
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular, 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 Artini China Co. Ltd., you should at once hand this circular to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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ARTINI
ARTINI CHINA CO. LTD.
雅天妮中國有限公司
(Incorporated in Bermuda with limited liability)
(Stock Code: 789)

(1) PROPOSED CAPITAL REORGANISATION
(2) PROPOSED CHANGE IN BOARD LOT SIZE
(3) PROPOSED OPEN OFFER OF NEW SHARES
ON THE BASIS OF THREE OFFER SHARES FOR
EVERY NEW SHARE HELD ON RECORD DATE
AND
(4) NOTICE OF SPECIAL GENERAL MEETING

Underwriter



Guotai Junan Securities (Hong Kong) Limited

Financial adviser to Artini China Co. Ltd.



Guotai Junan Capital Limited

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



Celestial Capital Limited

A letter from the Board is set out on pages 12 to 36 of this circular. A letter from the Independent Board Committee containing its advice to the Independent Shareholders is set out on page 37 of this circular. A letter from the Independent Financial Adviser containing its advice and recommendation to the Independent Board Committee and the Independent Shareholders are set out on pages 38 to 68 of this circular.

A notice convening the SGM to be held at Flat B1, 1st Floor, Kaiser Estate, Phase 1, 41 Man Yue Street, Hung Hom, Kowloon, Hong Kong at 10 a.m. on Monday, 17 November 2014 is set out on pages 93 to 96 of this circular. A form of proxy for use at the SGM is enclosed. Whether or not you intend to attend the SGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Union Registrars Limited, located at 18/F., Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so desire.

It should be noted that the Underwriting Agreement contains provisions granting the Underwriter the right to terminate the obligations of the Underwriter thereunder on the occurrence of certain events. These certain events are set out in the section headed "Termination of the Underwriting Agreement" on pages 7 to 8 of this circular. If the Underwriting Agreement is terminated by the Underwriter or does not become unconditional on or before Tuesday, 16 December 2014, the Open Offer will not proceed.

Shareholders and potential investors of the Company should note that the Open Offer is conditional upon the Underwriting Agreement having become unconditional and the Underwriter not having terminated the Underwriting Agreement in accordance with the terms thereof (a summary of which is set out in this circular). Accordingly, the Open Offer may or may not proceed.

24 October 2014

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DEFINITIONS

In this circular, the following expressions have the meanings respectively set opposite them unless the context otherwise requires:

“Announcement”	the announcement of the Company in relation to, among other things, the Capital Reorganisation, Change in Board Lot Size and the Open Offer dated 23 September 2014;
“Application Form(s)”	the form(s) of application in respect of the Open Offer to be issued to the Qualifying Shareholders;
“associates”	has the meaning ascribed to it in the Listing Rules;
“Board”	the board of Directors;
“Business Day”	any day (other than a Saturday, Sunday or public holiday) on which licensed banks in Hong Kong are generally open for business;
“BVI”	British Virgin Island;
“Capital Reduction”	the reduction of the issued share capital of the Company by the cancellation of (a) the paid-up capital of the Company to the extent of HK\$0.19 on each Consolidated Share such that the nominal value of each issued Consolidated Share will be reduced from HK\$0.20 to HK\$0.01, and (b) any fractional Consolidated Share in the issued share capital of the Company arising from the Share Consolidation;
“Capital Reorganisation”	the Share Consolidation, the Capital Reduction, the Share Subdivision and the Elimination of Accumulated Losses;
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC;
“CDM business”	the concurrent design manufacturing business segment engaged by the Group where the Group concurrently designs and manufactures products for internationally renowned brands according to their specified designs;
“Change in Board Lot Size”	the change in board lot size for trading in the Shares from 1,000 Existing Shares to 20,000 New Shares upon the Capital Reorganisation becoming effective;
“Companies (WUMP) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance, Chapter 32 of the Laws of Hong Kong (as amended, supplemented or otherwise modified from time to time);

DEFINITIONS

“Company”	Artini China Co. Ltd., a company incorporated in Bermuda with limited liability and the Shares of which are listed on the main board of the Stock Exchange;
“Consolidated Share(s)”	the ordinary share(s) of HK\$0.20 each in the share capital of the Company immediately following the Share Consolidation and prior to the Capital Reduction and the Share Subdivision;
“Director(s)”	director(s) of the Company;
“Disposal Agreement”	the conditional sale and purchase agreement dated 9 October 2014 and entered into between Artist Star International Development Limited, a wholly-owned subsidiary of the Company, as vendor and Celestial Elite Investments Limited, a company wholly-owned by Mr. Tse, as purchaser in relation to the disposal of the entire issued share capital of TCK, the details of which were disclosed in the announcement of the Company dated 9 October 2014;
“Effective Date”	the date upon which the Capital Reorganisation becomes unconditional and effective, which is expected to be Tuesday, 18 November 2014;
“Elimination of Accumulated Losses”	the transfer of the credit amount arising from the Capital Reduction to the contributed surplus account of the Company, and the application of the whole sum of which to set off against part of the accumulated losses of the Company;
“Excess Application Form(s)”	the form(s) of application for use by the Qualifying Shareholders to apply for the Offer Shares in excess of their entitlements under the Open Offer;
“Excluded Shareholder(s)”	those Overseas Shareholder(s) in respect of whom the Directors, based on legal opinions provided by the Company’s legal adviser(s), consider it necessary or expedient not to offer the Offer Shares to such Overseas Shareholder(s) on account either of legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or the stock exchange in that place;
“Existing Share(s)”	the ordinary share(s) of HK\$0.10 each in the share capital of the Company prior to the Capital Reorganisation becoming effective;
“Group”	the Company and its subsidiaries;
“HKSCC”	Hong Kong Securities Clearing Company Limited;

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“Independent Board Committee”	the independent board committee of the Company established to advise the Independent Shareholders regarding the Open Offer;
“Independent Financial Adviser”	Celestial Capital Limited, a licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the Securities and Future Ordinance (Chapter 571 of the Laws of Hong Kong), being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Open Offer;
“Independent Shareholder(s)”	the Shareholder(s), other than the Directors (excluding the independent non-executive Directors), the chief executive of the Company and their respective associates, who are not involved in, nor interested in, the Underwriting Agreement;
“Independent Third Party(ies)”	independent third party(ies) who is/are not connected person(s) (as defined in the Listing Rules) of the Company and is/are independent of and not connected with the Company and directors, chief executive, controlling shareholders and substantial shareholders of the Company or any of its subsidiaries or their respective associates;
“Last Trading Day”	19 September 2014, being the last trading day of the Shares on the Stock Exchange before the release of the Announcement;
“Latest Practicable Date”	22 October 2014, being the latest practicable date for the purpose of ascertaining certain information contained in this circular;
“Latest Time for Acceptance”	4:00 p.m. on Thursday, 11 December 2014 or such other date and/or time as may be agreed between the Company and the Underwriter, being the latest time for acceptance of the application and payment for the Offer Shares and excess Offer Shares;
“Latest Time for Termination”	4:00 p.m. on the third Business Day after the Latest Time for Acceptance, or such later time or date as may be agreed between the Company and the Underwriter, being the latest time to terminate the Underwriting Agreement;
“Listing Committee”	has the meaning attributed to it in the Listing Rules;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Mr. Tse”	Mr. Tse Hoi Chau;

DEFINITIONS

“New Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company upon the Capital Reorganisation becoming effective;
“Offer Share(s)”	the New Shares proposed to be allotted and issued under the Open Offer, being 1,855,980,483 New Shares to the Qualifying Shareholders for subscription on the terms and subject to the conditions set out in the Underwriting Agreement and the Prospectus Documents;
“Open Offer”	the proposed issue of Offer Shares by the Company on the basis of three (3) Offer Shares for every one (1) New Share at the subscription price of HK\$0.10 per Offer Share on the terms and subject to the conditions set out in the Underwriting Agreement and the Prospectus Documents;
“Optionholders”	holders of the Share Options;
“Overseas Shareholder(s)”	Shareholder(s) whose name(s) appear(s) on the register of members of the Company at the close of business on the Record Date and whose address(es) as shown on such register is(are) in place(s) outside Hong Kong;
“PRC”	the People’s Republic of China , excluding Hong Kong, Macau Special Administrative Region and Taiwan for the purposes of this circular;
“Prospectus”	a prospectus containing details of the Open Offer to be issued by the Company in relation to the Open Offer;
“Prospectus Documents”	collectively, the Prospectus, the Application Form and the Excess Application Form;
“Prospectus Issue Date”	27 November 2014, the date of despatch of the Prospectus Documents as the Underwriter may agree in writing with the Company;
“Provisional Agreement I”	the provisional agreement for sale and purchase dated 14 October 2014 and entered into among Gentleman Investments Limited, a wholly-owned subsidiary of the Company as vendor, and two purchasers, Independent Third Parties, in relation to the disposal of the Unit B1 on 1st Floor, Kaiser Estate, No. 41 Man Yue Street, Kowloon, Hong Kong;

