
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

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

SINO ENERGY INTERNATIONAL HOLDINGS GROUP LIMITED 中能國際控股集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1096)

(1) CONNECTED TRANSACTIONS IN RELATION TO ISSUE OF CONVERTIBLE BONDS UNDER SPECIFIC MANDATES

AND

(2) NOTICE OF EXTRAORDINARY GENERAL MEETING

**Independent financial adviser to
the Independent Board Committee and the Independent Shareholders**



A letter from the board of directors of the Company is set out on pages 9 to 41 of this circular. A letter from the Independent Board Committee is set out on page 42 to 43 of this circular. A letter from Gram Capital, being the Independent Financial Adviser to the Independent Board Committee and the independent shareholders of the Company is set out on pages 44 to 63 of this circular.

A notice convening the EGM to be held at 10:30 a.m. on Wednesday, 9 November 2016 at Tactic Room, Unit 2401-2, Admiralty Centre I, 18 Harcourt Road, Hong Kong is set out on pages 72 to 74 of this circular.

Whether or not you are able to attend and vote at the EGM in person, you are requested to read the notice and to complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong as soon as possible but in any event not less than forty-eight (48) hours before the time appointed for holding of the EGM or any adjournment thereof (as the case may be). 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 (as the case may be) should you so wish and in such event, the form of proxy shall be deemed to be revoked.

25 October 2016

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DEFINITIONS

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

“Announcements”	the announcements of the Company dated 23 June, 13 July, 3 August and 22 September 2016 relating to the First Subscription
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the Board of Directors
“Business Day(s)”	a day on which licensed banks in Hong Kong are open for general business, other than (i) a Saturday, a Sunday or a public holiday; or (ii) a day on which a tropical cyclone warning signal no. 8 or above or a black rainstorm warning signal is issued in Hong Kong at any time between 9:00 a.m. and 5:00 p.m.
“Chargor”	Sino Africa Energy Holdings Company Limited, a company incorporated under the laws of the Republic of Vanuatu and a wholly-owned subsidiary of the Company
“closing price”	closing price per Share for any trading day as published by the Stock Exchange
“Company”	Sino Energy International Holdings Group Limited 中能國際控股集團有限公司 (stock code: 1096), a company incorporated in the Cayman Islands with limited liability, the ordinary shares of which are listed on the Main Board of the Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Current Market Price”	the average of the closing trading price for the five consecutive trading days ending on the trading day immediately preceding such date
“Director(s)”	the director(s) of the Company

DEFINITIONS

“Disposal”	the disposal of 465,884,543 Shares by Festive Boom Limited at the aggregate consideration of HK\$216,000,000, as disclosed in the announcements of the Company dated 6 July and 8 July 2016
“EGM”	an extraordinary general meeting of the Company to be convened to consider and, if thought fit, to approve, inter alia, the Subscription Agreements, the Specific Mandates and the transactions contemplated thereunder
“First Completion”	the completion of the First Subscription in accordance with the terms and conditions of the First Subscription Agreement
“First Completion Date”	a date falling within five Business Days after all conditions precedent of the First Subscription have been fulfilled or, if applicable, waived (or such other date as may be agreed by the parties), on which date the First Completion occurs
“First Conversion Period”	any time on and after the date of issue of the First Convertible Bonds and up to the date being 5 Business Days before the First Maturity Date
“First Conversion Price”	HK\$0.4378, subject to adjustments in accordance with the terms and conditions of the First Convertible Bonds
“First Conversion Rights”	the rights attached to the First Convertible Bonds to convert the same or a part thereof into First Conversion Shares
“First Conversion Shares”	the new Shares to be allotted and issued by the Company upon exercise of the First Conversion Rights
“First Convertible Bonds”	the convertible bonds in the aggregate principal amount of HK\$92,000,000 to be issued by the Company convertible into the First Conversion Shares at the First Conversion Price

DEFINITIONS

“First Guarantee”	a personal guarantee dated 7 July 2016 executed by the Guarantor in favour of the First Subscriber guaranteeing the performance of the obligations by the Company under the First Convertible Bonds
“First Joint Controlled Account”	a bank account designated by the First Subscriber and the Company, which bank account can only be jointly operated by an authorised signatory of each of the First Subscriber and the Company
“First Maturity Date”	the date falling on the second anniversary of the First Completion Date or if such date is not a Business Day, the Business Day immediately following such date
“First Specific Mandate”	the specific mandate to be sought from the Independent Shareholders at the EGM to (i) issue the First Convertible Bonds and (ii) allot and issue the new Shares which may fall to be allotted and issued upon exercise of the conversion rights attaching to the First Convertible Bonds (subject to adjustments in accordance with the terms of the First Convertible Bonds) (including such additional number of shares of the Company that may be required to be allotted and issued upon the exercise of the conversion rights attached to the First Convertible Bonds following adjustments to the First Conversion Price of the First Convertible Bonds)
“First Subscriber”	Infinity Growth Capital Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of Huarong Overseas
“First Subscription”	the subscription for the First Convertible Bonds by the First Subscriber pursuant to the First Subscription Agreement
“First Subscription Agreement”	the subscription agreement dated 23 June 2016 (as amended, varied and modified by the Supplemental Agreement) and entered into between the Company and Infinity Growth in connection with the convertible bonds in the aggregate principal amount of HK\$92,000,000 to be issued by the Company to the First Subscriber

DEFINITIONS

“First Transaction Documents”	the legally binding documents in relation to the First Subscription, including the terms and conditions of the First Convertible Bonds, the First Subscription Agreement, the Share Charge and the First Guarantee, and “First Transaction Document” shall mean any one of them
“Gram Capital” or “Independent Financial Adviser”	Gram Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the First Subscription and Second Subscription and the transactions contemplated thereunder
“Group”	the Company and its subsidiaries, and “Group Company” means any company in the Group
“Guarantor” or “Mr. Chen”	Mr. Chen Jian Bao (陳建寶), a chairman and joint chief executive officer of the Group and an executive Director
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Huarong Overseas”	Huarong Overseas Investment Holdings Co., Limited, a company incorporated in Hong Kong with limited liability and an indirect non-wholly-owned subsidiary of China Huarong Asset Management Co., Ltd., a PRC state-owned non-banking financial institution, whose H shares are listed on the Stock Exchange
“Independent Board Committee”	the independent board committee of the Company, comprising all the independent non-executive Directors who are not interested in the First Subscription and Second Subscription, formed for the purpose of advising the Independent Shareholders in respect of the First Subscription and Second Subscription and the transactions contemplated under the Subscription Agreements

DEFINITIONS

“Independent Investment Bank”	an international investment bank to be jointly appointed by the Company and the holders of the First Convertible Bonds or the Second Convertible Bonds, as the case may be
“Independent Shareholders”	Shareholders other than the Second Subscriber, Ms. Cai and their respective associates
“Initial Agreement”	the subscription agreement dated 23 June 2016 and entered into between the Company and the First Subscriber in relation to the First Subscription
“Latest Practicable Date”	19 October 2016, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining information contained herein
“Listing Committee”	has the same meaning ascribed thereto in the Listing Rules
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Ms. Cai”	Ms. Cai Xiuman, an executive Director
“PRC”	the People’s Republic of China and for the sole purpose of this circular shall exclude Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“SFO”	Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong), as amended, supplemented and modified from time to time
“Second Completion”	the completion of the Second Subscription in accordance with the terms and conditions of the Second Subscription Agreement
“Second Completion Date”	a date falling within five Business Days after all conditions precedent to the Second Subscription have been fulfilled or, if applicable, waived (or such other date as may be agreed by the parties), on which date the Second Completion occurs

DEFINITIONS

“Second Conversion Period”	any time on and after the date of issue of the Second Convertible Bonds and up to the date being 5 Business Days before the Second Maturity Date
“Second Conversion Price”	HK\$0.46805, subject to adjustments in accordance with the terms and conditions of the Second Convertible Bonds
“Second Conversion Rights”	the rights attached to the Second Convertible Bonds to convert the same or a part thereof into Second Conversion Shares
“Second Conversion Shares”	the new Shares to be allotted and issued by the Company upon exercise of the Second Conversion Rights
“Second Convertible Bonds”	the convertible bonds in the aggregate principal amount of HK\$120,000,000 to be issued by the Company convertible into the Second Conversion Shares at the Second Conversion Price
“Second Guarantee”	a personal guarantee to be executed by the Guarantor in favour of the Second Subscriber guaranteeing the performance of the obligations by the Company under the Second Convertible Bonds
“Second Joint Controlled Account”	a bank account designated by the Second Subscriber and the Company, which bank account can only be jointly operated by an authorised signatory of each of the Second Subscriber and the Company
“Second Maturity Date”	the date falling on the second anniversary of the Second Completion Date or if such date is not a Business Day, the Business Day immediately following such date
“Second Subscriber”	Huarong Energy Investment Company Limited, a company incorporated in the British Virgin Islands with limited liability and a substantial shareholder of the Company and an associate of Mr. Chen
“Second Subscription”	the subscription for the Second Convertible Bonds by the Second Subscriber pursuant to the Second Subscription Agreement

DEFINITIONS

“Second Subscription Agreement”	the subscription agreement dated 31 August 2016 and entered into between the Company and the Second Subscriber in connection with the subscription for convertible bonds in the aggregate principal amount of HK\$120,000,000 to be issued by the Company to the Second Subscriber
“Second Specific Mandate”	the specific mandate to be sought from the Independent Shareholders at the EGM to (i) issue the Second Convertible Bonds and (ii) allot and issue the new Shares which may fall to be allotted and issued upon exercise of the conversion rights attaching to the Second Convertible Bonds (subject to adjustments in accordance with the terms of the Second Convertible Bonds) (including such additional number of shares of the Company that may be required to be allotted and issued upon the exercise of the conversion rights attached to the Second Convertible Bonds following adjustments to the Second Conversion Price of the Second Convertible Bonds)
“Second Transaction Documents”	the legally binding documents in relation to the Second Subscription, including the terms and conditions of the Second Convertible Bonds, the Second Subscription Agreement and the Second Guarantee
“Share(s)”	ordinary share(s) of par value of HK\$0.10 each of the Company
“Shareholder(s)”	the holder(s) of the Share(s)
“Share Charge”	a share charge dated 7 July 2016 in relation to the entire issued share capital of Peak Business Asia Limited, an indirect wholly-owned subsidiary of the Company, executed by the Chargor in favour of the First Subscriber as security for the performance of obligations of the Company under the First Convertible Bonds
“Specific Mandates”	the First Specific Mandate and the Second Specific Mandate

DEFINITIONS

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Agreements”	the First Subscription Agreement and the Second Subscription Agreement
“substantial shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Supplemental Agreement”	the supplemental agreement dated 13 July 2016 and entered into between the Company and the First Subscriber to amend certain terms of the First Subscription Agreement in the manner set out thereunder
“Takeovers Code”	The Code on Takeovers and Mergers and Share Buy-backs published by the Securities and Futures Commission
“%”	per cent.
“HK\$”	Hong Kong Dollar, the lawful currency of Hong Kong

LETTER FROM THE BOARD

SINO ENERGY INTERNATIONAL HOLDINGS GROUP LIMITED

中能國際控股集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1096)

Executive Directors:

Mr. Chen Jian Bao

(Chairman and Joint Chief Executive Officer)

Ms. Cai Xiuman

Mr. Wang Wei *(Vice-chairman)*

Mr. Zhang Wenbin *(Joint Chief Executive Officer)*

Mr. Chen Yuanjian

Mr. Sun Hui Ding

Mr. Wang Qingshan

Independent non-executive Directors:

Mr. Chen Jinzhong, Roy

Mr. Lee Ho Yiu Thomas

Mr. Gu Renliang

Registered office:

Codan Trust Company (Cayman) Limited

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

*Headquarters and principal place of
business in the PRC:*

Shoes Industrial Park

Baogai Town

Shishi City

Fujian Province

PRC

*Head office and principal place of
business in Hong Kong:*

Flat 4201, 42/F,

China Resources Building,

26 Harbour Road,

Wan Chai, Hong Kong

25 October 2016

To the Shareholders,

Dear Sir or Madam,

CONNECTED TRANSACTIONS IN RELATION TO ISSUE OF CONVERTIBLE BONDS UNDER SPECIFIC MANDATES

INTRODUCTION

Reference is made to the Announcements in relation to issue of the First Convertible Bonds under the First Specific Mandate, and the announcement dated 31 August 2016 in relation to issue of the Second Convertible Bonds under the Second Specific Mandate, both of which constitute a connected transaction of the Company under Chapter 14A of the Listing Rules. The Board proposes to seek the approval of the Independent Shareholders for the issue of First Convertible Bonds under the First Specific Mandate and for the issue of Second Convertible Bonds under the Second Specific Mandate.

LETTER FROM THE BOARD

The purpose of this circular is to provide you with, among others:

- (a) details of the issue of the First Convertible Bonds under the First Specific Mandate and the Second Convertible Bonds under the Second Specific Mandate;
- (b) the recommendations of the Independent Board Committee in relation to the issue of the First Convertible Bonds and Second Convertible Bonds;
- (c) the recommendations of Gram Capital in relation to the First Subscription and Second Subscription and the transactions contemplated thereunder; and
- (d) a notice of the EGM.

