine from March 2009 to March 2012. He has extensive experience in the fields of audit, internal control and treasury and is a member of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants.

**Mr. Woo Man Wai, David** (“**Mr. Woo**”), aged 48, has been a director of the coal trading subsidiary of the Group and became the Group’s senior management when the Group first acquired the business in December 2011. Mr. Woo holds a bachelor’s degree of arts (Honours) in the international business from the City University of Hong Kong. He has over 22 years of experience in several industries in the PRC, such as information technology, trading of industrial goods, natural resources and banking sectors. Mr. Woo has also taken up the management role for the group’s coal trading segment and taken up the management role as an executive director of a number of subsidiaries of the Company. Prior to joining the Company, Mr. Woo was the senior manager in an international certified public accounting firm based in Beijing, the PRC.

*Company Secretary*

**Ms. Kwok Ka Huen** is a fellow member of the Association of Chartered Certified Accountants, the United Kingdom and an associate member of the Hong Kong Institute of Certified Public Accountants.

**13. GENERAL**

In the event of inconsistency, the English text of this circular and the accompanying form of proxy shall prevail over the Chinese text.

**14. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection during normal business hours at Suites 3505-08, 35/F, Tower 6, The Gateway, Harbour City, Kowloon, Hong Kong from the date of this circular up to and including the date of the EGM:

- (i) the memorandum of association and the articles of association of the Company;
- (ii) the annual reports of the Company for the two financial years ended 31 March 2015;
- (iii) the interim report of the Company for the six months ended 30 September 2015;
- (iv) the accountants' report from Moore Stephens on the unaudited pro forma financial information of the Group, the text of which is set out in section B of Appendix II to this circular;
- (v) the letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and Independent Shareholders, the text of which is set out in the section headed "Letter from the Independent Financial Adviser" on pages 39 to 64 of this circular;
- (vi) the letter of recommendation from the Independent Board Committee to the Independent Shareholders, the text of which is set out in the section headed "Letter from the Independent Board Committee" on pages 37 to 38 of this circular;
- (vii) the written consents as referred to in the paragraph headed "Experts and consents" in this appendix;
- (viii) the material contracts referred to under the section headed "Material contracts" in this appendix;  
and
- (ix) this circular.

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# NOTICE OF EGM

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## **Newtree Group Holdings Limited** **友川集團控股有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1323)**

### **NOTICE OF EXTRAORDINARY GENERAL MEETING**

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting (the “**EGM**”) of Newtree Group Holdings Limited (the “**Company**”) will be held at 10:00 a.m. on Thursday, 14 July 2016 at Suites 3505-08, 35/F, Tower 6, The Gateway, Harbour City, Kowloon, Hong Kong for the purpose of considering and, if thought fit, passing, with or without amendments, the following resolution as an ordinary resolution of the Company:

#### **ORDINARY RESOLUTION**

“**THAT** subject to and conditional upon fulfillment of all the conditions precedent set out in the underwriting agreement dated 17 May 2016 (the “**Underwriting Agreement**”, a copy of which marked “A” has been produced to the EGM and signed by the chairman of the EGM for identification purpose) and entered into between the Company and Cheong Lee Securities Limited as the underwriter (the “**Underwriter**”):

- (a) the issue by way of an open offer (the “**Open Offer**”) of 1,405,519,920 new shares of HK\$0.01 each in the share capital of the Company (the “**Shares**”) as offer shares (the “**Offer Shares**”) at the subscription price of HK\$0.164 per Offer Share (the “**Subscription Price**”) in the proportion of three Offer Shares for every two existing Shares to the qualifying shareholders of the Company (the “**Qualifying Shareholders**”) whose names appear on the register of members of the Company on 22 July 2016 or such other date as may be agreed between the Company and the Underwriter (the “**Record Date**”), other than those shareholders of the Company whose addresses on the register of members of the Company are in a place outside Hong Kong on the Record Date where, the Directors, based on legal opinions provided by legal advisers of the Company, consider it is necessary or expedient on account either of legal restrictions under the laws of the relevant places or the requirements of the relevant regulatory body or stock exchange in that place not to offer the Offer Shares to them (the “**Excluded Shareholders**”) and the transactions