DEFINITIONS

“Provisional Agreement II”	the provisional agreement for sale and purchase dated 14 October 2014 and entered into between Gain Trade Enterprise Limited, a wholly-owned subsidiary of the Company, as vendor and a purchaser, an Independent Third Party, in relation to the disposal of the Unit B on 2nd Floor, Kaiser Estate, No. 41 Man Yue Street, Kowloon, Hong Kong;
“Provisional Agreement III”	the provisional agreement for sale and purchase dated 14 October 2014 and entered into among Artist Empire Jewellery Mfy. Limited, a wholly-owned subsidiary of the Company, as vendor, and two purchasers, Independent Third Parties, in relation to the disposal of the Car Parking Space No. 26 on Ground Floor, Kaiser Estate, Nos. 37-45 Man Yue Street, Kowloon, Hong Kong;
“Qualifying Shareholders”	Shareholders whose names appear on the register of members of the Company at the close of business on the Record Date other than the Excluded Shareholder(s);
“Record Date”	25 November 2014, being the date by reference to which entitlements to the Open Offer will be determined;
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
“Share(s)”	Existing Share(s) or New Share(s) (as the case may be);
“Share Consolidation”	the consolidation of every two (2) Existing Shares of nominal value of HK\$0.10 each in the issued and unissued share capital of the Company into one (1) Consolidated Share of nominal value of HK\$0.20;
“Share Option Scheme”	the share option scheme adopted by the Company on 23 April 2008;
“Share Option(s)”	right(s) to subscribe for Share(s) pursuant to the Share Option Scheme;
“Share Subdivision”	the sub-division of each authorised but unissued Consolidated Share of nominal value of HK\$0.20 each (including all those arising from the Capital Reduction) into twenty (20) New Shares of nominal value of HK\$0.01 each;
“Shareholder(s)”	holder(s) of Share(s) of the Company;
“SGM”	the special general meeting of the Company to be convened and held to consider and, if thought fit, approve, among other things, the Capital Reorganisation and the Open Offer;

DEFINITIONS

“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“TCK”	TCK Company Limited, a company incorporated in BVI with limited liability and a wholly-owned subsidiary of the Company proposed to be disposed of under the Disposal Agreement;
“Undertaking Shareholders”	Mr. Tse and Walifax Investments;
“Underwriter” or “Guotai Junan”	Guotai Junan Securities (Hong Kong) Limited, a licensed corporation to carry out type 1 (dealing in securities) and type 4 (advising on securities) regulated activities under the SFO, being the sole underwriter of the Open Offer;
“Underwriting Agreement”	the underwriting agreement dated 19 September 2014 entered into among the Company, the Undertaking Shareholders and the Underwriter in relation to the underwriting arrangement of the Open Offer;
“Underwritten Shares”	all Offer Shares less such number of Offer Shares which Mr. Tse and Walifax Investments undertake to take up their respective entitlements under the Open Offer, being 1,030,911,492 Offer Shares;
“Walifax Investments”	Walifax Investments Limited, a company incorporated under the laws of the BVI with limited liability and wholly-owned by Mr. Tse;
“WOFE”	超群(海豐)首飾廠有限公司(Artist Empire (Hai Feng) Jewellery Mfy. Limited), a wholly foreign-owned enterprise established in the PRC with limited liability and is a wholly-owned subsidiary of TCK;
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong;
“%” or “per cent.”	percentage or per centum;

TERMINATION OF THE UNDERWRITING AGREEMENT

TERMINATION OF THE UNDERWRITING AGREEMENT

It should be noted that the Underwriting Agreement contains provisions granting the Underwriter, by notice in writing, the right to terminate the Underwriter's obligations thereunder on the occurrence of certain events. The Underwriter may terminate the Underwriting Agreement on or before the Latest Time for Termination if prior to the Latest Time for Termination, any of the following happens:

- (a) the Underwriter shall become aware of the fact that, or shall have reasonable cause to believe that, any of the warranties was (when originally given or when repeated in accordance with the provisions of the Underwriting Agreement) untrue, inaccurate, misleading or breached, and in each case where it is material in the context of the Open Offer;
- (b)
 - (i) any new law or regulation is enacted, or there is any change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority, whether in Hong Kong or elsewhere;
 - (ii) any occurrence of local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date of the Underwriting Agreement) of a political, military, financial, economic or other nature (whether or not ejusdem generis with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets;
 - (iii) any event of force majeure including, without limiting the generality thereof, any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lockout;
 - (iv) any other material adverse change in relation to the business or the financial or trading position or prospects of the Group as a whole whether or not ejusdem generis with any of the foregoing;
 - (v) any change of an exceptional nature in local, national or international equity securities or currency markets;
 - (vi) any suspension in the trading of the Company's securities on the Stock Exchange for a period of more than 10 consecutive Business Days, excluding any suspension in connection with the clearance of the Announcement or circular relating to the Capital Reorganisation, the Open Offer or the Prospectus Documents or other announcement or circular relating in connection with the Capital Reorganisation and Open Offer;
 - (vii) any material disruption in securities settlement, payment or clearance services in Hong Kong authorities;

TERMINATION OF THE UNDERWRITING AGREEMENT

(viii) any moratorium on commercial banking activities having been declared by Hong Kong authorities;

(ix) any change or development involving a prospective change in taxation or exchange controls in Hong Kong or elsewhere,

which event or events, in the reasonable opinion of the Underwriter, is or are:

(1) likely to have a material adverse effect on the business or financial or trading position or prospects of the Group as a whole;

(2) likely to have a material adverse effect on the success of the Open Offer or the level of Offer Shares taken up; or

(3) so material as to make it inappropriate, inadvisable or inexpedient to proceed further with the Open Offer.

If the Underwriter exercises such right, the Open Offer will not proceed.

Upon giving any of such notice, all obligations of the Underwriter under the Underwriting Agreement shall cease and determine and no party shall have any claim against any party in respect of any matter or thing arising out of or in connection with the Underwriting Agreement except in respect of any antecedent breach of the Underwriting Agreement, provided however that the Company shall remain liable to pay all reasonable costs, charges and expenses which may have been properly incurred by the Underwriter in connection with the Open Offer.

EXPECTED TIMETABLE

*2014
(Hong Kong time)*

Despatch of this circular, notice and proxy form of SGM	Friday, 24 October
Latest time for lodging transfers of Shares in order to qualify for attendance and voting at the SGM	4:30 p.m. on Friday, 14 November
Latest time for return of proxy form for the SGM (not less than 48 hours prior to time of the SGM)	10:00 a.m. on Saturday, 15 November
SGM	10:00 a.m. on Monday, 17 November
Announcement of results of SGM to be published on the Stock Exchange website	Monday, 17 November
Effective date of the Capital Reorganisation and dealing of the New Shares	Tuesday, 18 November
Closure of original counter for trading in Existing Shares in board lot of 1,000	9:00 a.m. on Tuesday, 18 November
Establishment of temporary counter for trading in New Shares in board lot of 500	9:00 a.m. on Tuesday, 18 November
First day of free exchange of existing certificates for new certificates for the New Shares	Tuesday, 18 November
Last day of dealings in the New Shares on a cum-entitlement basis	Tuesday, 18 November
First day of dealings in the New Shares on an ex-entitlement basis	Wednesday, 19 November
Latest time for lodging transfers of New Shares to be qualified for the Open Offer	4:30 p.m. on Thursday, 20 November
Register of members of the Company closes (both days inclusive)	Friday, 21 November to Tuesday, 25 November
Record Date	Tuesday, 25 November
Register of members of the Company to be re-opened	Wednesday, 26 November
Despatch of the Prospectus Documents (in case of the Excluded Shareholders, the Prospectus only)	Thursday, 27 November

EXPECTED TIMETABLE

Original counter for trading in the New Shares in board lot of 20,000 re-opens	9:00 a.m. on Tuesday, 2 December
Parallel trading commences	9:00 a.m. on Tuesday, 2 December
Designated broker starts to stand in the market to provide matching services for the sale and purchase of odd lots of the New Shares	9:00 a.m. on Tuesday, 2 December
Latest time for acceptance of and payment for the Offer Shares, and application for excess Offer Shares	4:00 p.m. on Thursday, 11 December
Latest time for termination of the Underwriting Agreement	4:00 p.m. on Tuesday, 16 December
Announcement on results of the Open Offer	Thursday, 18 December
Certificate for fully-paid Offer Shares and refund cheques in respect of unsuccessful excess applications (if any) expected to be despatched on or before	Friday, 19 December
Dealings in fully-paid Offer Shares commence	Monday, 22 December
Closure of temporary counter for trading in the New Shares in board lot of 500	4:00 p.m. on Monday, 22 December
Parallel trading ends	4:00 p.m. on Monday, 22 December
Designated broker ceases to stand in the market to provide matching services for the sale and purchase of odd lots of the New Shares	4:00 p.m. on Monday, 22 December
Last day of free exchange of existing certificates for new certificates for the New Shares	Monday, 29 December

Notes:

1. All times and dates in this circular refer to Hong Kong local times and dates.
2. The latest time for acceptance of and payment for the Offer Shares will not take place at the Latest Time for Acceptance if there is a tropical cyclone warning signal number 8 or above, or a “black” rainstorm warning:
 - (a) in force in Hong Kong at any local time before 12:00 noon but no longer in force after 12:00 noon on the Latest Time for Acceptance. Instead the latest time of acceptance of and payment for the Offer Shares will be extended to 5:00 p.m. on the same Business Day; and

EXPECTED TIMETABLE

- (b) in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on the Latest Time for Acceptance. Instead of the latest time of acceptance of and payment for the Offer Shares will be rescheduled to 4:00 p.m. on the following Business Day which does not have either of those warnings in force at any time between 9:00 a.m. and 4:00 p.m.

If the latest time for acceptance of and payment for the Offer Shares does not take place on the Latest Time for Acceptance, the dates mentioned in this section headed “Expected Timetable” may be affected. An announcement will be made by the Company in such event as soon as practicable.

3. The expected timetable for the Capital Reorganisation, Change in Board Lot Size and Open Offer set out above is indicative only. The expected timetable is subject to change, and any such change will be announced in a separate announcement by the Company as and when appropriate.