ISSUE OF FIRST CONVERTIBLE BONDS

Initial Agreement

On 23 June 2016 (after trading hours), the Company entered into the Initial Agreement with the First Subscriber, an independent third party at the time of execution of the Initial Agreement but subsequently becomes a substantial shareholder of the Company upon completion of the Disposal on 8 July 2016, pursuant to which the Company has agreed to issue and the First Subscriber has agreed to subscribe for the First Convertible Bonds in the principal amount of HK\$92,000,000.

Supplemental Agreement

On 13 July 2016 (after trading hours), the Company and the First Subscriber entered into the Supplemental Agreement, pursuant to which the Company and the First Subscriber agreed to vary certain terms of the Initial Agreement in the manner set out in the Supplemental Agreement.

First Subscription

Subject to the fulfilment or, if applicable, waiver of the conditions precedent to the completion of the First Subscription, the First Subscriber shall subscribe for, and the Company shall issue, the First Convertible Bonds in the aggregate principal amount of HK\$92,000,000 pursuant to the First Subscription Agreement.

LETTER FROM THE BOARD

Conditions Precedent

Completion of the First Subscription shall be conditional upon:

- (a) the Share Charge having been duly executed and delivered to the First Subscriber and all necessary filings and registration with any governmental authority or regulatory body in connection with the Share Charge having been obtained or effected;
- (b) the First Guarantee having been duly executed and delivered to the First Subscriber;
- (c) the First Joint Controlled Account having been set up to the satisfaction of the First Subscriber;
- (d) listing of and permission to deal in the First Conversion Shares (or any part thereof) having been granted by the Listing Committee of the Stock Exchange, either unconditionally or subject to conditions to which neither the Company nor the First Subscriber shall reasonably object (and such approval not having been subsequently revoked or withdrawn prior to the First Completion);
- (e) all other necessary authorisations pursuant to the Listing Rules and applicable laws for the consummation of the transactions contemplated in the First Subscription Agreement having been obtained by the Company;
- (f) all representations and warranties given by the Company in the First Subscription Agreement remaining true and accurate in all material respects and not misleading in any material respect, and all undertakings made by the Company in the First Subscription Agreement not having been breached in any material aspect; and
- (g) the Company having obtained the approval of its Shareholders (or, as the case may be, the Independent Shareholders) of the First Subscription Agreement and the transactions contemplated thereunder at an extraordinary general meeting of the Company.

Each of the conditions set out in paragraphs (a), (b), (c) and (f) above can be fully or partly waived in writing by the First Subscriber. All the other conditions cannot be waived by either party.

LETTER FROM THE BOARD

The Company shall use its best endeavours to procure the fulfilment of the above conditions on or before 23 October 2016 (or such later date as may be agreed by the parties in writing), and if any of the above conditions is not fulfilled or, if applicable, waived on or before such date, no party shall be obliged to proceed to First Completion and no party shall have any claim against another party, except in respect of claims arising out of any antecedent breach of any provision of the First Subscription Agreement. As at the Latest Practicable Date, the conditions precedent to the completion of the First Subscription set out in paragraphs (a), (b) and (c) above have been fulfilled.

Arrangement fee

In consideration of the provision of financing pursuant to the First Subscription Agreement by the First Subscriber, the Company agrees to pay an arrangement fee of HK\$3,000,000 to the First Subscriber at the First Completion. The parties agree that the arrangement fee will be deducted from the subscription price of the First Convertible Bonds. The arrangement fee is determined at arm's length with reference to (i) Huarong Overseas' usual arrangement while acting, directly or indirectly, as a subscriber in similar transactions with other companies and (ii) the financial performance of the Group. The Directors (excluding the independent non-executive Directors) consider that the arrangement fee is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

Completion of the issue of the First Convertible Bonds

Subject to the fulfilment or waiver (if applicable) of the conditions precedent to the First Subscription, the First Subscription shall be completed on the First Completion Date. At the First Completion, the Company shall issue to the First Subscriber the First Convertible Bonds and the First Subscriber shall make payment of HK\$89,000,000, being the principal amount of the First Convertible Bonds after the deduction of the arrangement fee, to the First Joint Controlled Account.

Principal terms of the First Convertible Bonds

The principal terms of the First Convertible Bonds are summarised below:

Principal amount: HK\$92,000,000

Term: The First Convertible Bonds shall have a term commencing from (and including) the First Completion Date and expiring on the First Maturity Date.

LETTER FROM THE BOARD

- Interest:** The First Convertible Bonds bear interest from the date of issue at 7.5% per annum on the principal amount of the First Convertible Bonds, payable by the Company half-yearly in arrears. The interest rate was determined at arm's length with reference to (i) similar transactions of other listed companies on the main board of the Stock Exchange and (ii) the financial performance of the Group.
- Conversion Rights:** The holder of the First Convertible Bonds may at any time during the First Conversion Period require the Company to convert the whole or any part of the principal amount outstanding under the First Convertible Bonds into First Conversion Shares.
- Conversion Period:** Any time on and after the date of issue of the First Convertible Bonds and up to the date being 5 Business Days before the First Maturity Date.
- Conversion Price:** HK\$0.4378 per First Conversion Share, being 110% of the average closing price of the Shares for the ten trading days immediately prior to the date of the First Subscription Agreement, subject to adjustments in accordance with the terms and conditions of the First Convertible Bonds.

The First Conversion Price represents:

- (i) a premium of approximately 4.24% to the closing price of HK\$0.42 per Share as quoted on the Stock Exchange on 23 June 2016, being the date of the Initial Agreement;
- (ii) a premium of approximately 8.10% to the average closing price of approximately HK\$0.405 per Share as quoted on the Stock Exchange for the last five consecutive trading days immediately before the date of the Initial Agreement; and
- (iii) a premium of 10% to the average closing price of approximately HK\$0.398 per Share as quoted on the Stock Exchange for the last ten consecutive trading days immediately before the date of the Initial Agreement.

LETTER FROM THE BOARD

The First Conversion Price was determined after arm's length negotiations between the Company and the First Subscriber after considering (i) the current market sentiment particularly in relation to the pro-active involvement of PRC mega size financial institution, liquidity flow (with average trading volume of about 3 million Shares per day from the period between 4 January 2016 and 22 June 2016 (being a period of approximately six months prior to the date of the First Subscription Agreement which the Directors consider to be reasonable), representing approximately 0.19% of total issued Shares) in the capital market and the historical Share price of HK\$0.6 as at 31 December 2015 (the negotiation with the First Subscriber in relation to the First Subscription commenced in early 2016, hence the Company adopted the 31 December 2015 Share price as a reference) and (ii) the possible positive impact on the Group and its share price that may result from prominent background and reputation of Huarong Overseas which wholly-owned the First Subscriber and owned approximately 65.43% of the Second Subscriber.

Adjustment events:

The First Conversion Price will be subject to adjustments upon the occurrence of the following events:

- (1) If and whenever the Shares by reason of any consolidation or sub-division become of a different nominal amount (par value), the First Conversion Price in force immediately prior thereto shall be adjusted by multiplying it by the revised nominal amount (par value) and dividing the result by the former nominal amount (par value). Each such adjustment shall be effective from the close of business on the date on which the consolidation or sub-division becomes effective.

LETTER FROM THE BOARD

- (2) If and whenever the Company shall issue any Shares credited as fully paid to the Shareholders, as a bonus issue or otherwise, by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve fund), the First Conversion Price in force immediately prior to such issue shall be adjusted by multiplying it by the aggregate nominal amount of the issued and paid-up Shares immediately before such issue and dividing the result by the sum of such aggregate nominal amount and the aggregate nominal amount of the Shares issued in such capitalisation. Each such adjustment shall be effective (if appropriate retroactively) from the commencement of the day next following the record date for such issue.
- (3) If and whenever the Company shall grant any options, warrants or other rights to subscribe for new Shares at less than 80% of the Current Market Price per Share on the last Business Day; immediately preceding the date of the grant, the First Conversion Price shall be adjusted by multiplying the First Conversion Price in force immediately before the date of such grant by the following fraction: –

$$\frac{A + B}{A + C}$$

where:–

A = the number of Shares in issue immediately before the date of such grant;

B = the number of Shares which the aggregate consideration payable for the options or warrants or other rights issued and for the total number of Shares comprised therein, would purchase at such Current Market Price per share; and

C = the aggregate number of Shares comprised in the options or warrants being granted.

Such adjustment shall become effective on the date of the relevant grant.

LETTER FROM THE BOARD

- (4) If and whenever the Company shall issue wholly for cash any Shares (other than Shares issued on the exercise of rights of conversion into, or exchange or subscription for, Shares) at a price per Share which is less than 80% of the Current Market Price per Share on the last Business Day; immediately preceding the date of the grant, the First Conversion Price shall be such amount as adjusted by multiplying the First Conversion Price in force immediately prior to such issue by the following fraction:

$$\frac{D + E}{F}$$

where:

D = the number of Shares in issue immediately before the issue of such additional Shares;

E = the number of Shares which the aggregate consideration receivable for the issue of such additional Shares would purchase at such Current Market Price per share; and

F = the number of Shares in issue immediately after the issue of such additional Shares.

References to additional Shares in the above formula shall, in the case of an issue by the Company of options, warrants or other rights to subscribe or purchase Shares, mean such Shares to be issued, or otherwise made available, assuming that such options, warrants or other rights are exercised in full at the initial exercise price (if applicable) on the date of issue of such options, warrants or other rights.

Such adjustment shall become effective on the date of issue of such additional Shares.

LETTER FROM THE BOARD

For the purpose of any calculation of the consideration receivable pursuant to paragraph (4) above, the following provisions shall apply:

- (i) The aggregate consideration receivable for Shares issued for cash shall be the amount of such cash provided that in no case shall any deduction be made for any commission or any expenses paid or incurred by the Company in connection therewith.
- (ii) The aggregate consideration receivable for:
 - (a) the Shares to be issued upon the conversion or exchange of any securities shall be deemed to be the consideration received or receivable by the Company for any such securities; and
 - (b) the Shares to be issued upon the exercise of rights of subscription attached to any securities shall be deemed to be that part (which may be the whole) of the consideration received or receivable by the Company for such securities which is attributed by the Company to such rights of subscription or, if no part of such consideration is so attributed or the holders of the First Convertible Bonds so require by notice in writing to the Company, the fair market value of such rights of subscription as at the date of issue of such securities (as determined in good faith by the Independent Investment Banker acting as an expert),

Plus in the case of each of paragraph (6)(i) and (ii) above, the additional minimum consideration (if any) to be received by the Company upon the conversion or exchange of such securities, or upon the exercise, of such rights of subscription attached thereto (the consideration in all such cases to be determined subject to the proviso in paragraph (6)(i)).

LETTER FROM THE BOARD

Where more than one event which gives, or may give rise, to an adjustment to the First Conversion Price occurs within such a short period of time that in the opinion of the Independent Investment Banker the foregoing paragraphs would need to be operated subject to some modification in order to give the intended result, such modification shall be made to the operation of the foregoing provisions as may be advised by the Independent Investment Banker to be appropriate in order to give such intended result.

No adjustment involving an increase in the First Conversion Price will be made, except in the case of a consolidation of the Shares as referred to in paragraph (1).

If any doubt shall arise as to the appropriate adjustment to the First Conversion Price, a certificate of the Independent Investment Banker shall be conclusive and binding on all concerned save in the case of manifest or proven error.

Conversion Shares: Based on the initial First Conversion Price of HK\$0.4378, a maximum number of 210,141,617 First Conversion Shares shall be allotted and issued upon exercise in full of the First Conversion Rights, which represent:

- (i) approximately 13.08% of the existing issued share capital of the Company; and
- (ii) approximately 11.57% of the issued share capital of the Company as enlarged by the issue of the First Conversion Shares upon exercise in full of the First Conversion Rights (assuming none of the Second Conversion Shares has been issued).

The First Conversion Shares shall be allotted and issued pursuant to the First Specific Mandate.

LETTER FROM THE BOARD

Ranking: The First Conversion Shares issued upon exercise of First Conversion Rights shall rank pari passu in all respects with all other Shares then in issue.

Redemption: The Company may not redeem the First Convertible Bonds at its option prior to the First Maturity Date.

Any principal amount of the First Convertible Bonds which has not been previously redeemed, converted or cancelled in accordance with the terms and conditions thereof before the First Maturity Date shall be redeemed by the Company on the First Maturity Date, at a redemption amount which, taking into account the interest paid or payable by the Company, will give the holder of the First Convertible Bonds an annualised return of 13.5% on the principal amount of the First Convertible Bonds to be redeemed.

Transferability: The First Convertible Bonds are transferable by instrument in writing in the usual or common form in nominal amounts or integral multiples of HK\$1,000,000.

Voting: The holders of the First Convertible Bonds will not be entitled to attend or vote at any meetings of the Company by reason only of being the holders of the First Convertible Bonds.

Application for listing: No application will be made by the Company to the Listing Committee for listing of the First Convertible Bonds.

An application has been made by the Company to the Stock Exchange for the grant of listing of and permission to deal in the First Conversion Shares on 15 September 2016.