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## NOTICE OF EGM

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contemplated thereunder be and are hereby approved, confirmed and ratified, and that the Open Offer shall not be extended to the Excluded Shareholders and their Offer Shares shall be taken up by the Underwriter, be and are hereby approved, confirmed and ratified;

- (b) the directors of the Company (the “**Directors**”) be and are hereby authorised to allot and issue the Offer Shares pursuant to the Open Offer notwithstanding the same may be offered, allotted or issued otherwise than pro rata to the shareholders of the Company and, in particular, the Directors may make such exclusions or other arrangements in relation to the Excluded Shareholders as they deem necessary, desirable or expedient to having regard to any restrictions or obligations under the articles of association of the Company or the laws of, or the rules and regulations of any recognised regulatory body or any stock exchange in, any territory outside Hong Kong;
- (c) the Underwriting Agreement and the transactions contemplated thereunder (including but not limited to the arrangements for taking up of the unsubscribed Offer Shares, if any, by the Underwriter) be and are hereby approved, confirmed and ratified;
- (d) the absence of any arrangements for application for the Offer Shares by the Qualifying Shareholders in excess of their entitlements under the Open Offer be and are hereby approved, confirmed and ratified; and
- (e) any Director be and is hereby authorised to sign or execute such documents and do all acts and things in connection with the allotment and issue of the Offer Shares, the implementation of the Open Offer and the Underwriting Agreement, the exercise or enforcement of any of the Company’s rights under the Underwriting Agreement and to make and agree to make such variations of the terms of the Underwriting Agreement as he may in his discretion consider to be appropriate, necessary or desirable and in the interests of the Company and its shareholders.”

By Order of the Board  
**Newtree Group Holdings Limited**  
**Mr. Wong Wai Sing**  
*Chairman and Executive Director*

Hong Kong, 24 June 2016

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## NOTICE OF EGM

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*Registered office:*

Cricket Square  
Hutchins Drive  
P.O. Box 2681  
Grand Cayman, KY1-1111  
Cayman Islands

*Headquarters:*

Flat L, 12th Floor  
Macau Finance Centre  
Rua de Pequim  
Macau

*Principal place of business*

*in Hong Kong:*  
Suites 3505-08, 35/F.  
Tower 6, The Gateway  
Harbour City  
Kowloon, Hong Kong

*Notes:*

1. A member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxy to attend and, subject to the provisions of the articles of association of the Company, vote in on its/his/her 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. In order to be valid, the proxy form together with a power of attorney or other authority, if any, under which it is signed or a certified copy of that power or authority, must be deposited at the offices of the Company's branch registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof. Completion and return of proxy form will not preclude a shareholder of the Company from attending in person and voting at the meeting or any adjournment thereof, should he/she so wish.
3. A proxy form in respect of the meeting is enclosed. Whether or not you intend to attend the meeting in person, all members are urged to complete and return the proxy form in accordance with the instructions printed thereon. Completion and return of the proxy form will not preclude shareholders from attending and voting in person at the meeting or any adjourned meeting if they so wish.
4. Pursuant to Rule 13.39(4) of the Listing Rules, all resolutions set out in this notice will be decided by poll at the EGM.
5. If Typhoon Signal No. 8 or above, or a "black" rainstorm warning is in effect any time after 9:00 a.m. on the date of the EGM, the EGM will be postponed. Members may visit the website of the Company at [www.newtreegroup Holdings.com](http://www.newtreegroup Holdings.com) for details of the postponement and alternative meeting arrangement.
6. The Chinese translation of this notice and the proxy form are for reference only, and in case of any inconsistency, the English Version shall prevail.