ARTINI
ARTINI CHINA CO. LTD.
雅天妮中國有限公司
(Incorporated in Bermuda with limited liability)
(Stock Code: 789)

Executive Directors:

Mr. Tse Hoi Chau (*Chairman*)
Mr. Lin Shao Hua

Independent Non-executive Directors:

Mr. Lau Fai Lawrence
Mr. Lau Yiu Kit
Mr. Zeng Zhaohui

Registered Office:

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

*Principal place of business
in Hong Kong:*

Flat B1, 1st Floor
Kaiser Estate, Phase 1
41 Man Yue Street
Hung Hom
Hong Kong

24 October 2014

To the Shareholders

Dear Sir or Madam,

(1) PROPOSED CAPITAL REORGANISATION
(2) PROPOSED CHANGE IN BOARD LOT SIZE
(3) PROPOSED OPEN OFFER OF NEW SHARES
ON THE BASIS OF THREE OFFER SHARES FOR
EVERY NEW SHARE HELD ON RECORD DATE
AND
(4) NOTICE OF SPECIAL GENERAL MEETING

INTRODUCTION

On 23 September 2014, the Company announced its proposal to effect the Capital Reorganisation which involves:

- (i) Share Consolidation: the consolidation of every two (2) Existing Shares of nominal value of HK\$0.10 each in the issued and unissued share capital of the Company into one (1) Consolidated Share of nominal value of HK\$0.20;

LETTER FROM THE BOARD

- (ii) **Capital Reduction:** the reduction of the issued share capital of the Company by the cancellation of (a) the paid-up capital of the Company to the extent of HK\$0.19 on each Consolidated Share such that the nominal value of each issued Consolidated Share will be reduced from HK\$0.20 to HK\$0.01, and (b) any fractional Consolidated Share in the issued share capital of the Company arising from the Share Consolidation;
- (iii) **Share Subdivision:** the subdivision of each authorised but unissued Consolidated Share of nominal value of HK\$0.20 (including all those arising from the Capital Reduction) into twenty (20) New Shares of HK\$0.01 each; and
- (iv) **Elimination of Accumulated Losses:** the credit arising from the Capital Reduction will be transferred to the contributed surplus account of the Company, and the whole sum of which will be applied to set off against part of the accumulated losses of the Company.

The Company further proposes to change the board lot size for trading in the Shares from 1,000 Existing Shares to 20,000 New Shares upon the Capital Reorganisation becoming effective.

The Company further proposes to raise approximately HK\$185.6 million, before expenses, by issuing 1,855,980,483 Offer Shares at the subscription price of HK\$0.10 per Offer Share on the basis of three (3) Offer Shares for every one (1) New Share held on the Record Date and payable in full upon application.

The purpose of this circular is to provide you with details of, amongst other things, (i) the Capital Reorganisation, the Change in Board Lot Size, the Open Offer; (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders; (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; and (iv) the notice of SGM.

(1) PROPOSED CAPITAL REORGANISATION AND CHANGE IN BOARD LOT SIZE

The Capital Reorganisation will involve the Share Consolidation, the Capital Reduction, the Share Subdivision and the Elimination of Accumulated Losses.

Share Consolidation

Every two (2) Existing Shares of HK\$0.10 each in the issued and unissued share capital of the Company will be consolidated into one (1) Consolidated Share of HK\$0.20. As at the Latest Practicable Date, there are 1,237,320,323 Existing Shares in issue and fully paid. On the basis of such issued share capital, there will be 618,660,161.5 Consolidated Shares in issue and fully paid following the Share Consolidation.

LETTER FROM THE BOARD

Capital Reduction

The issued share capital of the Company will be reduced by the cancellation of (a) the paid-up capital of the Company to the extent of HK\$0.19 on each Consolidated Share such that the nominal value of each issued Consolidated Share will be reduced from HK\$0.20 to HK\$0.01 and (b) any fractional Consolidated Share in the issued share capital of the Company arising from the Share Consolidation.

Share Subdivision

Immediately following the Share Consolidation and the Capital Reduction, each authorised but unissued Consolidated Share (including all those arising from the Capital Reduction) will be sub-divided into twenty (20) New Shares of HK\$0.01 each.

Elimination of Accumulated Losses

Based on 1,237,320,323 Existing Shares in issue as at the Latest Practicable Date, a credit of approximately HK\$117,545,430.69 will arise as a result of the Capital Reduction. The credit arising from the Capital Reduction will be transferred to the contributed surplus account of the Company. The Board proposes to apply the whole sum of HK\$117,545,430.69 in the contributed surplus account to set off against part of the accumulated losses of the Company as at 31 March 2014. For reference, the amount of accumulated losses of the Company was approximately HK\$669,988,354.41 as at 31 March 2014.

Effects of the Capital Reorganisation and the Elimination of Accumulated Losses

Assuming that no further Shares are issued or repurchased by the Company between the date of this circular and the effective date of the Capital Reorganisation and that none of the outstanding 108,000,000 Share Options will be exercised in full prior to the Effective Date, the effect of the Capital Reorganisation is as follows:

	Authorised share capital	Issued share capital
Before Capital Reorganisation	HK\$300,000,000 divided into 3,000,000,000 Shares of HK\$0.10 each	HK\$123,732,032.30 divided into 1,237,320,323 Shares of HK\$0.10 each
After Capital Reorganisation	HK\$300,000,000 divided into 30,000,000,000 New Shares of HK\$0.01 each	HK\$6,186,601.61 divided into 618,660,161 New Shares of HK\$0.01 each

LETTER FROM THE BOARD

With reference to the audited financial statements of the Company for the year ended 31 March 2014, the effect of the Capital Reorganisation on the capital and reserves of the Company is as follows:

(Figures in HK\$ approximate)	Issued share capital as at the Latest Practicable Date	Contributed surplus as at 31 March 2014	Accumulated losses as at 31 March 2014
Balance before Capital Reorganisation	123,732,032.30	—	(669,988,354.41)
Capital Reduction	(117,545,430.69)	117,545,430.69	—
Elimination of Accumulated Losses	<u>—</u>	<u>(117,545,430.69)</u>	<u>117,545,430.69</u>
Balance after Capital Reorganisation	<u>6,186,601.61</u>	<u>—</u>	<u>(552,442,923.72)</u>

Other than the expenses incurred in relation to the Capital Reorganisation, the implementation of the Capital Reorganisation will not alter the underlying assets, business operations, management or financial position of the Company or the relative interests or rights of the Shareholders. Save as disclosed above, the Capital Reorganisation itself will not have any material effect on the financial position of the Group.

Conditions of the Capital Reorganisation

The Capital Reorganisation will be conditional upon:

- the passing of necessary resolutions by the Shareholders to approve the Capital Reorganisation at the SGM;
- the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the New Shares (in issue and to be issued by the Company pursuant to the Share Option Scheme) upon the Capital Reorganisation becoming effective; and
- compliance with the relevant procedures and requirements under the laws of Bermuda (where applicable) and the Listing Rules to give effect to the Capital Reorganisation.

No Shareholder is required to abstain from voting on the necessary resolutions in relation to the Capital Reorganisation at the SGM.

Expected effective date of the Capital Reorganisation

Subject to the fulfillment of the above conditions, the Capital Reorganisation is expected to become effective on the next Business Day following the date of passing of the necessary resolutions at the SGM.

LETTER FROM THE BOARD

Reasons for the Capital Reorganisation

The Directors believe that, by changing the par value of the Existing Shares from HK\$0.10 each to HK\$0.20 each and reducing it to HK\$0.01 each, it would be beneficial to the Company as it would improve flexibility in future for the Company to raise fund via the issue of New Shares. Other than the Open Offer, the Company had no fund raising plan by issuing New Shares as at the Latest Practicable Date.

In addition, the credit amount arising from the Capital Reduction will allow the Company to eliminate part of the accumulated losses. The Elimination of Accumulated Losses will allow greater flexibility for the Company to pay dividends as and when the Board considers it appropriate to do so after taking into account (i) whether the Company is in a position to legally pay dividends which requires the use of retained earnings; and (ii) the Company's future financial performance. The Company has no current intention to pay dividends which requires the use of retained earnings immediately upon the completion of the Capital Reorganisation given the Company's accumulated losses of approximately HK\$552.4 million.

As such, the Board is of the view that the Capital Reorganisation is in the interests of the Company and the Shareholders as a whole.

Listing and Dealings

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the New Shares arising from the Capital Reorganisation and the underlying New Shares falling to be allotted and issued upon the exercise of the subscription rights attached to the outstanding 108,000,000 Share Options.

The New Shares will be identical in all respects and rank *pari passu* in all respects with each other as to all future dividends and distributions which are declared, made or paid. Subject to the granting of the listing of, and permission to deal in, the New Shares (in issue and to be allotted and issued upon the exercise of the subscription rights attached to the outstanding 108,000,000 Share Options) on the Stock Exchange, the New Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the New Shares on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. All necessary arrangements have been made enabling the securities to be admitted into CCASS.

Fractional shares

Fractional New Shares will not be issued by the Company to the Shareholders. Any fractional entitlements of the New Shares will be aggregated and sold for the benefit of the Company.

LETTER FROM THE BOARD

Change in Board Lot Size

The Shares are currently traded on the Stock Exchange in board lots of 1,000 Existing Shares each and the market value per board lot is HK\$188.5 subsequent to the Capital Reorganisation, based on the theoretical ex-entitlement price after completion of the Open Offer of HK\$0.1885 (based on the closing price of HK\$0.227 per Share as quoted on the Stock Exchange on the Last Trading Day and adjusted for the effect of the Capital Reorganisation). In order to raise the board lot value, the Company is pleased to announce that the board lot size of the New Shares for trading on the Stock Exchange will be increased to 20,000 New Shares upon the Capital Reorganisation becoming effective. The estimated market value per board lot of the New Shares will be HK\$3,770, based on the theoretical ex-entitlement price after completion of the Open Offer of HK\$0.1885 (based on the closing price of HK\$0.227 per Share as quoted on the Stock Exchange on the Last Trading Day and adjusted for the effect of the Capital Reorganisation). In addition, the estimated market value per board lot of the New Shares will be HK\$3,390, based on the theoretical ex-entitlement price after completion of the Open Offer of HK\$0.1695 (based on the closing price of HK\$0.189 per Share as quoted on the Stock Exchange on the Latest Practicable Day and adjusted for the effect of the Capital Reorganisation). The Change in Board Lot Size and the Capital Reorganisation will not result in any change in the relative rights of the Shareholders.