LETTER FROM THE BOARD

Event of Default: If, among others, any of the following events occurs prior to the First Maturity Date, the holder(s) of the First Convertible Bonds will be entitled to require the Company to redeem all of its First Convertible Bonds at the applicable redemption value:

- (i) the Company or the Guarantor fails to pay any amount of principal, interest, premium or any other amount in respect of or in connection with the First Convertible Bonds on the due date for payment thereof;
- (ii) any failure by the Company to deliver any Shares as and when the Shares are required to be delivered following conversion of the First Convertible Bonds;
- (iii) the Company, the Chargor or the Guarantor defaults in the performance or observance of any term of any First Transaction Document in all material respects and such breach is not remedied within seven (7) Business Days after the default;
- (iv) (a) any other present or future indebtedness of the Company, any Group Company, the Chargor or the Guarantor for or in respect of moneys borrowed or raised becomes (or becomes capable of being declared) due and payable prior to its stated maturity by reason of any default, event of default or the like (howsoever described), or (b) any such indebtedness is not paid when due or, as the case may be, within any applicable grace period, or (c) the Company, any Group Company, the Chargor or the Guarantor fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any moneys borrowed or raised;

LETTER FROM THE BOARD

- (v) any litigation, arbitration, administrative, governmental, regulatory or other investigations, proceedings or disputes are commenced or threatened against the Company, the Guarantor, any Group Company or the Chargor or any of their respective assets (or against the directors of the Company, any Group Company or the Chargor arising from their carrying out of duties as directors of the Company, the related Group Company or the Chargor) which are reasonably likely to be adversely determined and, if so determined, could reasonably be expected to have a material adverse effect;
- (vi) an event has occurred which is, or which may with the taking of any step or the passage of time become, an insolvency event in relation to the Company, the Guarantor, any other Group Company or the Chargor;
- (vii) (a) at any time, the First Guarantee or the Share Charge is or becomes unlawful or is not, or ceases to be legal, valid, binding or enforceable or otherwise ceases to be effective; (b) any part of the First Guarantee or the security interest created under the Share Charge is not (or is claimed by the Company, the Guarantor or the Chargor, as the case may be, not to be) in full force and effect, (c) there is any purported termination of the security or any security interest created under the First Guarantee or the Share Charge by the Company, the Guarantor or the Chargor, (d) the security or any security interest created under the First Guarantee or the Share Charge fails to be or remain perfected, or (e) the Share Charge fails to create first priority security interest in respect of the charged shares;
- (viii) an order is made or an effective resolution is passed for the winding up, liquidation or dissolution, judicial management or administration of the Company, any Group Company or the Chargor;

LETTER FROM THE BOARD

- (ix) any action, condition or thing at any time required to be taken, fulfilled or done in order (a) to enable the Company, the Guarantor and the Chargor lawfully to enter into, exercise their respective rights and perform and comply with their respective obligations under and in respect of the First Convertible Bonds or the First Transaction Documents, (b) to ensure that those obligations are legal, valid, binding and enforceable and (c) to make the First Convertible Bonds and First Transaction Documents admissible in evidence in the courts of the British Virgin Islands, Cayman Islands and/or Hong Kong is not taken, fulfilled or done;
- (x) it is or will become unlawful for the Company, the Guarantor or the Chargor to perform or comply with any of their respective obligations under or in respect of the First Convertible Bonds or the First Transaction Documents;
- (xi) (a) any step is lawfully taken by any competent governmental authority with a view to the seizure, compulsory acquisition, expropriation or nationalisation of all or substantially all of the assets of the Company, the Guarantor, any Group Company or the Chargor or (b) the Company, the Guarantor, any Group Company or the Chargor is prevented by any competent governmental authority from exercising normal control over all or substantially all of its property, assets and turnover;
- (xii) there is a material breach of any applicable law (including the Listing Rules) by the Company, the Guarantor, any Group Company, the Chargor or any director or senior officers of the Company when acting for and on behalf of the Company; or
- (xiii) the Shares shall cease to be listed on the Stock Exchange or steps are taken by or on behalf of the Stock Exchange or the Company to effect such cessation.

LETTER FROM THE BOARD

The applicable redemption value of the First Convertible Bonds in the event of a redemption upon an occurrence of the above event of default shall be calculated as follows:

Redemption value = $P + (P \times 18\% \times 2) - I$, where:

P = Principal amount of the First Convertible Bonds to be redeemed

I = Interest already paid in respect of the First Convertible Bonds to be redeemed

Information on the First Subscriber

The First Subscriber, namely Infinity Growth Capital Limited, is a limited liability company incorporated in the British Virgin Islands and is principally engaged in investment holding. The First Subscriber is a wholly-owned subsidiary of Huarong Overseas, a company incorporated in Hong Kong with limited liability. Huarong Overseas is an indirect non-wholly-owned subsidiary of China Huarong Asset Management Co., Ltd., a PRC state-owned non-banking financial institution, whose H shares are listed on the Stock Exchange.

Mr. Chen and Huarong Overseas formed the Second Subscriber, which was held as to approximately 65.43% and 34.57% of its voting rights by Huarong Overseas and Mr. Chen, respectively. The Second Subscriber, holding 465,884,543 Shares (representing approximately 29% of the issued share capital of the Company), is a substantial shareholder of the Company. Accordingly, the Second Subscriber, being a substantial shareholder of the Company and an associate of Mr. Chen, is therefore a connected person of the Company pursuant to Chapter 14A of the Listing Rules. As the First Subscriber is a wholly-owned subsidiary of Huarong Overseas, the First Subscriber, being an associate of the Second Subscriber, is therefore also a connected person of the Company pursuant to Chapter 14A of the Listing Rules.

LETTER FROM THE BOARD

First Specific Mandate

The Company will seek the approval of the First Specific Mandate from the Independent Shareholders at the EGM to allot and issue the First Conversion Shares.

Based on the initial First Conversion Price of HK\$0.4378 per First Conversion Share and assuming full conversion of the First Convertible Bonds at the initial First Conversion Price under the First Subscription Agreement, the First Convertible Bonds will be convertible into 210,141,617 First Conversion Shares, representing approximately 13.08% of the issued share capital of the Company as at the Latest Practicable Date and approximately 11.57% of the issued share capital of the Company as enlarged by the issue of the First Conversion Shares (assuming none of the Second Conversion Shares has been issued).

ISSUE OF SECOND CONVERTIBLE BONDS

Second Subscription Agreement

On 31 August 2016 (after trading hours), the Company and the Second Subscriber entered into the Second Subscription Agreement, pursuant to which the Company has conditionally agreed to issue, and the Second Subscriber has conditionally agreed to subscribe for the Second Convertible Bonds in the aggregate principal amount of HK\$120,000,000.

Second Subscription

Subject to the fulfillment or, if applicable, waiver of the conditions precedent set out below, the Second Subscriber shall subscribe for, and the Company shall issue, the Second Convertible Bonds in the aggregate principal amount of HK\$120,000,000.

Conditions Precedent

Completion of the Second Subscription shall be conditional upon:

- (a) the Second Guarantee having been duly executed and delivered to the Second Subscriber;
- (b) the Second Joint Controlled Account having been set up to the satisfaction of the Second Subscriber;

LETTER FROM THE BOARD

- (c) listing of and permission to deal in the Second Conversion Shares (or any part thereof) having been granted by the Listing Committee of the Stock Exchange, either unconditionally or subject to conditions to which neither the Company nor the Second Subscriber shall reasonably object (and such approval not having been subsequently revoked or withdrawn prior to the Second Completion);
- (d) the Company having obtained the approval of the Shareholders (or, as the case may be, the Independent Shareholders) of the Second Subscription Agreement and the transactions contemplated thereunder, and the Second Specific Mandate at the EGM;
- (e) all other necessary authorisations pursuant to the Listing Rules and applicable laws for the consummation of the transactions contemplated in the Second Subscription Agreement having been obtained by the Company; and
- (f) all representations and warranties given by the Company in the Second Subscription Agreement remaining true and accurate in all material respects and not misleading in any material respect, and all undertakings made by the Company in the Second Subscription Agreement not having been breached in any material aspect.

Each of the conditions set out in paragraphs (a), (b) and (f) above can be fully or partly waived in writing by the Second Subscriber. All the other conditions cannot be waived by either party.

The Company shall use its best endeavours to procure the fulfilment of the above conditions on or before 23 October 2016 (or such later date as may be agreed by the parties in writing), and if any of the above conditions is not fulfilled or, if applicable, waived on or before such date, no party shall be obliged to proceed to Second Completion and no party shall have any claim against another party, except in respect of claims arising out of any antecedent breach of any provision of the Second Subscription Agreement. As at the Latest Practicable Date, the conditions precedent to the completion of the Second Subscription set out in paragraphs (a) and (b) above have been fulfilled.

LETTER FROM THE BOARD

Arrangement fee

In consideration of the provision of financing pursuant to the Second Subscription Agreement by the Second Subscriber, the Company agrees to pay an arrangement fee of HK\$3,600,000 to the Second Subscriber at the Second Completion. The parties agree that the arrangement fee will be deducted from the subscription price of the Second Convertible Bonds. The arrangement fee is determined at arm's length with reference to (i) Huarong Overseas' usual arrangement while acting, directly or indirectly, as a subscriber in similar transactions with other companies and (ii) the financial performance of the Group. The Directors (excluding the independent non-executive Directors) consider that the arrangement fee is fair and reasonable and in the interest of the Company and the Shareholders as a whole..

Completion of the issue of the Second Convertible Bonds

Subject to the fulfillment of the conditions precedent to the completion of the Second Subscription, the Second Subscription of the Convertible Bonds shall be completed on the Second Completion Date. At the Second Completion, the Company shall issue to the Second Subscriber the Second Convertible Bonds and the Second Subscriber shall make payment of HK\$116,400,000, being the principal amounts of the Second Convertible Bonds after the deduction of the arrangement fee, to the Second Joint Controlled Account.

Principal terms of the Second Convertible Bonds

The principal terms of the Second Convertible Bonds are summarised below:

Principal amount: HK\$120,000,000

Term: The Second Convertible Bonds shall have a term commencing from (and including) the Second Completion Date and expiring on the Second Maturity Date

Interest: The Second Convertible Bonds bear interest from the date of issue at 7.5% per annum on the principal amount of the Second Convertible Bonds, payable by the Company half-yearly in arrears. The interest rate was determined at arm's length with reference to (i) similar transactions of other listed companies on the main board of the Stock Exchange and (ii) the financial performance of the Group

LETTER FROM THE BOARD

Conversion Rights: The holder of the Second Convertible Bonds may at any time during the Second Conversion Period require the Company to convert the whole or any part of the principal amount outstanding under the Second Convertible Bonds into Shares, provided that the Second Conversion Rights shall only be exercised to the extent that such exercise will not (a) cause the Company to be unable to meet the public float requirements as required under Rule 8.08 of the Listing Rules or (b) result in change of control (as defined under the Takeovers Code) of the Company.

Conversion Period: Any time on and after the date of issue of the Second Convertible Bonds and up to the date being 5 Business Days before the Second Maturity Date.

Conversion Price: HK\$0.46805 per Second Conversion Share, being 110% of the average closing price of the Shares for the ten trading days immediately prior to the date of the Second Subscription Agreement, subject to adjustments in accordance with the terms and conditions of the Second Convertible Bonds.

The Second Conversion Price represents:

- (i) a premium of approximately 11.44% to the closing price of HK\$0.42 per Share as quoted on the Stock Exchange on 31 August 2016, being the date of the Second Subscription Agreement;
- (ii) a premium of approximately 12.78% to the average closing price of approximately HK\$0.415 per Share as quoted on the Stock Exchange for the last five consecutive trading days immediately before the date of the Second Subscription Agreement; and
- (iii) a premium of approximately 10% to the average closing price of approximately HK\$0.4255 per Share as quoted on the Stock Exchange for the last ten consecutive trading days immediately before the date of the Second Subscription Agreement.

LETTER FROM THE BOARD

The Second Conversion Price was determined after arm's length negotiations between the Company and the Second Subscriber after considering (i) the current market sentiment particularly in relation to the pro-active involvement of PRC mega size financial institution, liquidity flow (with average trading volume of about 3 million Shares per day from the period between 4 January 2016 and 22 June 2016 (being a period of approximately six months prior to the date of the First Subscription Agreement which the Directors consider to be reasonable), representing approximately 0.19% of total issued Shares) in the capital market and the historical Share price of HK\$0.6 as at 31 December 2015 (the negotiation with the Second Subscriber in relation to the Second Subscription was with reference to the First Conversion Price the negotiation of which commenced in early 2016, hence the Company still adopted the 31 December 2015 historical Share price as a reference) and (ii) the possible positive impact on the Group and its share price that may result from prominent background and reputation of Huarong Overseas which wholly-owned the First Subscriber and owned approximately 65.43% of the Second Subscriber.

Adjustment events: The Second Conversion Price will be subject to adjustments upon the occurrence of the following events:

- (1) If and whenever the Shares by reason of any consolidation or sub-division become of a different nominal amount (par value), the Second Conversion Price in force immediately prior thereto shall be adjusted by multiplying it by the revised nominal amount (par value) and dividing the result by the former nominal amount (par value). Each such adjustment shall be effective from the close of business on the date on which the consolidation or sub-division becomes effective.
- (2) If and whenever the Company shall issue any Shares credited as fully paid to the Shareholders, as a bonus issue or otherwise, by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve fund), the Second Conversion Price in force immediately prior to such issue shall be adjusted by multiplying it by the aggregate nominal amount of the issued and paid-up Shares immediately before such issue and dividing the result by the sum of such aggregate nominal amount and the aggregate nominal amount of the Shares issued in such capitalisation. Each such adjustment shall be effective (if appropriate retroactively) from the commencement of the day next following the record date for such issue.

LETTER FROM THE BOARD

- (3) If and whenever the Company shall grant any options, warrants or other rights to subscribe for new Shares at less than 80% of the Current Market Price per Share on the last Business Day; immediately preceding the date of the grant, the Second Conversion Price shall be adjusted by multiplying the Second Conversion Price in force immediately before the date of such grant by the following fraction: –

$$\frac{A + B}{A + C}$$

where:–

A = the number of Shares in issue immediately before the date of such grant;

B = the number of Shares which the aggregate consideration payable for the options or warrants or other rights issued and for the total number of Shares comprised therein, would purchase at such Current Market Price per share; and

C = the aggregate number of Shares comprised in the options or warrants being granted.

Such adjustment shall become effective on the date of the relevant grant.

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- (4) If and whenever the Company shall issue wholly for cash any Shares (other than Shares issued on the exercise of rights of conversion into, or exchange or subscription for, Shares) at a price per Share which is less than 80% of the Current Market Price per Share on the last Business Day; immediately preceding the date of the grant, the Second Conversion Price shall be such amount as adjusted by multiplying the Second Conversion Price in force immediately prior to such issue by the following fraction:

$$\frac{D + E}{F}$$

where:

D = the number of Shares in issue immediately before the issue of such additional Shares;

E = the number of Shares which the aggregate consideration receivable for the issue of such additional Shares would purchase at such Current Market Price per share; and

F = the number of Shares in issue immediately after the issue of such additional Shares.

References to additional Shares in the above formula shall, in the case of an issue by the Company of options, warrants or other rights to subscribe or purchase Shares, mean such Shares to be issued, or otherwise made available, assuming that such options, warrants or other rights are exercised in full at the initial exercise price (if applicable) on the date of issue of such options, warrants or other rights.

Such adjustment shall become effective on the date of issue of such additional Shares.

LETTER FROM THE BOARD

For the purpose of any calculation of the consideration receivable pursuant to paragraph (4) above, the following provisions shall apply:

- (iii) The aggregate consideration receivable for Shares issued for cash shall be the amount of such cash provided that in no case shall any deduction be made for any commission or any expenses paid or incurred by the Company in connection therewith.
- (iv) The aggregate consideration receivable for:
 - (a) the Shares to be issued upon the conversion or exchange of any securities shall be deemed to be the consideration received or receivable by the Company for any such securities; and
 - (b) the Shares to be issued upon the exercise of rights of subscription attached to any securities shall be deemed to be that part (which may be the whole) of the consideration received or receivable by the Company for such securities which is attributed by the Company to such rights of subscription or, if no part of such consideration is so attributed or the holders of the Second Convertible Bonds so require by notice in writing to the Company, the fair market value of such rights of subscription as at the date of issue of such securities (as determined in good faith by the Independent Investment Banker acting as an expert),

Plus in the case of each of paragraph (6)(i) and (ii) above, the additional minimum consideration (if any) to be received by the Company upon the conversion or exchange of such securities, or upon the exercise, of such rights of subscription attached thereto (the consideration in all such cases to be determined subject to the proviso in paragraph (6)(i)).

LETTER FROM THE BOARD

Where more than one event which gives, or may give rise, to an adjustment to the Second Conversion Price occurs within such a short period of time that in the opinion of the Independent Investment Banker the foregoing paragraphs would need to be operated subject to some modification in order to give the intended result, such modification shall be made to the operation of the foregoing provisions as may be advised by the Independent Investment Banker to be appropriate in order to give such intended result.

No adjustment involving an increase in the Second Conversion Price will be made, except in the case of a consolidation of the Shares as referred to in paragraph (1).

If any doubt shall arise as to the appropriate adjustment to the Second Conversion Price, a certificate of the Independent Investment Banker shall be conclusive and binding on all concerned save in the case of manifest or proven error.

Conversion Shares: Based on the initial Second Conversion Price of HK\$0.46805, a maximum number of 256,382,865 Second Conversion Shares shall be allotted and issued upon exercise in full of the Second Conversion Rights, which represent:

- (i) approximately 16.00% of the existing issued share capital of the Company; and
- (ii) approximately 13.76% of the issued share capital of the Company as enlarged by the issue of the Second Conversion Shares upon exercise in full of the Second Conversion Rights (assuming none of the First Conversion Shares has been issued).

The Second Conversion Shares shall be allotted and issued pursuant to the Second Specific Mandate.

Ranking: The Second Conversion Shares issued upon exercise of Second Conversion Rights shall rank *pari passu* in all respects with all other Shares then in issue.

LETTER FROM THE BOARD

Redemption: The Company may not redeem the Second Convertible Bonds at its option prior to the Second Maturity Date.

Any principal amount of the Second Convertible Bonds which has not been previously redeemed, converted or cancelled in accordance with the terms and conditions thereof before the Second Maturity Date shall be redeemed by the Company on the Second Maturity Date, at a redemption amount which, taking into account the interest paid or payable by the Company, will give the holder of the Second Convertible Bond an annualised return of 13.5% on the principal amount of the Second Convertible Bond to be redeemed.

Transferability: The Second Convertible Bonds are transferable by instrument in writing in the usual or common form in nominal amounts or integral multiples of HK\$1,000,000.

Voting: The holders of the Second Convertible Bonds will not be entitled to attend or vote at any meetings of the Company by reason only of being the holders of the Second Convertible Bonds.

Application for listing: No application will be made by the Company to the Listing Committee for listing of the Second Convertible Bonds.

An application has been made by the Company to the Stock Exchange for the grant of listing of and permission to deal in the Second Conversion Shares on 15 September 2016.

Event of Default: If, among others, any of the following events occurs prior to the Second Maturity Date, the holder(s) of the Second Convertible Bonds will be entitled to require the Company to redeem all of its Second Convertible Bonds at the applicable redemption value:

- (i) the Company or the Guarantor fails to pay any amount of principal, interest, premium or any other amount in respect of or in connection with the Second Convertible Bonds on the due date for payment thereof;

LETTER FROM THE BOARD

- (ii) any failure by the Company to deliver any Shares as and when the Shares are required to be delivered following conversion of the Second Convertible Bonds;
- (iii) the Company or the Guarantor defaults in the performance or observance of any term of any Second Transaction Document in all material respects and such breach is not remedied within (7) Business Days after the default;
- (iv) (a) any other present or future indebtedness of the Company, any Group Company or the Guarantor for or in respect of moneys borrowed or raised becomes (or becomes capable of being declared) due and payable prior to its stated maturity by reason of any default, event of default or the like (howsoever described), or (b) any such indebtedness is not paid when due or, as the case may be, within any applicable grace period, or (c) the Company, any Group Company or the Guarantor fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any moneys borrowed or raised;
- (v) any litigation, arbitration, administrative, governmental, regulatory or other investigations, proceedings or disputes are commenced or threatened against the Company, the Guarantor, any Group Company or any of their respective assets (or against the directors of the Company, any Group Company arising from their carrying out of duties as directors of the Company, the related Group Company) which are reasonably likely to be adversely determined and, if so determined, could reasonably be expected to have a material adverse effect;
- (vi) an event has occurred which is, or which may with the taking of any step or the passage of time become, an insolvency event in relation to the Company, the Guarantor, any other Group Company or the Chargor;

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- (vii) (a) at any time, the Second Guarantee is or becomes unlawful or is not, or ceases to be legal, valid, binding or enforceable or otherwise ceases to be effective; (b) any part of the Second Guarantee is not (or is claimed by the Company or the Guarantor, as the case may be, not to be) in full force and effect, (c) there is any purported termination of the security or any security interest created under the Second Guarantee by the Company or the Guarantor, (d) the security or any security interest created under the Second Guarantee fails to be or remain perfected;
- (viii) an order is made or an effective resolution is passed for the winding up, liquidation or dissolution, judicial management or administration of the Company or any Group Company;
- (ix) any action, condition or thing at any time required to be taken, fulfilled or done in order (a) to enable the Company or the Guarantor lawfully to enter into, exercise their respective rights and perform and comply with their respective obligations under and in respect of the Second Convertible Bonds or the Second Transaction Documents, (b) to ensure that those obligations are legal, valid, binding and enforceable and (c) to make the Second Convertible Bonds and Second Transaction Documents admissible in evidence in the courts of the British Virgin Islands, Cayman Islands and/or Hong Kong is not taken, fulfilled or done;
- (x) it is or will become unlawful for the Company or the Guarantor to perform or comply with any of their respective obligations under or in respect of the Second Convertible Bonds or the Second Transaction Documents;
- (xi) (a) any step is lawfully taken by any competent governmental authority with a view to the seizure, compulsory acquisition, expropriation or nationalisation of all or substantially all of the assets of the Company, the Guarantor or any Group Company or (b) the Company, the Guarantor or any Group Company is prevented by any competent governmental authority from exercising normal control over all or substantially all of its property, assets and turnover;

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- (xii) there is a material breach of any applicable law (including the Listing Rules) by the Company, the Guarantor or any Group Company or any director or senior officers of the Company when acting for and on behalf of the Company; or
- (xiii) the Shares shall cease to be listed on the Stock Exchange or steps are taken by or on behalf of the Stock Exchange or the Company to effect such cessation.

The applicable redemption value of the Second Convertible Bonds in the event of a redemption upon an occurrence of the above event of default shall be calculated as follows:

Redemption value = $P + (P \times 18\% \times 2) - I$, where:

P = Principal value amount of the Second Convertible Bonds to be redeemed

I = Interest already paid in respect of the Second Convertible Bonds to be redeemed

Information on the Second Subscriber

The Second Subscriber, namely Huarong Energy Investment Company Limited, is a limited liability company incorporated in the British Virgin Islands and is principally engaged in investment holding. As at the Latest Practicable Date, the Second Subscriber is directly held by Huarong Overseas and Mr. Chen as to approximately 65.43% and 34.57% respectively. The Second Subscriber, being interested in 465,884,543 Shares (representing approximately 29% of the issued share capital of the Company), is a substantial shareholder of the Company. Accordingly, the Second Subscriber, being a substantial shareholder of the Company and an associate of Mr. Chen, is therefore a connected person of the Company pursuant to Chapter 14A of the Listing Rules. Huarong Overseas is an indirect non-wholly-owned subsidiary of China Huarong Asset Management Co., Ltd., a PRC state-owned non-banking financial institution, whose H shares are listed on the Stock Exchange.

LETTER FROM THE BOARD

Second Specific Mandate

The Company will seek the approval of the Second Specific Mandate from the Independent Shareholders at the EGM to allot and issue the Second Conversion Shares.

Based on the initial Second Conversion Price of HK\$0.46805 per Second Conversion Share and assuming full conversion of the Second Convertible Bonds at the initial Second Conversion Price under the Second Subscription Agreement, the Second Convertible Bonds will be convertible into 256,382,865 Second Conversion Shares, representing approximately 16.00% of the issued share capital of the Company as at the Latest Practicable Date and approximately 13.76% of the issued share capital of the Company as enlarged by the issue of the Second Conversion Shares (assuming none of the First Conversion Shares has been issued).

Reasons for and benefits of the First Subscription and the Second Subscription

The Company's principal business is manufacturing and sales of casual footwear, apparel and related accessories in the PRC. The Company also engages in operating gas stations in the PRC.

The Directors have considered various ways of raising funds including bank financing and placement of new Shares. Given the financial performance of the Group, the Board considered it is difficult for the Company to identify banks to provide loan facilities or underwriters or placing agents to raise fund through equity fund raising methods. The Directors consider that the issue of the First Convertible Bonds and the Second Convertible Bonds is an appropriate means of raising additional capital for the Company since (i) they will not have an immediate dilution effect on the shareholding of the existing Shareholders; and (ii) if First Conversion Rights or the Second Conversion Rights are exercised, the shareholder base of the Company will be enlarged and the financial position of the Group will be improved for establishing and strengthening the existing and future business of the Group. The Company has made effort to approach more than five investors (including the First Subscriber and the Second Subscriber) and other than the First Subscriber and the Second Subscriber, two of them provided positive feedbacks but the terms were less favorable compared to the terms acceptable by the First Subscriber and the Second Subscriber such as higher interest rate along with other more stringent terms. The Directors (including the independent non-executive Directors) consider that the terms of the First Subscription and the Second Subscription are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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The gross proceeds and the net proceeds from the First Subscription are estimated to be approximately HK\$89,000,000 and HK\$88,100,000 respectively. On such basis, the net price received by the Company for each First Conversion Share is approximately HK\$0.4192. The gross proceeds and the net proceeds from the Second Subscription, are estimated to be approximately HK\$116,400,000 and HK\$115,900,000 respectively. On such basis, the net price received by the Company for each Second Conversion Share is approximately HK\$0.45206.

The net proceeds from the First Subscription and the Second Subscription is estimated to be approximately HK\$204 million. The Company intends to use the net proceeds as follows:

- approximately HK\$20 million in the development of gas station business through Peak Business Asia Limited, a wholly-owned subsidiary of the Group, over a period of approximately 12 months upon receipt of the proceeds;
- approximately HK\$160 million in the repayment of debt of which approximately HK\$40 million will be used in the 1st quarter of 2017, approximately HK\$60 million will be used in the 2nd quarter of 2017 and approximately HK\$60 million in the 3rd quarter of 2017; and
- approximately HK\$24 million will be used as general working capital of the Group.