Free Exchange of Share certificates

Subject to the Capital Reorganisation becoming effective, Shareholders may submit share certificates of the Existing Shares in board lot of 1,000 Shares to the branch share registrar of the Company in Hong Kong, Union Registrars Limited, at 18/F, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong for exchange from Tuesday, 18 November 2014 to Monday, 29 December 2014 (both dates inclusive), at the expenses of the Company for new share certificates of the New Shares in board lot of 20,000 New Shares. Thereafter, certificates for the Existing Shares will be accepted for exchange only on payment of a fee of HK\$2.5 (or such higher amount as may from time to time be allowed by the Stock Exchange) for each new share certificate issued for the New Shares or each existing certificate for the Shares cancelled, whichever the number is higher. Nevertheless, the existing certificates for the Existing Shares will continue to be good evidence of legal title but are not valid for dealings, trading and settlement purpose after the Capital Reorganisation has become effective and may be exchanged for certificates for the New Shares at any time in accordance with the foregoing.

The share certificates for the New Shares will be blue in colour in order to distinguish them from the share certificates for the Existing Shares which are red in colour.

Arrangement on odd lot trading

In order to facilitate the trading of odd lots (if any) of the New Shares arising from the Capital Reorganisation and the Change in Board Lot Size, the Company has appointed Guotai Junan to stand in the market to provide matching services for the

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odd lots of the New Shares on a best effort basis at the relevant market price per New Shares for the period from Tuesday, 2 December 2014 to Monday, 22 December 2014 (both dates inclusive). Holders of odd lots of the New Shares who wish to take advantage of this matching service either to dispose of their odd lots Shares or to top up to board lots of 20,000 New Shares, may contact Mr. Simon Lou of Guotai Junan on 27/F, Low Block, Grand Millenium Plaza, 181 Queen's Road Central, Hong Kong or at telephone number (852) 2509 7519 during this period. Shareholders should note that the above matching services is on a best effort basis only and successful matching of the sale and purchase of odd lots of the News Shares is not guaranteed. Any Shareholder, who is in any doubt about the odd lot arrangement, is recommended to consult his/her/its own professional advisers.

Shareholders and potential investors of the Company should be aware and take note that the Capital Reorganisation is conditional upon satisfaction of the conditions set out in the paragraph headed "Conditions of the Capital Reorganisation" above, and therefore may or may not proceed. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the Shares, and if they are in any doubt about their position, they should consult their professional advisers.

(2) PROPOSED OPEN OFFER

Conditional upon the Capital Reorganisation becoming effective, the Company proposes to raise approximately HK\$185.6 million, before expenses, by issuing 1,855,980,483 Offer Shares at the subscription price of HK\$0.10 per Offer Share on the basis of three (3) Offer Shares for every one (1) New Share held on the Record Date and payable in full upon application.

Issue statistics

Basis of the Open Offer	:	Three (3) Offer Shares for every one (1) New Share held on the Record Date
Subscription Price	:	HK\$0.10 per Offer Share payable in full upon application
Number of Shares in issue as at the Latest Practicable Date	:	1,237,320,323 Existing Shares (on the basis of the number of Existing Shares as at the Latest Practicable Date, assuming no further Shares are issued or repurchased between the date of this circular and the Record Date)
Number of New Shares in issue upon the Capital Reorganisation becoming effective	:	618,660,161 New Shares
Number of Offer Shares	:	1,855,980,483 Offer Shares

LETTER FROM THE BOARD

Aggregate nominal value of Offer Shares	:	HK\$18,559,804.83
Amount of proceeds to be raised before expenses	:	Approximately HK\$185.6 million
Estimated amount of proceeds to be raised after deduction of all estimated expenses (including underwriting commission)	:	Approximately HK\$183.0 million
Number of Offer Shares undertaken to be taken up by Mr. Tse and Walifax Investments	:	825,068,991 Offer Shares
Number of Offer Shares underwritten by the Underwriter	:	1,030,911,492 Offer Shares
Number of New Shares in issue immediately upon completion of the Open Offer	:	2,474,640,644 New Shares

Notes:

As at the Latest Practicable Date, there were outstanding 108,000,000 Share Options conferring rights on the holders thereof to subscribe for up to 108,000,000 Shares which are vested and exercisable at HK\$0.2618 per Share (subject to adjustment, if any) during an exercise period from 28 March 2014 to 27 March 2019. The Company has obtained undertakings from each of the Optionholders that they will not exercise any Share Option at any time from the date of the Underwriting Agreement and up to the completion of the Open Offer.

Assuming that there are no further issues of Shares or repurchases of Shares by the Company on or before the Record Date, the 1,855,980,483 Offer Shares proposed to be allotted and issued represent (i) approximately 300.0% of the issued share capital of the Company immediately after the completion of the Capital Reorganisation; and (ii) approximately 75.0% of the issued share capital of the Company as enlarged by the allotment and issue of the Offer Shares immediately after completion of the Open Offer.

As at the Latest Practicable Date, save for the outstanding 108,000,000 Share Options, the Company had no other outstanding options, warrants, derivatives or convertible securities which may confer any right to the holder thereof to subscribe for, convert or exchange into Shares.

Subscription Price

The subscription price of HK\$0.10 per Offer Share will be payable in full upon application for Offer Shares. The Subscription Price represents:

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- (a) a discount of approximately 78.0% to the closing price of HK\$0.454 per New Share (based on the closing price of HK\$0.227 per Existing Share as quoted on the Stock Exchange on the Last Trading Day and adjusted for the effect of the Share Consolidation);
- (b) a discount of approximately 78.8% to the closing price of HK\$0.4712 per New Share (based on the closing price of HK\$0.2356 per Existing Share for the last ten trading days up to and including the Last Trading Day and adjusted for the effect of the Share Consolidation);
- (c) a discount of approximately 46.9% to the theoretical ex-entitlement price of HK\$0.1885 per Share based on the closing price of HK\$0.227 per Share as quoted on the Stock Exchange on the Last Trading Day and adjusted for the effect of the Capital Reorganisation;
- (d) a premium of approximately 4.2% over the net asset value per New Share of approximately HK\$0.096 as at 31 March 2014 (based on the net asset value per Existing Share of approximately HK\$0.048 as at 31 March 2014 according to the 2014 annual report of the Company and adjusted for the effect of the Share Consolidation); and
- (e) a discount of approximately 73.5% to the closing price of HK\$0.378 per New Share (based on the closing price of HK\$0.189 per Existing Share as quoted on the Stock Exchange on the Latest Practicable Date and adjusted for the effect of the Share Consolidation).

The subscription price per Offer Share was arrived at after arm's length negotiation between the Company and the Underwriter with reference to the prevailing market conditions, the net asset value of the Company, the Company's needs of funds as further specified in the paragraph headed "(5) Reasons for the Open Offer and the Use of Proceeds" below and the allotment ratio of three Offer Shares for one New Share held. The Directors consider that the discounts to the respective prevailing market prices of the Shares above would encourage the Qualifying Shareholders to participate in the Open Offer, which would enable the Qualifying Shareholders to maintain their respective shareholdings in the Company and participate in the future growth of the Group.

Given that the Company has been recording net losses for consecutive years, the Company considered that it is necessary to offer a relatively deep discount (in the range of 70% to 80%) in the subscription price so as to increase the attractiveness of the Open Offer. On the other hand, in order to raise a sizable amount of funds to meet the Company's needs as further specified in the paragraph headed "(5) Reasons for the Open Offer and the Use of Proceeds" below, with a relatively low subscription price, a relatively high allotment ratio would be needed. Moreover, the Company considered that it would be beneficial to the Company and to the Shareholders if the subscription price for the Open Offer is determined at a price higher than the net asset value of the Company as it would enhance the overall net asset value per Share of the Company. The net asset value per New Share was approximately HK\$0.096 as at 31 March 2014

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(based on the net asset value per Existing Share of approximately HK\$0.048 as at 31 March 2014 according to the 2014 annual report of the Company and adjusted for the effect of the Share Consolidation). On the other hand, according to Appendix II of this circular, the unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Company as adjusted for the Open Offer per New Share would be increased to HK\$0.098.

The Directors had performed sensitivity analysis of different combinations of allotment ratio and subscription price to compare the dilutive impact, level of discount to trading price and amount of proceeds that can be raised. Taking into account the other combinations, the Directors consider that by determining the Subscription Price at HK\$0.1, the Open Offer would represent an attractive investment opportunity for the Shareholders. The Directors had considered reducing the allotment ratio and raising the Subscription Price in order to raise the same amount of funds needed. However, the Directors consider that, given the same size of targeted amount funds to be raised and the same amount of contribution by each of the Shareholders, it is also important to provide a deep discount (in the range of 70% to 80%) to the Shareholders who participate in the Open Offer such that the Open Offer would represent an attractive investment opportunity amid the loss making track record of the Group and the fluctuating stock market environment. Despite a deeper discount would require a relatively higher allotment ratio in order to attain a specific targeted size of funds raised, the Directors consider that the allotment ratio (as well as the potential dilution effect on the Shareholders who do not participate in the Open Offer) of three for one to be acceptable because every Shareholders are given the opportunity to participate in the Open Offer fairly at an attractive Subscription Price.

Based on the above, the Directors, (including the independent non-executive Directors who have taken into consideration the advice of the Independent Financial Adviser) consider the terms of the Open Offer, including the subscription price, to be fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Basis of provisional allotments

The basis of the Open Offer will be three (3) Offer Shares for every one (1) New Share held by the Qualifying Shareholder on the Record Date at a subscription price of HK\$0.10 per Offer Share.

Application for all or any part of an Qualifying Shareholder's assured entitlement should be made by completing the Application Form and lodging the same with a remittance for the Offer Shares being applied for.

Qualifying Shareholders

The Open Offer will only be available to the Qualifying Shareholders. To qualify for the Open Offer, a Shareholder must be registered as a member of the Company on the Record Date and not be an Excluded Shareholder.