The management of the Company is negotiating with a third party on a potential acquisition of certain interest in an energy related business. As at the Latest Practicable Date, no formal agreement has yet been entered into by the Company in relation to such transaction. Based on the latest status of negotiation, it was estimated that the capital requirement within the next 12 months for this potential acquisition, if materialized, will be approximately HK\$200 million, which will be settled mainly by either equity or debt fundraising activities. It is currently intended that this acquisition will only be completed upon the obtaining of necessary funding. The Directors confirm that net proceeds from the First Subscription and the Second Subscription will not be used such transaction.

Based on the following assumptions, the Directors are of the view that the proceeds from the First Subscription and the Second Subscription together with the Group's internal resources will be able to satisfy the Group's expected funding needs (for avoidance of doubt, not including the capital requirements for the said potential acquisition) for the next 12 months:

- no material acquisition in the next 12 months;
- no major changes in the business operations of the Group;
- no events which would lead to a material adverse effect on the Group's operations;

LETTER FROM THE BOARD

- no material adverse fluctuations in both exchange rate and interest rate; and
- certain material bank loans which are due over the next 12 months would be renewed at similar terms.

Having said that, the Directors will consider any fundraising activity from time to time if such activity is in the interest of the Shareholders and beneficial for the Group's further development.

Save as disclosed on page 38 of this circular, the Company has not entered, or contemplated to enter, into any arrangements, agreements or understanding (whether formal or informal and whether express or implied) in relation to any acquisition and/or disposal.

Effect on shareholding structure of the Company

Set out below are the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) upon full conversion of the First Convertible Bonds (assuming none of the Second Convertible Bonds has been converted); (iii) upon full conversion of the Second Convertible Bonds (assuming none of the First Convertible Bonds has been converted) and (iv) upon full conversion of the First Convertible Bonds and the Second Convertible Bonds:

	Capacity/ Nature of Interest	As at the Latest Practicable Date		Upon full conversion of the First Convertible Bonds (assuming none of the Second Convertible Bonds has been converted)		Upon full conversion of the Second Convertible Bonds (assuming none of the First Convertible Bonds has been converted)		Upon full conversion of the First Convertible Bonds and the Second Convertible Bonds Shareholders	
		Number of	approximate	Number of	approximate	Number of	approximate	Number of	approximate
		Shares	%	Shares	%	Shares	%	Shares	%
Festive Boom Limited (Note 1)	Beneficial owner	150,000,000	9.34	150,000,000	8.26	150,000,000	8.05	150,000,000	7.24
Ms. Cai Xiuman (Note 1)	Beneficial owner	13,300,000	0.83	13,300,000	0.73	13,300,000	0.71	13,300,000	0.64
Mr. Zhang Wenbin (Note 2)	Beneficial owner	5,456,000	0.34	5,456,000	0.30	5,456,000	0.29	5,456,000	0.26
The First Subscriber (Note 3)	Beneficial owner	–	–	210,141,617	11.57	–	–	210,141,617	10.14
The Second Subscriber (Note 3)	Beneficial owner	465,884,543	29.00	465,884,543	25.65	722,267,408	38.77	722,267,408	34.84
Other public shareholders		971,857,879	60.50	971,857,879	53.50	971,857,879	52.17	971,857,879	46.88
Total		1,606,498,422	100.00	1,816,640,039	100.00	1,862,881,287	100.00	2,073,022,094	100.00

Notes:

1. Ms. Cai Xiuman is an executive Director. Ms. Cai is personally beneficially interested in 13,300,000 Shares and is the beneficial owner of the entire issued share capital of Festive Boom Limited and is therefore deemed to be interested in all the Shares held by Festive Boom Limited by virtue of the provisions of Divisions 7 and 8 of Part XV of the SFO.
2. Mr. Zhang Wenbin is an executive Director and is personally beneficially interested in 5,456,000 Shares.

LETTER FROM THE BOARD

3. The First Subscriber and the Second Subscriber shall not convert the First Convertible Bonds and the Second Convertible Bonds respectively which will (a) cause the Company to be unable to meet the public float requirements as required under Rule 8.08 of the Listing Rules or (b) result in change of control (as defined under the Takeovers Code) of the Company.
4. It is assumed that there would be no change in the share capital of the Company other than the issue of First Conversion Shares and Second Conversion Shares, as applicable.

Implications under the Listing Rules

As at the Latest Practicable Date, the Second Subscriber is directly held by Huarong Overseas and Mr. Chen, being the chairman, the joint chief executive officer and an executive Director, as to approximately 65.43% and 34.57% respectively. The Second Subscriber, holding 465,884,543 Shares (representing approximately 29% of the issued share capital of the Company), is a substantial shareholder of the Company. Accordingly, the Second Subscriber, being a substantial shareholder of the Company and an associate of Mr. Chen, is therefore a connected person of the Company pursuant to Chapter 14A of the Listing Rules.

The First Subscriber is a wholly-owned subsidiary of Huarong Overseas. The First Subscriber, being an associate of the Second Subscriber, is therefore also a connected person of the Company pursuant to Chapter 14A of the Listing Rules.

Accordingly, the First Subscription and the Second Subscription are non-exempt connected transactions of the Company subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. The Company will comply with the requirements under Chapter 14A of the Listing Rules in respect of the First Subscription and Second Subscription, including but not limited to seeking Independent Shareholders' approval for the First Subscription and Second Subscription at the EGM.

Fund raising activities of the Company in the past twelve months

The Company has not conducted any equity fund raising activity in the 12 months immediately preceding the Latest Practicable Date.

GENERAL

The EGM will be convened for the Independent Shareholders to consider and, if thought fit, to approve, inter alia, the Subscription Agreements and the transactions contemplated thereunder, and the Specific Mandates. Mr. Chen, Ms. Cai, Mr. Zhang Wenbin and their respective associates have abstained from voting on the resolutions passed by the Board to approve the Subscription

LETTER FROM THE BOARD

Agreements and the transactions contemplated thereunder, and the Specific Mandates. The Second Subscriber, Ms. Cai, Mr. Zhang Wenbin, Festive Boom Limited and their respective associates shall abstain from voting at the EGM. To the best of the Directors' information, belief and knowledge, save for the Second Subscriber, Ms. Cai, Mr. Zhang Wenbin, Festive Boom Limited and their respective associates, no other parties have any material interest which is different from other Shareholders in relation to the First Subscription, the Second Subscription and the grant of the Specific Mandates.

The Independent Board Committee, comprising all the independent non-executive Directors, has been established to advise the Independent Shareholders as to whether the terms of the Subscription Agreements and the transactions contemplated thereunder are fair and reasonable and whether the proposed issue of the First Convertible Bonds and Second Convertible Bonds is in the interests of the Company and the Shareholders as a whole. Gram Capital has also been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

Shareholders and potential investors should note that completion of the First Subscription and the Second Subscription is subject to fulfilment of certain conditions, which include but is not limited to, approval by the Independent Shareholders at the EGM. The First Subscription and the Second Subscription are not inter-conditional upon each other. As the First Subscription and/or the Second Subscription may or may not proceed, Shareholders and potential investors are reminded to exercise caution when dealing in the Shares.

RECOMMENDATION

Having considered the above-mentioned benefits to the Group, the Directors (including the independent non-executive Directors) consider that the terms of the Subscription Agreements are on normal commercial terms and the issue of First Convertible Bonds under the First Specific Mandate and Second Convertible Bonds under the Second Specific Mandate are in the interests of the Company and the Shareholders as a whole and they are fair and reasonable to the Company. Accordingly, the Directors (including the independent non-executive Directors) recommend the Shareholders and the Independent Shareholders (as the case may be) to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Subscription Agreements and the transactions contemplated thereunder, and the Specific Mandates.

EGM

The EGM will be held at 10:30 a.m. on Wednesday, 9 November 2016 at Tactic Room, Unit 2401-2, Admiralty Centre I, 18 Harcourt Road, during which resolution will be proposed to the Independent Shareholders to consider and, if thought fit, approve the Subscription Agreements, the Specific Mandates and the transactions contemplated thereunder.

Yours faithfully,

By order of the Board

Sino Energy International Holdings Group Limited

Chen Jian Bao

Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

SINO ENERGY INTERNATIONAL HOLDINGS GROUP LIMITED

中能國際控股集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1096)

Registered office:

Codan Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

*Head office and principal place of
business in Hong Kong:*

Flat 4201, 42/F,
China Resources Building,
26 Harbour Road,
Wan Chai, Hong Kong

*Headquarters and principal place of
business in the PRC:*

Shoes Industrial Park
Baogai Town
Shishi City
Fujian Province
PRC

25 October 2016

To the Independent Shareholders

Dear Sir or Madam,

THE SUBSCRIPTION AGREEMENTS

We refer to the circular of the Company dated 25 October 2016 to the Shareholders (the “**Circular**”), of which this letter forms part. Capitalised terms used herein shall have the same meaning as those defined in the Circular unless the context otherwise requires.

We have been appointed as the members of the Independent Board Committee to consider the Subscription Agreements and the transactions contemplated thereunder, and to advise the Independent Shareholders as to whether the terms of the Subscription Agreements and the transactions contemplated thereunder, and the Specific Mandates are fair and reasonable so far as the Independent Shareholders are concerned.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

We consider that the Subscription Agreements and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole and are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Subscription Agreements and the transactions contemplated thereunder, and the Specific Mandates.

Yours faithfully,

For and on behalf of
Independent Board Committee

Mr. Chen Jinzhong, Roy

Independent

Non-executive Director

Mr. Lee Ho Yiu Thomas

Independent

Non-executive Director

Mr. Gu Renliang

Independent

Non-executive Director

LETTER FROM GRAM CAPITAL

Set out below is the text of a letter received from Gram Capital, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the First Subscription and the Second Subscription for the purpose of inclusion in this circular.



Room 1209, 12/F.
Nan Fung Tower
88 Connaught Road Central/
173 Des Voeux Road Central
Hong Kong

25 October 2016

*To: The independent board committee and the independent shareholders
of Sino Energy International Holdings Group Limited*

Dear Sir/Madam,

CONNECTED TRANSACTIONS IN RELATION TO ISSUE OF CONVERTIBLE BONDS UNDER SPECIFIC MANDATES

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the First Subscription and Second Subscription (collectively, the “**Subscriptions**”), details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 25 October 2016 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 23 June 2016 (after trading hours), the Company entered into the Initial Agreement with the First Subscriber, an independent third party at the time of execution of the Initial Agreement but subsequently became a substantial Shareholder upon completion of the Disposal on 8 July 2016, pursuant to which the Company has agreed to issue and the First Subscriber has agreed to subscribe for the First Convertible Bonds in the principal amount of HK\$92,000,000. On 13 July 2016 (after trading hours), the Company and the First Subscriber entered into the Supplemental Agreement, pursuant to which the Company and the First Subscriber agreed to vary certain terms of the Initial Agreement in the manner set out the Supplemental Agreement.

On 31 August 2016 (after trading hours), the Company and the Second Subscriber entered into the Second Subscription Agreement, pursuant to which the Company has conditionally agreed to issue, and the Second Subscriber has conditionally agreed to subscribe for the Second Convertible Bonds in the aggregate principal amount of HK\$120,000,000.

LETTER FROM GRAM CAPITAL

With reference to the Board Letter, the Subscriptions are non-exempt connected transactions of the Company and are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee comprising Mr. Chen Jinzhong, Roy, Mr. Lee Ho Yiu Thomas and Mr. Gu Renliang (all being independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of the First Subscription Agreement and the Second Subscription Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the Subscriptions are in the interests of the Company and the Shareholders as a whole; and (iii) how the Independent Shareholders should vote in respect of the resolution(s) to approve the First Subscription Agreement, the Second Subscription Agreement and the respective transactions contemplated thereunder at the EGM. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. Our opinion is based on the Directors' representation and confirmation that there are no undisclosed private agreements/arrangements or implied understanding with anyone concerning the Subscriptions. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

LETTER FROM GRAM CAPITAL

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, that 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 or the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, the First Subscriber, the Second Subscriber, the Chargor, the Guarantor or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Subscriptions. 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 our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is the responsibility of Gram Capital to ensure that such information has been correctly extracted from the relevant sources while we are not obligated to conduct any independent in-depth investigation into the accuracy and completeness of those information.

PRINCIPAL FACTORS AND REASONS CONSIDERED

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

1. Background of and reasons for the Subscriptions

Business overview of the Group

With reference to the Board Letter, the Company's principal business is manufacturing and sales of casual footwear, apparel and related accessories in the PRC. The Company also engages in operating gas stations in the PRC.