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The Company will send the Prospectus Documents to the Qualifying Shareholders only. Subject to the advice of the Company's legal advisers in the relevant jurisdictions and to the extent reasonably practicable, the Company will send copies of the Prospectus to the Excluded Shareholders (if any) for their information only but will not send any Application Form or Excess Application Form to them.

In order to be registered as members of the Company on the Record Date, Shareholders must lodge any transfers of the New Shares (with the relevant share certificate(s)) to the Company's branch share registrar in Hong Kong, Union Registrars Limited, at 18/F, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong on or before 4:30 p.m. on Thursday, 20 November 2014. The last day of dealings in the New Shares on a cum-entitlement basis is Tuesday, 18 November 2014. The New Shares will be dealt with on an ex-entitlement basis from Wednesday, 19 November 2014.

As at the Latest Practicable Date, there were outstanding 108,000,000 Share Options conferring rights on the Optionholders to subscribe for up to 108,000,000 Shares, during the exercise period from 28 March 2014 to 27 March 2019. The Company has obtained undertakings from each of the Optionholders that they will not exercise any Share Option at any time from the date of the Underwriting Agreement and up to the completion of the Open Offer.

Qualifying Shareholders who take up their pro-rata entitlement in full will not suffer any dilution to their interests in the Company. If a Qualifying Shareholder does not take up any of its/his/her entitlement under the Open Offer, its/his/her proportionate shareholding in the Company will be diluted.

The invitation to subscribe for the Offer Shares to be made to the Qualifying Shareholders will not be transferable or capable of renunciation and there will not be any trading in the assured entitlements on the Stock Exchange.

Closure of register of members

The Company's register of members will be closed from Friday, 21 November 2014 to Tuesday, 25 November 2014, both dates inclusive, to determine the eligibility of the Shareholders to the Open Offer. No transfer of New Shares will be registered during this book closure period.

Rights of Overseas Shareholders and Excluded Shareholders

If, at the close of business on the Record Date, a Shareholder's address on the register of members of the Company is in a place outside Hong Kong, that Shareholder may not be eligible to take part in the Open Offer as the Prospectus Documents are not expected to be registered under the applicable securities legislation of any jurisdictions other than Hong Kong.

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As at the Latest Practicable Date, based on the register of members of the Company, the Company had one Overseas Shareholder whose address as shown on such register is in the PRC. In compliance with Rule 13.36(2)(a) of the Listing Rules, the Board has made an enquiry as to whether the issue of Offer Shares may contravene the applicable securities legislation of the PRC or the requirements of the relevant regulatory bodies or stock exchanges. Based on the legal advice provided by the PRC legal adviser, the Directors are of the view that it is expedient to extend the Open Offer to the Overseas Shareholder in the PRC as there are no legal restrictions prohibiting the Company from making the Open Offer in the PRC's jurisdiction and no local legal or regulatory compliance is required to be attended by the Company in the PRC's jurisdiction. Accordingly, such Overseas Shareholder together with the Shareholders with registered addresses in Hong Kong are Qualifying Shareholders.

If there is no change in the composition of the Overseas Shareholders at the Record Date, there will be no Excluded Shareholder. The Company will continue to ascertain whether there is any other Overseas Shareholder on the Record Date, and will, if applicable, make further enquiries with legal adviser(s) in other overseas jurisdiction(s) regarding the feasibility of extending the Open Offer to such Overseas Shareholders on the Record Date and make relevant disclosures in the Prospectus. Further information in this connection will be set out in the Prospectus Documents containing, among other things, details of the Open Offer, to be despatched to the Qualifying Shareholders on the Prospectus Issue Date. If the Overseas Shareholder is excluded, the Company will send a copy of the Prospectus to the Excluded Shareholder for his information only provided that the delivery of such Prospectus does not contravene any applicable security legislation of the relevant overseas jurisdiction, but the Company will not send any Application Forms or Excess Application Forms to the Excluded Shareholder.

Those Qualifying Shareholders who do not take up the Offer Shares to which they are entitled and the Excluded Shareholders should note that their shareholdings in the Company will be diluted upon completion of the Open Offer.

The Overseas Shareholders, so long as they are Independent Shareholders, will be entitled to vote at the SGM to consider and, if thought fit, pass the resolution(s) in relation to the Capital Reorganisation and the Open Offer.

Status of the Offer Shares

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

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Application for Offer Shares in excess of own entitlement

Qualifying Shareholders may apply for any entitlements of the Excluded Shareholder and any Offer Shares entitled but not applied for by the Qualifying Shareholders.

Applications for excess Offer Shares may be made by completing the Excess Application Form and lodging the same with a separate remittance for the excess Offer Shares being applied with the Company's branch share registrar and transfer office in Hong Kong, Union Registrars Limited, for completion of the relevant registration by no later than the Latest Time for Acceptance.

The Directors will allocate the excess Offer Shares (if any) at their discretion, but on a fair and equitable basis, to the Qualifying Shareholders who have applied for excess Offer Shares on a pro-rata basis with reference to the number of excess Offer Shares applied for but no reference will be made to Offer Shares comprised in applications by Application Forms or the existing number of Shares held by the Qualifying Shareholders. No preference will be given to topping-up odd lots to whole board lots to avoid such mechanism being abused. The Directors consider the allocation of the excess Offer Shares on a pro-rata basis to be a fair and equitable basis. The Directors have made reference to a number of recent precedent cases of fund raising exercises carried out by other listed companies in selecting such basis of allocation.

Shareholders with their Shares held by a nominee company (or which are deposited into the CCASS) should note that the Board will regard the nominee company (including HKSCC Nominees Limited) as a single Shareholder according to the register of members of the Company. Accordingly, Shareholders should note that the above arrangement in relation to allocation of excess Offer Shares will not be extended to beneficial owners individually. The Shareholders with their Shares held by a nominee company (or which are deposited into CCASS) are advised to consider whether they would like to arrange for the registration of the relevant Shares in their own names prior to the Record Date. If the aggregate number of Offer Shares not taken up by the Qualifying Shareholders under Application Forms is greater than the aggregate number of excess Offer Shares applied for through the Excess Application Form, the Directors will allocate to each Qualifying Shareholder who applies for excess Offer Shares in full application. Excess application from Qualifying Shareholders (including registered nominee company) will be accepted by the Company even if their assured entitlement of the Offer Shares is not subscribed for in full.

Application for listing

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Offer Shares. Dealings in the Offer Shares will be subject to the payment of stamp duty in Hong Kong, Stock Exchange trading fee and any other applicable fees and charges in Hong Kong.

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None of the securities of the Company is listed or dealt in on any other stock exchange other than the Stock Exchange and no such listing or permission to deal is proposed to be sought.

The Offer Shares shall have the board lot size of 20,000 New Shares.

Subject to the granting of the listing of, and permission to deal in, the Offer Shares on the Stock Exchange, the Offer Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Offer Shares on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. All necessary arrangements have been made enabling the securities to be admitted into CCASS. Shareholders should seek advice from their licensed securities dealer or other professional adviser for details of those settlement arrangements and how such arrangements will affect their rights and interests.

Fractions of the Open Offer Shares

Given the Open Offer is on the basis of three (3) Offer Shares for every one (1) New Share, there will be no fraction of Offer Shares.

Certificates and refund cheques for the Offer Shares

Subject to the Open Offer becoming unconditional, share certificates for the Offer Shares and refund cheques in respect of unsuccessful excess applications are expected to be posted on or before Friday, 19 December 2014 by ordinary post to those Qualifying Shareholders who have accepted and paid for their Offer Shares, at their own risks. If the Open Offer is terminated, refund cheques are expected to be despatched by ordinary post within five Business Days after such date to the applicants at their own risk.

(3) UNDERWRITING ARRANGEMENT

Underwriting Agreement

Date : 19 September 2014
Issuer : The Company
Underwriter : Guotai Junan

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

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- Number of Underwritten Shares : All Offer Shares less such number of Offer Shares which the Undertaking Shareholders are entitled and undertake to take up pursuant to the Underwriting Agreement, being 1,030,911,492 Offer Shares
- Commission : 1.0% of the aggregate subscription price in respect of the number of Underwritten Shares as determined on the Record Date underwritten by the Underwriter

The commission was determined after arm's length negotiation between the Company and the Underwriter by reference to the existing financial position of the Company, the size of the Open Offer, and the current and expected market conditions. The Directors (including the independent non-executive Directors who have taken into consideration of the advice of the Independent Financial Adviser) consider the terms of the Underwriting Agreement including the commission rate are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Offer Shares, other than the Offer Shares to which the Undertaking Shareholders are entitled and undertake to take up pursuant to the Underwriting Agreement, will be fully underwritten by the Underwriter. Upon completion of the Open Offer in accordance with the terms of the Underwriting Agreement, the public float requirements under the Listing Rules will be complied with.

Shareholders Undertakings

As at the date of the Underwriting Agreement, (i) Mr. Tse, an executive Director, was interested in 7,412,000 Shares, representing approximately 0.60% of the existing issued share capital of the Company and; (ii) Walifax Investments, a company incorporated in the BVI with limited liability and wholly-owned by Mr. Tse, was interested in 542,633,994 Shares, representing approximately 43.86% of the existing issued share capital of the Company.

Each of the Undertaking Shareholders has severally and irrevocably undertaken to the Company that (i) all Shares directly owned by him/it will remain registered in their respective names from the date of the Underwriting Agreement and up to the Record Date and (ii) he/it will subscribe for or procure the subscription of 11,118,000 Offer Shares and 813,950,991 Offer Shares that will be allotted to them respectively as the holder of such New Shares under the Open Offer.

Each of the Undertaking Shareholders has further undertaken to the Company that he/it will not apply for any excess Offer Shares.

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Termination of the Underwriting Agreement

The Underwriting Agreement contains provisions granting the Underwriter, by notice in writing, the right to terminate the Underwriter's obligations thereunder on the occurrence of certain events. The Underwriter may terminate the Underwriting Agreement on or before the Latest Time for Termination if prior to the Latest Time for Termination, any of the following happens:

- (a) the Underwriter shall become aware of the fact that, or shall have reasonable cause to believe that, any of the warranties was (when originally given or when repeated in accordance with the provisions of the Underwriting Agreement) untrue, inaccurate, misleading or breached, and in each case where it is material in the context of the Open Offer;
- (b)
 - (i) any new law or regulation is enacted, or there is any change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority, whether in Hong Kong or elsewhere;
 - (ii) any occurrence of local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date of the Underwriting Agreement) of a political, military, financial, economic or other nature (whether or not ejusdem generis with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets;
 - (iii) any event of force majeure including, without limiting the generality thereof, any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lockout;
 - (iv) any other material adverse change in relation to the business or the financial or trading position or prospects of the Group as a whole whether or not ejusdem generis with any of the foregoing;
 - (v) any change of an exceptional nature in local, national or international equity securities or currency markets;
 - (vi) any suspension in the trading of the Company's securities on the Stock Exchange for a period of more than 10 consecutive Business Days, excluding any suspension in connection with the clearance of the Announcement or circular relating to the Capital Reorganisation, the Open Offer or the Prospectus Documents or other announcement or circular relating in connection with the Capital Reorganisation and Open Offer;

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- (vii) any material disruption in securities settlement, payment or clearance services in Hong Kong authorities;
- (viii) any moratorium on commercial banking activities having been declared by Hong Kong authorities;
- (ix) any change or development involving a prospective change in taxation or exchange controls in Hong Kong or elsewhere,

which event or events, in the reasonable opinion of the Underwriter, is or are:

- (1) likely to have a material adverse effect on the business or financial or trading position or prospects of the Group as a whole;
- (2) likely to have a material adverse effect on the success of the Open Offer or the level of Offer Shares taken up; or
- (3) so material as to make it inappropriate, inadvisable or inexpedient to proceed further with the Open Offer.

If the Underwriter exercises such right, the Open Offer will not proceed.

Upon giving any of such notice, all obligations of the Underwriter under the Underwriting Agreement shall cease and determine and no party shall have any claim against any party in respect of any matter or thing arising out of or in connection with the Underwriting Agreement except in respect of any antecedent breach of the Underwriting Agreement, provided however that the Company shall remain liable to pay all reasonable costs, charges and expenses which may have been properly incurred by the Underwriter in connection with the Open Offer.

Conditions of the Open Offer

The Open Offer is conditional upon the following conditions having been fulfilled:

- (a) the passing of necessary resolutions on a vote taken by way of poll at the SGM to approve (i) the Capital Reorganisation by the Shareholders; and (ii) the Open Offer by the Independent Shareholders;
- (b) the Capital Reorganisation becoming effective;
- (c) the Listing Committee of the Stock Exchange granting or agreeing to grant and not having withdrawn or revoked listing of and permission to deal in all the New Shares;
- (d) the delivery to the Stock Exchange for authorisation and registration with the Registrar of Companies in Hong Kong respectively one copy of each of the Prospectus Documents duly signed by two Directors (or by their agents duly authorised in writing) as having been approved by a resolution of the

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Directors (and all other documents required to be attached thereto) and otherwise in compliance with the Listing Rules and the Companies (WUMP) Ordinance not later than the Prospectus Issue Date;

- (e) the Listing Committee of the Stock Exchange granting or agreeing to grant (subject to allotment) and not having withdrawn or revoked listing of and permission to deal in all the Offer Shares by no later than the Prospectus Issue Date;
- (f) the posting of the Prospectus Documents to the Qualifying Shareholders on the Prospectus Issue Date;
- (g) the Underwriting Agreement becoming unconditional and not being terminated;
- (h) compliance with and performance of all the undertakings and obligations of the Company under the terms of the Underwriting Agreement;
- (i) compliance with and performance of all the undertakings and obligations of Mr. Tse under the terms of the Underwriting Agreement; and
- (j) compliance with and performance of all the undertakings and obligations of Walifax Investments under the terms of the Underwriting Agreement.

None of the conditions above can be waived. In the event of the above conditions not being fulfilled on or before the Latest Time for Termination (or such later date or dates as the Company and the Underwriter may agree), the Underwriting Agreement shall terminate, in which case the Open Offer will not proceed and no party shall have any claim against any other party (save for any antecedent breaches), save that all such reasonable expenses as may have been properly incurred by the Underwriter in connection with the Open Offer shall be borne by the Company.

Each of the Company and the Underwriter agrees to use its best endeavours to procure fulfillment of all the said conditions on or before each of the said respective dates.

(4) WARNING OF THE RISKS OF DEALING IN THE SHARES

The Open Offer is subject to the satisfaction of certain conditions as described in the section headed “Conditions of the Open Offer” above. In particular, it is subject to the Capital Reorganisation becoming effective, the approval of the Open Offer at the SGM, and the Underwriting Agreement having become unconditional and not having been terminated (see the section headed “Termination of the Underwriting Agreement” above). Accordingly, the Open Offer may or may not proceed.

Any dealing in the Shares from the date of this circular up to the date on which all the conditions of the Open Offer are fulfilled will accordingly bear the risk that the Open Offer may not become unconditional or may not proceed. The Shareholders and potential

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investors of the Company should therefore exercise extreme caution when dealing in the Shares, and if they are in any doubt about their positions, they should consult their own professional advisers.

(5) REASONS FOR THE OPEN OFFER AND THE USE OF PROCEEDS

The Group is principally engaged in the design, manufacture, retailing and distribution and concurrent design manufacturing (CDM) of fashion accessories. Please refer to the paragraph headed “Business Trend and Financial and Trading Prospects” in the section headed “Appendix I — Financial Information of the Group” for further details of the business trend of the Group.

Having considered other fund raising alternatives for the Group, such as bank borrowings and placing of new Shares or other convertible securities, and taking into account the benefits and cost of each of the alternatives, the Directors are of the view that the Open Offer allows the Group to strengthen its balance sheet without facing the increasing interest rates and to enlarge the capital base of the Company, which may facilitate long-term development of the Group. The Company is now moving ahead to restructure those existing business which are now operating at loss or at low profit margin, and at the same time seeking for investment opportunities. The enlarged capital base resulting from the Open Offer will support the continuing development and daily operations of the Group’s existing business activities while providing capital for the Company to invest in potential new business.

The Company has also considered the possibility of rights issue instead of Open Offer which allows Shareholders to trade the nil-paid rights. However, given the additional administrative costs and expenses to be incurred by the Company in arranging trading arrangement of the nil-paid rights and additional time for trading of nil-paid rights shares, the Company considers that the Open Offer is more time saving and cost effective and a better option. If the Company is to carry out a rights issue instead of the Open Offer, it is estimated that additional time would be involved by the Company for arranging the nil-paid rights trading, reviewing relevant documents, liaison with the parties involved such as the Company’s branch share registrar in Hong Kong, the Underwriter, financial printer and other professional advisers. If the Company is to carry out a rights issue instead of the Open Offer, it is estimated that additional costs and expenses of around HK\$300,000 would be incurred, and additional one to two week’s time would be required for the preparation and administration of a rights issue and for allowing a reasonable time for Shareholders to consider and to handle the splitting and trading of the rights.

The Company is of the view that it is in the interest of the Company and the Shareholders as a whole to raise the capital through the Open Offer since it offers the Qualifying Shareholders the opportunity to maintain their pro rata shareholding interests in the Company as well as an opportunity to apply for additional Shares (if they so wish) by way of application for excess Offer Shares, and continue to participate in the future growth and development of the Group should they wish to do so.

LETTER FROM THE BOARD

In view of the above, the Directors (including the independent non-executive Directors who have taken into consideration of the advice of the Independent Financial Adviser) consider the Open Offer is in the interests of the Company and the Shareholders as a whole.

Assuming there are no further issues of Shares or repurchases of Shares by the Company on or before the Record Date, the gross proceeds of the Open Offer (before expenses) are approximately HK\$185.6 million. The estimated net proceeds of the Open Offer (after deducting the costs and expenses in relation to the Open Offer including the underwriting commissions) are expected to be approximately HK\$183.0 million and the net price per Offer Share is expected to be approximately HK\$0.099.

The Company intends to apply such net proceeds from the Open Offer (i) as to approximately HK\$25 million will be used for expanding the existing accessories retailing business; (ii) as to approximately HK\$60 million will be used for entering into retailing business of branded watches in Guangdong Province. The Group is discussing with certain distributors for potential distribution rights of both middle-end and high-end branded watches in Guangdong Province; (iii) as to approximately HK\$19 million will be used for the repayment of a short-term loan from a financial institution, which is interest bearing at 10% per annum repayable in full on 28 January 2015 and secured by the Group's properties in Hong Kong; (iv) as to approximately HK\$13 million will be used for the repayment of an amount due to the controlling shareholder of the Company, which is interest-free, unsecured and repayable on demand; and (v) the remaining net proceeds of approximately HK\$66 million will be for the general working capital of the Group.

The Group plans to use the general working capital (i) in an approximate amount of HK\$35 million for the development and further upgrade of the Group's information system and information technology. The Group plans to implement a comprehensive enterprise resource planning (ERP) system that combines the data processing of various functions including procurement, inventory control and accounting, which will results in higher efficiency, flexibility, accuracy and timelines in the Group's budgeting, inventory control and financial reporting, (ii) in an approximate amount of HK\$16 million for e-advertising expenses, and (iii) in an approximate amount of HK\$15 million for general selling and administrative expense and other general operating expenses.