LETTER FROM GRAM CAPITAL

Set out below are the consolidated financial information of the Group for the six months ended 30 June 2016 and two years ended 31 December 2015 as extracted from the Company's interim report for the six months ended 30 June 2016 (the “**2016 Interim Report**”) and annual report for the year ended 31 December 2015 (the “**2015 Annual Report**”):

	For the six months ended 30 June 2016 <i>RMB'000</i> (unaudited)	For the year ended 31 December 2015 <i>RMB'000</i> (audited)	For the year ended 31 December 2014 <i>RMB'000</i> (audited)	Change from 2014 to 2015 %
Revenue	125,446	290,545	584,270	(50.27)
– Manufacturing and sale of casual footwear, apparel and related accessories and others	86,108	283,615	584,270	(51.46)
– Operation of gas stations	39,338	–	–	N/A
– Online mobile game	–	6,930	–	N/A
Loss for the year/period	(77,593)	(542,668)	(130,341)	316.34
	As at 30 June 2016 <i>RMB'000</i> (unaudited)	As at 31 December 2015 <i>RMB'000</i> (audited)	As at 31 December 2014 <i>RMB'000</i> (audited)	Change from 2014 to 2015 %
Bank and cash balances	512,456	262,202	104,047	152.00
Total assets	1,893,711	1,890,270	1,583,512	19.37
Net assets	213,539	266,081	614,428	(56.69)

LETTER FROM GRAM CAPITAL

According to the above table, the Group recorded revenue of approximately RMB290.55 million for the year ended 31 December 2015 (“FY2015”), representing a decrease of approximately 50.27% as compared to the year ended 31 December 2014 (“FY2014”). With reference to the 2015 Annual Report, the decrease in revenue was mainly as a result of the overall weak and sluggish retail market during FY2015. The Group recorded a loss of approximately RMB542.67 million for FY2015, representing an increase of approximately 316.34% as compared to FY2014. With reference to the 2015 Annual Report, the loss for FY2015 was mainly due to the decline in gross profit from Group’s branded products and OEM products and provision for impairment of various assets.

With reference to the 2016 Interim Report, the Group’s footwear business incurred gross loss for the six months ended 30 June 2016 as compared with gross profit incurred for the corresponding period in 2015. As a result of the heavy pressure on domestic retail market exerted by the weak consumption sentiment, the footwear industry in the PRC still faces enormous challenges in the second half of 2016. With reference to the 2016 Interim Report and as confirmed by the Directors, the Group is in the process of pursuing investment opportunities in order to provide stable income to the Group in the near future. The Group completed the acquisition of the business of operation of gas stations in the PRC in the first half of 2016. The operation of gas stations provided a good profit contribution to the Group, and the Group will continue to seek opportunities to further expand in the energy-related business.

Information on the subscribers

Information on the First Subscriber

The First Subscriber, namely Infinity Growth Capital Limited, is a limited liability company incorporated in the British Virgin Islands and is principally engaged in investment holding. The First Subscriber is a wholly-owned subsidiary of Huarong Overseas, a company incorporated in Hong Kong with limited liability. Huarong Overseas is an indirect non-wholly-owned subsidiary of China Huarong Asset Management Co., Ltd., a PRC state-owned non-banking financial institution, whose H shares are listed on the Stock Exchange.

LETTER FROM GRAM CAPITAL

Information on the Second Subscriber

The Second Subscriber, namely Huarong Energy Investment Company Limited, is a limited liability company incorporated in the British Virgin Islands and is principally engaged in investment holding. As at the Latest Practicable Date, the Second Subscriber is directly held by Huarong Overseas and Mr. Chen as to approximately 65.43% and 34.57% respectively. The Second Subscriber, being interested in 465,884,543 Shares (representing approximately 29% of the issued share capital of the Company), is a substantial Shareholder.

Financing alternatives available to the Group, reasons for the Subscriptions and use of proceeds

With reference to the Board Letter, the Company has not conducted any equity fund raising activity in the 12 months immediately preceding the Latest Practicable Date.

With reference to the Board Letter and upon our enquiry with the Directors, the Directors have considered various ways of raising funds, including bank financing and placement of new Shares.

As for equity financing, taking into account that the loss making position of the Group for FY2014, FY2015 and the six months ended 30 June 2016, the Directors considered that it is difficult for the Company to identify underwriters or placing agents to raise fund through equity fund raising methods and the Directors did not consider the above equity financing to be feasible financing alternatives.

In respect of debt financing, the Directors consider that given the financial performance of the Group, it is difficult for the Company to identify banks to provide loan facilities and they consider that the Subscriptions are appropriate means of raising additional capital for the Company since (i) they will not have an immediate dilution effect on the shareholding of the existing Shareholders; and (ii) if the First Conversion Rights and/or Second Conversion Rights are exercised, the shareholder base of the Company will be enlarged and the financial position of the Group will be improved for establishing and strengthening the existing and future business of the Group. The Directors (including the independent non-executive Directors) consider that the terms of the Subscriptions are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LETTER FROM GRAM CAPITAL

With reference to the Board Letter, (i) the gross proceeds and the net proceeds from the First Subscription are estimated to be approximately HK\$89,000,000 and HK\$88,100,000 respectively; (ii) the gross proceeds and the net proceeds from the Second Subscription, are estimated to be approximately HK\$116,400,000 and HK\$115,900,000 respectively; and (iii) the net proceeds from the First Subscription and the Second Subscription is estimated to be approximately HK\$204 million. The Company intends to use the net proceeds as follows:

- approximately HK\$20 million in the development of gas station business (the “**Intended Development**”) through Peak Business Asia Limited, a wholly-owned subsidiary of the Group, over a period of approximately 12 months upon receipt of the proceeds;
- approximately HK\$160 million in the repayment of debt of which approximately HK\$40 million will be used in the 1st quarter of 2017, approximately HK\$60 million will be used in the 2nd quarter of 2017 and approximately HK\$60 million in the 3rd quarter of 2017; and
- approximately HK\$24 million will be used as general working capital of the Group.

In order to assess the reasonableness of the use of proceeds from the Subscriptions, we have discussed the Intended Development with the Directors. With reference to the 2016 Interim Report and as confirmed by the Directors, the Group is in the process of pursuing investment opportunities in order to provide stable income to the Group in the near future. The Group completed the acquisition of the business of operation of gas stations in the PRC in the first half of 2016. The operation of gas stations provided a good profit contribution to the Group, and the Group will continue to seek opportunities to further expand in the energy-related business. As such, the Intended Development is in line with the Group’s strategy and the Intended Development (if successful) will be beneficial to the Group.

With reference to the 2016 Interim Report, the total bank borrowings repayable within one year of the Group amounted to approximately RMB238.35 million (equivalent to approximately HK\$279.39 million) as at 30 June 2016, representing an increase of approximately 20% as compared to those as at 31 December 2015.

LETTER FROM GRAM CAPITAL

Having considered (i) the historical financial performance of the Group; (ii) the Group's plan to pursue investment opportunities with an intention of providing stable income to the Group in the near future; (iii) that the Subscriptions are more favorable than other financing alternatives; and (iv) the use of proceeds of the Subscriptions, we are of the view that the Subscriptions are in the interest of the Company and the Shareholders as a whole.

2. Principal terms of the First Subscription Agreement and the Second Subscription Agreement

(i) The First Subscription Agreement

Principal amount of the First Convertible Bonds: HK\$92,000,000

Term: The First Convertible Bonds shall have a term commencing from (and including) the First Completion Date and expiring on the First Maturity Date.

Interest: The First Convertible Bonds bear interest from the date of issue at 7.5% per annum on the principal amount of the First Convertible Bonds, payable by the Company half-yearly in arrears.

Conversion rights: The holder of the First Convertible Bonds may at any time during the First Conversion Period require the Company to convert the whole or any part of the principal amount outstanding under the First Convertible Bonds into First Conversion Shares.

Conversion period: Any time on and after the date of issue of the First Convertible Bonds and up to the date being 5 Business Days before the First Maturity Date.

LETTER FROM GRAM CAPITAL

- Conversion price: HK\$0.4378 per First Conversion Share, being 110% of the average closing price of the Shares for the ten trading days immediately prior to the date of the First Subscription Agreement, subject to adjustments in accordance with the terms and conditions of the First Convertible Bonds.
- Redemption: The Company may not redeem the First Convertible Bonds at its option prior to the First Maturity Date. Any principal amount of the First Convertible Bonds which has not been previously redeemed, converted or cancelled in accordance with the terms and conditions thereof before the First Maturity Date shall be redeemed by the Company on the First Maturity Date, at a redemption amount which, taking into account the interest paid or payable by the Company, will give the holder of the First Convertible Bonds an annualised return of 13.5% on the principal amount of the First Convertible Bonds to be redeemed.
- Share Charge: The Share Charge dated 7 July 2016 in relation to the entire issued share capital of Peak Business Asia Limited, an indirect wholly-owned subsidiary of the Company, was executed by the Chargor in favour of the First Subscriber as security for the performance of obligations of the Company under the First Convertible Bonds.
- Arrangement Fee: In consideration of the provision of financing pursuant to the First Subscription Agreement by the First Subscriber, the Company agrees to pay an arrangement fee of HK\$3,000,000 to the First Subscriber at the First Completion. The parties agree that the arrangement fee will be deducted from the subscription price of the First Convertible Bonds.

LETTER FROM GRAM CAPITAL

For other details of the First Subscription Agreement, please refer to the section headed “ISSUE OF FIRST CONVERTIBLE BONDS” of the Board Letter.

(ii) *The Second Subscription Agreement*

Principal amount of the Second Convertible Bonds: HK\$120,000,000

Term: The Second Convertible Bonds shall have a term commencing from (and including) the Second Completion Date and expiring on the Second Maturity Date.

Interest: The Second Convertible Bonds bear interest from the date of issue at 7.5% per annum on the principal amount of the Second Convertible Bonds, payable by the Company half-yearly in arrears.

Conversion Rights: The holder of the Second Convertible Bonds may at any time during the Second Conversion Period require the Company to convert the whole or any part of the principal amount outstanding under the Second Convertible Bonds into Shares, provided that the Second Conversion Rights shall only be exercised to the extent that such exercise will not (a) cause the Company to be unable to meet the public float requirements as required under Rule 8.08 of the Listing Rules or (b) result in change of control (as defined under the Takeovers Code) of the Company.

Conversion Period: Any time on and after the date of issue of the Second Convertible Bonds and up to the date being 5 Business Days before the Second Maturity Date.

LETTER FROM GRAM CAPITAL

- Conversion Price: HK\$0.46805 per Second Conversion Share, being 110% of the average closing price of the Shares for the ten trading days immediately prior to the date of the Second Subscription Agreement, subject to adjustments in accordance with the terms and conditions of the Second Convertible Bonds.
- Redemption: The Company may not redeem the Second Convertible Bonds at its option prior to the Second Maturity Date. Any principal amount of the Second Convertible Bonds which has not been previously redeemed, converted or cancelled in accordance with the terms and conditions thereof before the Second Maturity Date shall be redeemed by the Company on the Second Maturity Date, at a redemption amount which, taking into account the interest paid or payable by the Company, will give the holder of the Second Convertible Bond an annualised return of 13.5% on the principal amount of the Second Convertible Bond to be redeemed.
- Arrangement Fee: In consideration of the provision of financing pursuant to the Second Subscription Agreement by the Second Subscriber, the Company agrees to pay an arrangement fee of HK\$3,600,000 to the Second Subscriber at the Second Completion. The parties agree that the arrangement fee will be deducted from the subscription price of the Second Convertible Bonds.

For other details of the Second Subscription Agreement, please refer to the section headed “ISSUE OF SECOND CONVERTIBLE BONDS” of the Board Letter.

LETTER FROM GRAM CAPITAL

Analysis on the conversion prices

The First Conversion Price of HK\$0.4378 represents:

- (a) a premium of approximately 4.24% to the closing price of HK\$0.42 per Share as quoted on the Stock Exchange on 23 June 2016, being the date of the First Subscription Agreement;
- (b) a premium of approximately 8.10% to the average closing price of approximately HK\$0.405 per Share as quoted on the Stock Exchange for the last five consecutive trading days immediately before the date of the Initial Agreement;
- (c) a premium of 10% to the average closing price of approximately HK\$0.398 per Share as quoted on the Stock Exchange for the last ten consecutive trading days immediately before the date of the Initial Agreement; and
- (d) a discount/premium of approximately 12.26% of approximately HK\$0.390 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

With reference to the Board Letter, the First Conversion Price was determined after arm's length negotiations between the Company and the First Subscriber after considering the factors set out under the sub-section headed "Principal terms of the First Convertible Bonds" of the Board Letter.

The Second Conversion Price HK\$0.46805 represents:

- (a) a premium of approximately 11.44% to the closing price of HK\$0.42 per Share as quoted on the Stock Exchange on 31 August 2016, being the date of the Second Subscription Agreement;
- (b) a premium of approximately 12.78% to the average closing price of approximately HK\$0.415 per Share as quoted on the Stock Exchange for the last five consecutive trading days immediately before the date of the Second Subscription Agreement;

LETTER FROM GRAM CAPITAL

- (c) a premium of approximately 10% to the average closing price of approximately HK\$0.4255 per Share as quoted on the Stock Exchange for the last ten consecutive trading days immediately before the date of the Second Subscription Agreement; and
- (d) a discount/premium of approximately 20.01% of approximately HK\$0.390 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

With reference to the Board Letter, the Second Conversion Price was determined after arm's length negotiations between the Company and the Second Subscriber after considering the factors set out under the sub-section headed "Principal terms of the Second Convertible Bonds" of the Board Letter.