To the extent that the net proceeds to be used for general working capital are not applied immediately to the above purposes, the Group will deposit the net proceeds into short-term deposits/investments. The Group will only select investment products based on minimum exposure of investment risk and flexibility. It is the current intention of the Group to place a sum of HK\$5 million into three-month fixed time deposits in foreign currencies, mainly Renminbi, in reputable and sizeable banks in Hong Kong, which is relatively lower in investment risk. The Group may also subscribe for investment products, preferably of principal guaranteed, with expected interest returns higher than that of ordinary bank deposits in the future. The investment period is normally restricted to not more than one year in order to keep the Group with adequate cash flow for flexibility.

LETTER FROM THE BOARD

Other than the short-term loan of approximately HK\$19 million due to the financial institution and the amount of approximately HK\$13 million due to the controlling shareholder of the Company as mentioned above, the Group had no other outstanding short term loans as at the Latest Practicable Date.

According to the announcements of the Company dated 9 October 2014 and 14 October 2014, the Company has entered into agreements in relation to the disposal of the entire issued share capital of TCK and the disposal of certain properties of the Company, with aggregate proceeds from the disposals of about HK\$59.3 million. The Company has specific plan for the use of such proceeds from the disposals, including (i) approximately HK\$10 million for traditional offline marketing and advertising in order to facilitate the expansion of the retailing business of the Group; (ii) approximately HK\$3 million for professional training for salespersons to improve the service quality and royalty of the staff; (iii) approximately HK\$40 million for acquiring a new office premises for the Group; and (iv) approximately HK\$6.3 million for general working capital of the Group. For further details, please refer to the paragraph headed “5. Business trend and financial and trading prospects — Additional proceeds from the Recent Disposals”. As the proceeds of the aforesaid recent disposals have specific planned use, the Directors consider that there is genuine funding need by the Company to conduct the Open Offer.

(6) FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

The Company did not carry out any rights issue, open offer or other issue of equity securities for fund raising purpose or otherwise within the past 12 months immediately prior to the date of this circular.

(7) CHANGE IN THE SHAREHOLDING STRUCTURE OF THE COMPANY

The following is the shareholding structure of the Company immediately before and after completion of the Capital Reorganisation and the Open Offer assuming no Share Option is exercised on or before the Record Date:

Shareholders	As at the Latest Practicable Date		Immediately after completion of Capital Reorganisation		Immediately after completion of the Open Offer (assuming all Offer Shares are taken up by the Qualifying Shareholder)		Immediately after completion of the Open Offer (assuming none of the Offer Shares are taken up by the Qualifying Shareholders other than the Undertaking Shareholders) (Note 2)	
	Number of Shares	Approximate %	Number of Shares	Approximate %	Number of Shares	Approximate %	Number of Shares	Approximate %
Directors								
Tse Hoi Chau and Walifax Investments (Note 1)	550,045,994	44.45	275,022,997	44.45	1,100,091,988	44.45	1,100,091,988	44.45
The Underwriter and its sub-underwriter(s) and subscriber(s) procured by the Underwriter (if any)	—	—	—	—	—	—	1,030,911,492	41.66
Public Shareholders (Note 3)	<u>687,274,329</u>	<u>55.55</u>	<u>343,637,164</u>	<u>55.55</u>	<u>1,374,548,656</u>	<u>55.55</u>	<u>343,637,164</u>	<u>13.89</u>
Total	<u>1,237,320,323</u>	<u>100</u>	<u>618,660,161</u>	<u>100</u>	<u>2,474,640,644</u>	<u>100</u>	<u>2,474,640,644</u>	<u>100</u>

LETTER FROM THE BOARD

Notes:

1. Walifax Investments, company incorporated in the BVI, is beneficially wholly-owned and controlled by Mr. Tse, the Chairman and the executive Director, is interested in 542,633,994 Shares. As at the Latest Practicable Date, Mr. Tse had personal interests in 7,412,000 Shares and 12,000,000 Share Options entitling him to subscribe for 12,000,000 Shares under the Share Option Scheme. Mr. Tse has undertaken to the Company that he will not exercise such Share Options from the date of the Underwriting Agreement and up to the completion of the Open Offer.

Mr. Lin Shao Hua, the executive Director, was also granted 12,000,000 Share Options by the Company entitling him to subscribe for 12,000,000 Shares under the Share Option Scheme. Mr. Lin Shao Hua has also undertaken to the Company that he will not exercise such Share Options from the date of the Underwriting Agreement and up to the completion of the Share Options.

2. This scenario is for illustration purpose only. Pursuant to the Underwriting Agreement, the Underwriter shall use its reasonable endeavors to ensure that the subscribers of the Underwritten Shares shall be independent of and not connected with any of the directors, chief executive, or substantial shareholders of the Company and its subsidiaries and any of their respective associates and none of the subscribers procured by the Underwriter will become a substantial shareholder (as defined in the Listing Rules) of the Company.

Pursuant to the Underwriting Agreement, the Underwriter may appoint any other person(s) to be sub-agent(s) for the purposes of sub-underwriting the Underwritten Shares. Pursuant to the Underwriting Agreement, the Underwriter undertakes with the Company that it shall use all best endeavours to ensure that (i) each of the subscribers or purchasers of the untaken shares procured by it or by the sub-underwriters shall be a third party independent of, not acting in concert with and not connected with, the Company, any of the Directors, chief executive of the Company or substantial Shareholders or their respective associates or parties acting in concert with them; and (ii) the public float requirements under Rule 8.08(1)(a) of the Listing Rules be fulfilled by the Company upon completion of the Open Offer. In the event of a lack of purchasers of the untaken shares, the Underwriter may need to take up certain Underwritten Shares where necessary. However, the Underwriter does not expect to become a substantial shareholder of the Company. In connection with Open Offer, the Underwriter entered into two subscription agreements with two Independent Third Parties, namely, Prestige Rich Holdings Limited and Jumbo Harbour Group Limited (the "Subscribers"). To the best knowledge of the Directors after making reasonable enquiries, each of the Subscribers is a professional investor. Pursuant to such subscription agreements, the Underwriter may at its absolute discretion call upon the Subscribers to take up such number of Underwritten Shares as it may specify in writing at its absolute discretion (subject to a maximum number of Underwritten Shares as specified in the relevant subscription agreements). Depending on the results of the Open Offer and provided that the Company can fulfill the public float requirements under Rule 8.08(1)(a) of the Listing Rules, it is possible for each of the Subscribers to become a substantial shareholder of the Company after completion of the Open Offer. The Company will make further announcement regarding the results of the Open Offer and the updated shareholding structure of the Company as and when appropriate.

3. All the Optionholders have undertaken to the Company that they will not exercise such Share Options from the date of the Underwriting Agreement and up to the completion of the Open Offer.

LETTER FROM THE BOARD

(8) ADJUSTMENT TO THE SHARE OPTIONS

As at the Latest Practicable Date, there were 108,000,000 Share Options outstanding entitling the holders thereof to subscribe for an aggregate of 108,000,000 Shares. All the Optionholders have undertaken to the Company that they will not exercise such Share Options from the date of the Underwriting Agreement and up to the completion of the Open Offer.

Subject to the confirmation of the auditors of the Company or (as the case may be) an independent financial advisers, the issue of the Offer Shares and the Capital Reorganisation may cause adjustments to the subscription price of the Share Options. The Company will inform the Optionholders of the relevant adjustment(s), and make appropriate announcement on the Stock Exchange as and when appropriate.

(9) SGM

The notice of SGM convening the SGM to be held at Flat B1, 1st Floor, Kaiser Estate, Phase 1, 41 Man Yue Street, Hunghom, Kowloon, Hong Kong at 10 a.m. on Monday, 17 November 2014 is set out on pages 93 to 96 of this circular. A form of proxy for use at the SGM is enclosed. Whether or not you intend to attend the SGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Union Registrars Limited, located at 18/F., Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so desire.

The Capital Reorganisation is subject to the approval of the Shareholders on a vote taken by way of a poll at the SGM. As none of the Shareholders is interested in the Capital Reorganisation, no Shareholder is required to abstain from voting at the SGM.

As the Open Offer will increase the issued share capital of the Company by more than 50%, pursuant to the Listing Rules, any controlling shareholders of the Company and their associates or, where there are no controlling shareholders, Directors (excluding independent non-executive Director), the chief executive of the Company and their respective associates will abstain from voting in favour of the resolutions relating to the Open Offer. As at the Latest Practicable Date, Mr. Tse and Walifax Investments, being the controlling shareholders of the Company, were interested in 7,412,000 Shares and 542,633,994 Shares respectively, and therefore will abstain from voting in favour of the resolution(s) relating to the Open Offer at the SGM. Save as aforesaid, there was no other Director or chief executive of the Company holding any Share in the Company as at the Latest Practicable Date.

Save as disclosed above, there are no other particulars of voting arrangement under Rule 2.17(2) of the Listing Rules.

LETTER FROM THE BOARD

(10) VOTING BY POLL

According to Rule 13.39(4) of the Listing Rules, any vote of shareholders at a general meeting must be taken by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. Therefore, all the resolutions put to the vote at the SGM will be taken by way of poll and the Company will announce the results of the poll in the manner prescribed under Rule 13.39(5) of the Listing Rules.

(11) RECOMMENDATION

The Board believes that the terms of the Capital Reorganisation are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Shareholders to vote in favour of the relevant resolutions to be proposed at the SGM in relation to the Capital Reorganisation.

The executive Directors consider the terms of the Open Offer are fair and reasonable and in the interests of the Company and the Shareholders as a whole. 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 Open Offer are fair and reasonable and in the interest of the Company and the Shareholders as a whole and to advise the Independent Shareholders on how to vote at the SGM. The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

You are advised to read carefully the letter from the Independent Board Committee and the letter from the Independent Financial Adviser set out on page 37 and pages 38 to 68 of this circular, respectively. The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, considers that the terms of the Open Offer are fair and reasonable so far as the Independent Shareholders are concerned and the Open Offer is in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the proposed resolution.

Upon passing the necessary resolutions by the Shareholders (where applicable, the Independent Shareholders) at the SGM approving the Capital Reorganisation and the Open Offer, the Prospectus Documents will be despatched to the Qualifying Shareholders as soon as practicable.