In order to assess the fairness and reasonableness of the First Conversion Price and Second Conversion Price, we have reviewed the daily closing price of the Shares as quoted on the Stock Exchange from 1 September 2015 up to and including 31 August 2016 (the "**Review Period**"), being a period of approximately one year prior to the date of the Second Subscription Agreement. The comparison of daily closing prices of the Shares and the First Conversion Price and Second Subscription Price is illustrated as follows:



Source: the Stock Exchange's website

LETTER FROM GRAM CAPITAL

During the Review Period, the lowest and highest closing prices of the Shares as quoted on the Stock Exchange were HK\$0.32 recorded on 21 April 2016 and 22 April 2016 and HK\$0.86 per Share recorded on 14 September 2015 and 16 September 2015 respectively. Both of the First Subscription Price of HK\$0.4378 and the Second subscription Price of HK\$0.46805 are within the range of the lowest and highest closing prices of the Shares as quoted on the Stock Exchange during the Review Period. The closing prices of the Shares showed a general decreasing trend after reaching their peak in September 2015. The closing prices of the Shares reached their trough in April 2016 and have been moving around the First Subscription Price and the Second subscription Price up to 31 August 2016.

As part of our analysis, we have further identified those subscription/placing of convertible bonds/notes which were announced by companies listed on the Stock Exchange from 1 June 2016 up to 31 August 2016 (the “**Selection Period**”), being the date of the Second Subscription Agreement (the “**Comparables**”). The Selection Period was chosen for the demonstration of the market practices at around the time of when the First Subscription Agreement and the Second Subscription Agreement were entered into. To the best of our knowledge and as far as we are aware of, we found 33 transactions which met the said criteria. Shareholders should note that the businesses, operations and prospects of the Company are not the same as the Comparables. Nevertheless, the Comparables can demonstrate the market practices during the Selection Period.

LETTER FROM GRAM CAPITAL

Company name	Stock code	Date of announcement	Maturity (Years)	Interest rate per annum (%)	Premium/ (discount) of the conversion price over/ to closing price per share on the last trading day prior to the date of announcement/ agreement in relation to the respective subscription/ placing of convertible bonds/notes	Charge/ Mortgage of share capital of the issuer/the issuer's subsidiaries	Arrangement fee/ Consultancy fee	Premium redemption (or with pre-determined annualised rate of return) at maturity
Birmingham International Holdings Ltd.	2309	6 June 2016	3	2	(94.03)	No	No	No
Semiconductor Manufacturing International Corporation	981	8 June 2016	6 (Note 1)	Nil	34.06	No	No	No
China Fortune Investments (Holding) Ltd.	8116	20 June 2016	2	Nil	2.88	No	No	Yes
China City Infrastructure Group Ltd.	2349	21 June 2016	3	5	1.01	No	No	No
Beautiful China Holdings Co. Ltd.	706	21 June 2016	3	8.5	42.86	No	No	Yes
Loco Hong Kong Holdings Ltd.	8162	23 June 2016	2	6	(9.80)	No	No	No
Walker Group Holdings Ltd.	1386	24 June 2016	4	6	16.03	No	No	Yes
Green International Holdings Ltd.	2700	24 June 2016	3	8	37.00	No	No	No
China Fortune Financial Group Ltd.	290	27 June 2016	2	5	(17.46)	No	No	No
Credit China Fintech Holdings Ltd. (formerly known as Credit China Holdings Ltd.)	8207	30 June 2016	3	Floating (Note 2)	13.59	No	No	Yes
Credit China Fintech Holdings Ltd. (formerly known as Credit China Holdings Ltd.)	8207	30 June 2016	3	7	13.59	No	No	Yes
China Flavors and Fragrances Co. Ltd.	3318	30 June 2016	2	7	10.42	Yes	No	Yes
Huajun Holdings Ltd.	377	5 July 2016	1.83	10	Nil	No	No	Yes
China Weaving Materials Holdings Ltd.	3778	11 July 2016	2	8	(18.20)	Yes	No	Yes
Eminence Enterprise Ltd.	616	13 July 2016	3	2	1.35	No	No	No
Sino Golf Holdings Ltd.	361	13 July 2016	5	Nil	(63.23)	No	No	No
Kunlun Energy Co. Ltd.	135	14 July 2016	3 (Note 3)	1.625	15.00	No	No	No
Flying Financial Service Holdings Ltd.	8030	14 July 2016	2	7	(8.18)	No	No	Yes
Value Convergence Holdings Ltd.	821	24 July 2016	2	2	(49.61)	No	No	No
China First Chemical Holdings Ltd.	2121	25 July 2016	2	Nil	35.2 and 54.6 (Note 4)	No	No	No
China Innovative Finance Group Ltd.	412	27 July 2016	2	8	Nil	Yes	No	No
SMI Culture & Travel Group Holdings Ltd. (formerly known as SMI Culture Group Holdings Ltd.)	2366	29 July 2016	1	5	39.18	No	Yes	Yes
China Smartpay Group Holdings Ltd.	8325	31 July 2016	3	4	54.50	Yes	No	Yes

LETTER FROM GRAM CAPITAL

Company name	Stock code	Date of announcement	Maturity (Years)	Interest rate per annum (%)	Premium/ (discount) of the conversion price over/ to closing price per share on the last trading day prior to the date of announcement/ agreement in relation to the respective subscription/ placing of convertible bonds/notes	Charge/ Mortgage of share capital of the issuer/ the issuer's subsidiaries	Arrangement fee/ Consultancy fee	Premium redemption (or with pre-determined annualised rate of return) at maturity
China Smartpay Group Holdings Ltd.	8325	2 August 2016	3	4	52.00	Yes	No	Yes
China Fortune Investments (Holding) Ltd.	8116	3 August 2016	1	Nil	Nil	No	No	Yes
Common Splendor International Health Industry Group Ltd.	286	5 August 2016	2	9	9.38	Yes	No	No
China Household Holdings Ltd.	692	5 August 2016	3	3	(9.09)	No	No	No
Ground Properties Co. Ltd.	989	5 August 2016	2	8	(18.03)	No	No	No
Walker Group Holdings Ltd.	1386	8 August 2016	3	10.5	(10.00)	No	Yes	Yes
SMI Culture & Travel Group Holdings Ltd. (formerly known as SMI Culture Group Holdings Ltd.)	2366	8 August 2016	1	5	8.87	No	Yes	Yes
United Photovoltaics Group Ltd.	686	19 August 2016	3	6.5	4.84	Yes	No	Yes
China Agri-Products Exchange Ltd.	149	23 August 2016	5	7.5	9.59	No	No	No
China Fortune Investments (Holding) Ltd.	8116	24 August 2016	1	Nil	(1.29)	No	No	Yes
Maximum			6.00	10.5	54.50			
Minimum			1.00	Nil	(94.03)			
Median			3.00	5.00	2.88			
Average			2.63	4.86	3.40			
The Company (The First Convertible Bonds)	1096	23 June 2016	2	7.5	4.24	Yes	Yes	Yes
The Company (The Second Convertible Bonds)	1096	31 August 2016	2	7.5	11.44	No	Yes	Yes

Notes:

- The maturity date is 7 July 2022.
- The interest rate is the aggregate of 5.9% per annum and 3-month LIBOR. It is excluded for the calculation of the average interest rate of the Comparables.
- The maturity date is 25 July 2019.

LETTER FROM GRAM CAPITAL

4. The conversion price is HK\$1.9205 per conversion share for 30% of the principal amount of the convertible bonds and HK\$2.1949 per conversion share for 70% of the principal amount of the convertible bonds. The average of the premiums as represented by the aforesaid conversion prices is adopted for the calculation of the average premium/ (discount) of the Comparables.

We noted from the above table that the conversion prices of the Comparables ranged from a discount of approximately 94.03% to a premium of approximately 54.50% to the respective closing prices of their shares on the last trading day prior to the release of announcement/date of agreement in relation to the respective subscription/placing of convertible bonds/notes (the “**Discount/Premium Market Range**”). As such, the First Conversion Price, which represents a premium of approximately 4.24% to the closing price of the Shares on the First Subscription Agreement, and the Second Conversion Price, which represents a premium of approximately 11.44% to the closing price of the Shares on the Second Subscription Agreement, fall within the Discount/Premium Market Range. Therefore, we are of the opinion that First Conversion Price and Second Conversion Price are in line with the recent market practice.

Having also taken into account that both of the First Subscription Price of HK\$0.4378 and the Second subscription Price of HK\$0.46805 are within the range of the lowest and highest closing prices of the Shares as quoted on the Stock Exchange during the Review Period, we consider the First Subscription Price and the Second subscription Price to be fair and reasonable.

Analysis on the interest rate

As presented by the table above, the Comparables had an annual interest rate of nil to 10.5% (the “**Interest Market Range**”). The First Convertible Bonds and Second Convertible Bonds both bear interest of 7.5% per annum, which is within the Interest Market Range. We consider the interest rates of the First Convertible Bonds and Second Convertible Bonds to be fair and reasonable.

LETTER FROM GRAM CAPITAL

Other major terms of the First Subscription Agreement and the Second Subscription Agreement

We noted that (i) there is Share Charge under the First Subscription Agreement; (ii) there is arrangement fee (the “**Arrangement Fee**”) under both of the First Subscription Agreement and the Second Subscription Agreement; and (iii) both of the First Convertible Bonds and the Second Convertible Bonds shall be redeemed at maturity by the Company, at a redemption amount which, taking into account the interest paid or payable by the Company, will give the holder an annualised return of 13.5% on the principal amount to be redeemed (the “**Premium Redemption**”).

From our observation, we noticed that there are certain Comparables which involved:

- (i) charge/mortgage of share capital of the issuer/the issuer’s subsidiaries to secure the obligations under respective transaction documents/convertible notes;
- (ii) payment of arrangement/consultancy fee to subscribers; or
- (iii) redemption at maturity with a redemption amount which represents premium over the principal amount or will give the subscribers a pre-determined annualised rate of return.

Details of the aforementioned are demonstrated under the table of Comparables above.

Upon our enquiry, the Directors advised us that the Share Charge was arrived at arm’s length negotiation to reduce the risk exposure of the First Subscriber given the unsatisfactory financial performance of the Group.

According to the Board Letter, the Arrangement Fee was determined at arm’s length negotiation with reference to (i) Huarong Overseas’ usual arrangement while acting, directly or indirectly, as a subscriber in similar transactions with other companies and (ii) the financial performance of the Group.

LETTER FROM GRAM CAPITAL

Upon our enquiry, the Directors also advised us that the Premium Redemption was arrived at arm's length negotiation as an incentive for the First Subscriber and the Second Subscriber to invest in the Company, which is also a normal market practice.

Having considered the above, we consider that the Share Charge, the Arrangement Fee and the Premium Redemption are not abnormal under the market practice.

Taking into account the principal terms of the First Subscription Agreement and the Second Subscription Agreement as highlighted above, we are of the view that the terms of the First Subscription Agreement and the Second Subscription Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

3. Possible dilution effect on the shareholding interests of the public Shareholders

With reference to the shareholding table in the section headed "Effect on shareholding structure of the Company" of the Board Letter, the shareholding interests of the other public Shareholders would be diluted by approximately 13.62 percent point as a result of the full conversion of the First Convertible Bonds and the Second Convertible Bonds (the "**Possible Dilution**").

As the possible dilution effect of each of the Comparables may or may not be balanced by the potential benefits of the subject issuance of the convertible bonds/notes, the comparison of the Possible Dilution with the possible dilution effect of the Comparables is not meaningful. In this regard, taking into account (i) the reasons for and possible benefits of the Subscriptions; and (ii) the terms of the First Subscription Agreement and the Second Subscription Agreement being fair and reasonable, we are of the view that the said level of dilution to the shareholding interests of the public Shareholders as a result of the full conversion of the First Convertible Bonds and the Second Convertible Bonds is acceptable.

LETTER FROM GRAM CAPITAL

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the First Subscription Agreement and the Second Subscription Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Subscriptions are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the EGM to approve the First Subscription Agreement and the Second Subscription Agreement and the transactions contemplated thereunder and we recommend the Independent Shareholders to vote in favour of the resolution(s) in this regard.

Yours faithfully,
For and on behalf of
Gram Capital Limited
Graham Lam
Managing Director

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. DISCLOSURE OF INTERESTS**Interest of Directors and Chief Executive in the Company**

As at the Latest Practicable Date, the interests and short positions of each Director and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he/she was taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of Part XV of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules to be notified to the Company and the Stock Exchange were as follows:

Interests in the Shares of the Company

Name of Director	Capacity	Number of Shares	Approximate percentage of interests in the issued share capital of the Company as at the Latest Practicable Date
Ms. Cai Xiuman (<i>Note 1</i>)	Interest of controlled corporation	150,000,000 (L)	9.34%
	Beneficial owner	13,300,000 (L)	0.83%
	Interest of spouse	5,456,000 (L)	0.34%
Mr. Zhang Wenbin (<i>Note 2</i>)	Interest of spouse	163,300,000 (L)	10.16%
	Beneficial owner	5,456,000 (L)	0.34%
Mr. Chen Jian Bao (<i>Note 3</i>)	Interest of controlled corporation	722,267,408 (L)	44.96%

The letter "L" denotes a long position in the Shares.

Notes:

- Ms. Cai Xiuman is personally beneficially interested in 13,300,000 Shares. Ms. Cai is also the beneficial owner of the entire issued share capital of Festive Boom Limited and is therefore deemed to be interested in all 150,000,000 Shares held by Festive Boom Limited. Ms. Cai Xiuman is also the director of Festive Boom Limited. Ms. Cai is also deemed to be interested in the 5,456,000 Shares beneficially held by her spouse, Mr. Zhang Wenbin.
- Mr. Zhang Wenbin is personally beneficially interested in 5,456,000 Shares. Mr. Zhang is also deemed to be interested in the 163,300,000 Shares beneficially held by his spouse Ms. Cai Xiuman.
- Mr. Chen Jian Bao is the beneficial owner of 34.57% of the entire issued share capital of the Second Subscriber, and is therefore deemed to be interested in all 465,884,543 Shares held by the Second Subscriber. Pursuant to the Second Subscription Agreement, the Second Subscriber agreed to subscribe for the Second Convertible Bonds, which will be convertible into 256,382,865 Second Conversion Shares based on the Second Conversion Price. Accordingly, Mr. Chen Jian Bao acquired an interest in 722,267,408 Shares.

As at the Latest Practicable Date, save as disclosed above, none of the Directors and chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he/she was taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of Part XV of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules to be notified to the Company and the Stock Exchange.

3. SUBSTANTIAL SHAREHOLDERS' INTEREST IN SECURITIES

As at the Latest Practicable Date, so far as was 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 of Shareholder	Capacity/ Nature of Interest	Number of Shares	Approximate percentage of interests in the issued share capital of the Company as at the Latest Practicable Date
Festive Boom Limited	Beneficial owner	150,000,000 (L)	9.34%
The First Subscriber (<i>Note 1</i>)	Beneficial owner	210,141,617 (L)	13.08%
The Second Subscriber (<i>Note 2</i>)	Beneficial owner	722,267,408 (L)	44.96%
Huarong Overseas (<i>Note 3</i>)	Interest of controlled corporation	932,409,025 (L)	58.04%
Huarong Huaqiao Assets Management Co. Ltd.* (華融華僑資產管理股份 有限公司) (<i>Note 3</i>)	Interest of controlled corporation	932,409,025 (L)	58.04%

APPENDIX I**GENERAL INFORMATION**

Name of Shareholder	Capacity/ Nature of Interest	Number of Shares	Approximate percentage of interests in the issued share capital of the Company as at the Latest Practicable Date
Huarong Zhiyuan Investment Management Co., Ltd.* (華融致遠投資管理有限責任公司) (Note 3)	Interest of controlled corporation	932,409,025 (L)	58.04%
China Huarong Asset Management Co., Ltd. (Note 3)	Interest of controlled corporation	932,409,025 (L)	58.04%
Ministry of Finance of the People's Republic of China (Note 3)	Interest of controlled corporation	932,409,025 (L)	58.04%
Guangdong Jinfeng Group Company Ltd.* (廣東錦峰集團有限公司) (Note 3)	Interest of controlled corporation	932,409,025 (L)	58.04%
Hong Kong Jinfeng Group Company Ltd.* (香港錦峰集團有限公司) (Note 3)	Interest of controlled corporation	932,409,025 (L)	58.04%
Sun Siu Kit (Note 3)	Interest of controlled corporation	932,409,025 (L)	58.04%

* For identification purposes only

The letter "L" denotes a long position in the Shares.

Notes:

1. Pursuant to the First Subscription Agreement, the First Subscriber agreed to subscribe for the First Convertible Bonds, which will be convertible into 210,141,617 First Conversion Shares based on the First Conversion Price. Accordingly, the First Subscriber acquired an interest in 210,141,617 Shares.
2. The Second Subscriber is interested in 465,884,543 Shares upon the Disposal. Pursuant to the Second Subscription Agreement, the Second Subscriber agreed to subscribe for the Second Convertible Bonds, which will be convertible into 256,382,865 Second Conversion Shares based on the Second Conversion Price. Accordingly, the Second Subscriber acquired an interest in 722,267,408 Shares.
3. Such entity, by virtue of its direct or indirect shareholding in the First Subscriber and the Second Subscriber, is deemed to be interested in the 210,141,617 and 722,267,408 Shares in which the First Subscriber and the Second Subscriber is respectively interested.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors was aware of any other person (other than a Director or chief executive of the Company) or corporation which had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

4. DIRECTORS' SERVICES CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered or proposed to enter into a service contract or service agreement with any member of the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

5. EXPERT AND CONSENT

The following is the qualification of the expert who has been named in this circular or has given opinions, letters or advice contained in this circular:

Name	Qualification
Gram Capital	a licensed corporation to carry out type 6 (advising on corporate finance) regulated activity under the SFO

Gram Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion therein of its letter and/or reference to its name, in the form and context in which they appear.

As at the Latest Practicable Date, Gram Capital was not beneficially interested in the share capital of any member of the Group nor had any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group, nor did it have any interest, directly or indirectly, in any asset which had been, since 31 December 2015, being the date to which the latest published audited financial statements of the Group were made up, acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

6. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors and their respective close associates was interested in any business apart from the business of the Group, which competes or is likely to compete, either directly or indirectly, with the business of the Group.

7. DIRECTORS' INTEREST IN ASSETS/CONTRACTS AND OTHER INTERESTS

As at the Latest Practicable Date, none of the Directors had any interest, directly or indirectly, in any asset which had been, since 31 December 2015, being the date to which the latest published audited financial statements of the Group were made up, acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

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

8. LITIGATION

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

9. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position or prospects of the Group since 31 December 2015, being the date to which the latest published audited financial statements of the Group were made up.

10. MATERIAL CONTRACTS

Save as disclosed below, there are no material contracts (not being contracts entered into in the ordinary course of business) which have been entered into by any member of the Group within the two years immediately preceding the date of this circular:

- (a) the First Subscription Agreement;
- (b) the Share Charge;
- (c) the Supplemental Agreement; and
- (d) the Second Subscription Agreement.

11. GENERAL

- (a) The company secretary of the Company is Mr. Yip Hing Fai, who is practicing barrister in Hong Kong, specializing in company law, competition law and intellectual property law.
- (b) The registered office of the Company is situated at Codan Trust Company (Cayman) Limited, Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.
- (c) The headquarters and principal place of business of the Company in the PRC is situated at Shoes Industrial Park, Baogai Town, Shishi City, Fujian Province, PRC.
- (d) The head office and principal place of business of the Company in Hong Kong is situated at Flat 4201, 42/F, China Resources Building, 26 Harbour Road, Wan Chai, Hong Kong.
- (e) The Hong Kong share registrar of the Company is Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.
- (f) In the event of inconsistency, the English text shall prevail over the Chinese text.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at Flat 4201, 42/F, China Resources Building, 26 Harbour Road, Wan Chai, Hong Kong during normal business hours on any week day (except public holidays) for the period of 14 days from the date of this circular:

- (a) the memorandum and articles of association of the Company;
- (b) the annual reports of the Company for the three years ended 31 December 2013, 31 December 2014 and 31 December 2015;
- (c) the material contracts referred to under the paragraph headed “Material Contracts” in this Appendix I;
- (d) a letter of recommendation dated 25 October 2016 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” in this circular;
- (e) a letter of advice dated 25 October 2016 from Gram Capital to the Independent Board Committee and the Independent Shareholders, the text of which is set out in the section headed “Letter from Gram Capital” in this circular;
- (f) the written consent referred to in the paragraph headed “Expert and Consent” in this Appendix I; and
- (g) this circular.

SINO ENERGY INTERNATIONAL HOLDINGS GROUP LIMITED
中能國際控股集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1096)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT an extraordinary general meeting (the “**EGM**”) of Sino Energy International Holdings Group Limited (the “**Company**”) will be held at Tactic Room, Unit 2401-2, Admiralty Centre I, 18 Harcourt Road, Hong Kong on Wednesday, 9 November 2016 at 10:30 a.m. for the purpose of considering and, if thought fit, passing with or without amendments the following resolution as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

“1. THAT:–

- (a) the subscription agreement dated 23 June 2016 (as supplemented by the supplemental agreement dated 13 July 2016) (“**First Subscription Agreement**”) entered into between the Company and Infinity Growth Capital Limited (“**First Subscriber**”) pursuant to which the Company has conditionally agreed to issue and the First Subscriber has conditionally agreed to subscribe for the convertible bonds in the aggregate principal amount of HK\$92,000,000 (the “**First Convertible Bonds**”) and the transactions contemplated thereunder (the “**First Subscription**”) be and are hereby approved, ratified and confirmed;
- (b) the creation and issue of the First Convertible Bonds by the Company pursuant to the terms of the First Subscription Agreement be and are hereby confirmed and approved;
- (c) the allotment and issue of new shares (the “**First Conversion Shares**”) (subject to adjustment) in the capital of the Company upon the exercise of the conversion rights attaching to the First Convertible Bonds be and are hereby confirmed and approved; and the Directors be and are hereby granted a specific mandate to exercise powers of the Company to allot and issue such number of the First Conversion Shares as may be required to be allotted and issued upon exercise of the conversion rights attaching to the First Convertible Bonds (subject to adjustments in accordance with the terms of the First Convertible Bonds) (including, for the avoidance of doubt, such additional number of shares of the Company that may be required to be allotted and issued upon the exercise of the conversion rights attached to the First Convertible Bonds following adjustments to the conversion price of the First Convertible Bonds); and

- (d) any one director of the Company (“**Director**”) be and is hereby generally and unconditionally authorised to do all such acts and things, to sign and execute all such documents for and on behalf of the Company and, if required, under the common seal of the Company, and to take such steps as he/she may in his/her absolute discretion considers necessary, appropriate, desirable or expedient to give effect to or in connection with the First Subscription and the transactions contemplated thereunder, including but not limited to the allotment and issue of the First Convertible Bonds and the First Conversion Shares.

2. THAT:–

- (a) the subscription agreement dated 31 August 2016 entered into between the Company and Huarong Energy Investment Company Limited (“**Second Subscriber**”) pursuant to which the Company has conditionally agreed to issue and the Second Subscriber has conditionally agreed to subscribe for the convertible bonds in the aggregate principal amount of HK\$120,000,000 (the “**Second Convertible Bonds**”) and the transactions contemplated thereunder (“**Second Subscription**”) be and are hereby approved, ratified and confirmed;
- (b) the creation and issue of the Second Convertible Bonds by the Company pursuant to the terms of the Second Subscription Agreement be and are hereby confirmed and approved;
- (c) the allotment and issue of new shares (the “**Second Conversion Shares**”) (subject to adjustment) in the capital of the Company upon the exercise of the conversion rights attaching to the Second Convertible Bonds be and are hereby confirmed and approved; and the Directors be and are hereby granted a specific mandate to exercise powers of the Company to allot and issue such number of the Second Conversion Shares as may be required to be allotted and issued upon exercise of the conversion rights attaching to the Second Convertible Bonds (subject to adjustments in accordance with the terms of the Second Convertible Bonds) (including, for the avoidance of doubt, such additional number of shares of the Company that may be required to be allotted and issued upon the exercise of the conversion rights attached to the Second Convertible Bonds following adjustments to the conversion price of the Second Convertible Bonds); and

- (d) any one Director be and is hereby generally and unconditionally authorised to do all such acts and things, to sign and execute all such documents for and on behalf of the Company and, if required, under the common seal of the Company, and to take such steps as he/she may in his absolute discretion considers necessary, appropriate, desirable or expedient to give effect to or in connection with the Second Subscription and the transactions contemplated thereunder, including but not limited to the allotment and issue of the Second Convertible Bonds and the Second Conversion Shares.”

By order of the Board
Sino Energy International Holdings Group Limited
Chen Jian Bao
Chairman

Hong Kong, 25 October 2016

Registered Office

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

Headquarters and Principal Place of Business in the PRC

Shoes Industrial Park
Baogai Town
Shishi City
Fujian Province
PRC

Head Office and Principal Place of Business in Hong Kong

Flat 4201, 42/F,
China Resources Building,
26 Harbour Road,
Wan Chai, Hong Kong

Notes:

1. Any member entitled to attend and vote at the EGM is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him/her. A proxy need not be a member of the Company.
2. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his/her attorney duly authorised in writing or, if the appointor is a corporation, either under its seal or under the hand of any officer, attorney or other person duly authorised to sign the same.
3. In order to be valid, the form of proxy together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power or authority, must be deposited with the share registrar of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not less than 48 hours before the time appointed for holding the EGM or any adjourned meeting thereof (as the case may be).
4. Completion and return of the form of proxy will not preclude members from attending and voting in person at the EGM or at any adjourned meeting thereof (as the case may be) should they so wish, and in such event, the form of proxy shall be deemed to be revoke.
5. Where there are joint registered holders of any share, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he/she was solely entitled thereto, but if more than one of such joint holders are present at the meeting, whether in person or by proxy, the joint registered holder present whose name stands first on the register of members of the Company in respect of the shares shall be accepted to the exclusion of the votes of the other registered holders.

As at the date of this notice, the executive Directors of the Company are Mr. Chen Jian Bao, Ms. Cai Xiuman, Mr. Wang Wei, Mr. Zhang Wenbin, Mr. Chen Yuanjian, Mr. Sun Hui Ding and Mr. Wang Qingshan; and the independent non-executive Directors of the Company are Mr. Chen Jinzhong, Roy, Mr. Lee Ho Yiu Thomas and Mr. Gu Renliang.