LETTER FROM THE BOARD

(12) ADDITIONAL INFORMATION

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

Yours faithfully,
For and on behalf of the Board
Artini China Co. Ltd.
Tse Hoi Chau
Chairman

ARTINI
ARTINI CHINA CO. LTD.
雅天妮中國有限公司
(Incorporated in Bermuda with limited liability)
(Stock Code: 789)

24 October 2014

To the Independent Shareholders

Dear Sir or Madam,

**PROPOSED OPEN OFFER OF NEW SHARES
ON THE BASIS OF THREE OFFER SHARES
FOR EVERY NEW SHARE HELD ON RECORD DATE**

We refer to the circular dated 24 October 2014 issued by the Company (the “Circular”), of which this letter forms part. Terms defined in the Circular shall bear the same meanings when used herein unless the context requires otherwise.

We have been appointed by the Board as the Independent Board Committee to advise you in connection with the Open Offer and to advise you as to whether, in our opinion, the terms of the Open Offer are fair and reasonable so far as the Independent Shareholders are concerned. Details of the Open Offer are set out in the “Letter from the Board” contained in the Circular. Celestial Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Open Offer. Details of its advice and the principal factors taken into consideration in arriving at its recommendations are set out in the “Letter from the Independent Financial Adviser” contained in the Circular.

Having considered the terms of the Open Offer, taking into account the information contained in the Circular and the advice of Celestial Capital Limited, we are of the opinion that the terms of the Open Offer are on normal commercial terms, fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

Accordingly, we would recommend the Independent Shareholders to vote in favour of the relevant resolution approving the Open Offer at the SGM.

Yours faithfully,
For and on behalf of
**Independent Board Committee of
Artini (China) Co. Ltd.**

Mr. Lau Fai Lawrence
*Independent
Non-Executive Director*

Mr. Lau Yiu Kit
*Independent
Non-Executive Director*

Mr. Zeng Zhaohui
*Independent
Non-Executive Director*

LETTER FROM INDEPENDENT FINANCIAL ADVISER

The following is the text of a letter of advice from Celestial Capital Limited, the Independent Financial Adviser, to the Independent Board Committee and the Independent Shareholders in relation to the Open Offer for the purpose of incorporation into this circular.



Celestial Capital Limited
21st Floor, Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

24 October 2014

To the Independent Board Committee and the Independent Shareholders

Dear Sir or Madam,

**PROPOSED OPEN OFFER OF NEW SHARES ON THE BASIS OF
THREE OFFER SHARES FOR EVERY NEW SHARE
HELD ON RECORD DATE**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Open Offer, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular dated 24 October 2014 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Unless otherwise defined, capitalised terms used in this letter have the same meanings as those defined in the Circular.

On 23 September 2014, the Company announced, among other things, the Open Offer. Conditional upon the Capital Reorganisation becoming effective, the Company proposes to raise approximately HK\$185.6 million, before expenses, by issuing 1,855,980,483 Offer Shares at the subscription price of HK\$0.10 per Offer Share on the basis of three Offer Shares for every one New Share held on the Record Date.

As at the Latest Practicable Date, Mr. Tse was interested in 7,412,000 Shares, representing approximately 0.60% of the existing issued share capital of the Company. Also, Walifax Investments, wholly-owned by Mr. Tse, was interested in 542,633,994 Shares, representing approximately 43.86% of the existing issued share capital of the Company. Each of the Undertaking Shareholders has irrevocably undertaken to the Company to accept and subscribe for or procure the subscription of 11,118,000 Offer Shares and 813,950,991 Offer Shares respectively, representing their respective full entitlements to the Offer Shares under the Open Offer. In addition, the Undertaking Shareholders have further undertaken to the Company that they will not apply for any excess Offer Shares.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

Pursuant to the Underwriting Agreement, the Underwriter, Guotai Junan, has conditionally agreed to subscribe for or procure subscribers to subscribe for all Underwritten Shares that are not taken up, subject to the terms and conditions set out in the Underwriting Agreement.

The Company has obtained undertakings from each of the Optionholders that they will not exercise any Share Option at any time from the date of the Underwriting Agreement and up to the completion of the Open Offer. Assuming there are no further issues of Shares or repurchases of Shares by the Company on or before the Record Date, the 1,855,980,483 Offer Shares proposed to be allotted and issued under the Open Offer represent (i) 300% of the issued share capital of the Company immediately after the completion of the Capital Reorganisation; and (ii) 75% of the issued share capital of the Company as enlarged by the allotment and issue of the Offer Shares immediately after completion of the Open Offer.

As the Open Offer will increase the issued share capital of the Company by more than 50%, pursuant to the Listing Rules, the Open Offer must be made conditional on the approval by the Independent Shareholders at the SGM, where any controlling shareholders of the Company and their associates, or where there are no controlling shareholders, the Directors (excluding independent non-executive Directors), the chief executive of the Company and their respective associates shall abstain from voting in favour of the resolution in relation to the Open Offer. As at the Latest Practicable Date, Mr. Tse and Walifax Investments, being the controlling Shareholders, were interested in 7,412,000 Shares and 542,633,994 Shares respectively, and therefore will abstain from voting in favour of the resolution relating to the Open Offer at the SGM.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Lau Fai Lawrence, Mr. Lau Yiu Kit and Mr. Zeng Zhaohui has been established to advise the Independent Shareholders as to whether the terms of the Open Offer are fair and reasonable so far as the Independent Shareholders as concerned and whether the Open Offer is in the interests of the Company and Shareholders as a whole, and to advise the Independent Shareholders how to vote on the relevant resolution to be proposed at the SGM to approve the Open Offer. We have been appointed as the Independent Financial Adviser to give an independent opinion to the Independent Board Committee and the Independent Shareholders in such regard.

It should be noted that it is not within our terms of reference to advise the Qualifying Shareholders as to whether or not to participate in the Open Offer. In this regard, the Qualifying Shareholders are recommended to consult their own professional advisers and refer to the information contained in the Circular and the Prospectus Documents to be issued by the Company in due course. We have not considered the tax consequences of the Open Offer for the Qualifying Shareholders since these are particular to their individual circumstances. Qualifying Shareholders who are subject to overseas taxation on securities dealing should consider their own tax positions with regard to the Open Offer and, if in doubt, should consult their own professional advisers.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

As at the Latest Practicable Date, we did not have any relationships or interests with the Company or the Underwriter that could reasonably be regarded as relevant to the independence of Celestial Capital Limited. In the last two years, there was no engagement between the Group and Celestial Capital Limited. Apart from normal professional fee paid or payable to us in connection with this appointment as the Independent Financial Adviser, no arrangement exists whereby we have received or will receive any fees or benefits from the Company or the Underwriter. Accordingly, we are qualified to give independent advice in respect of the Open Offer.

BASIS OF OUR OPINION

In formulating our opinion and recommendation in relation to the terms of the Open Offer, we have relied on the information, facts and representations provided, and the opinions expressed, by the Company and/or the Directors and/or the management of the Group. We have also relied on the information, facts and representations contained or referred to in the Circular and have assumed that the information, facts and representations provided, and the opinions expressed to us are true, accurate and complete in all material respects at the time they were made and remained true, accurate and complete up to the Latest Practicable Date. We have also assumed that all statements of beliefs and opinions made by the Directors in the Circular were reasonably made after due enquiry and the expectations and intentions made by the Company and/or the Directors and/or the management of the Group will be met or carried out as the case may be. We have also sought and received confirmation from the Company that no material facts have been omitted from the information supplied and the opinions expressed and such information and opinions are true, accurate, complete and not misleading in all respects at the time they were made and continued to be so until the date of the SGM.

We consider that we have reviewed the relevant information currently available to formulate our opinion and recommendation as set out in this letter and have no reason to believe that any material information has been omitted or withheld, or to doubt the truth or accuracy of the information provided to us. We have not, however, conducted any independent investigation into the business and affairs of the Company and the Underwriter or any of their respective subsidiaries or associates in their existing states, nor have we carried out any independent verification of the information provided by the Company and/or the Directors and/or the management of the Group.

The Directors jointly and severally accept full responsibility, including particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors having made all reasonable enquires, confirm that to the best of their knowledge and belief the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the mission of which would make any statement herein or in the Circular misleading.

This letter is issued for the information of the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the terms of the Open Offer. Except for its inclusion in the Circular and for inspection purpose as set out in

LETTER FROM INDEPENDENT FINANCIAL ADVISER

the section headed “Appendix III — General information — 13. Documents available for inspection” of the Circular, this letter is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation with regard to the terms of the Open Offer, we have taken into account the following principal factors and reasons:

1. General information of the Group

(a) Business of the Group

The Group is principally engaged in the design, manufacture, retailing and distribution and concurrent design manufacturing of fashion accessories. The Group’s products are marketed under two brands, namely “ARTINI” and “Artist Empire” and are distributed in the PRC and Hong Kong through retail stores, concessions, authorised retail outlets and online platforms. The Group is also engaged in the CDM business where the Group designs and manufactures products for internationally renowned brands according to their specific designs for distributing to the PRC, Europe and America markets, etc.

As at 31 March 2014, the Group’s retail network comprised about 15 retail points across five cities in the PRC and Hong Kong, with a strong presence in first-tier cities such as Guangzhou and Shenzhen, the PRC.

(b) Financial highlights of the Group

The following tables summarise the financial information of the Group for the three years ended 31 March 2012, 2013 and 2014 as extracted from the annual reports of the Company for the year ended 31 March 2013 (“**2013 Annual Report**”) and the year ended 31 March 2014 (“**2014 Annual Report**”) respectively.

	For the year ended 31 March		
	2014	2013	2012
	HK\$’000	HK\$’000	HK\$’000
	(audited)	(audited)	(audited)
Turnover	173,236	191,218	323,311
Loss for the year	(108,320)	(109,028)	(144,291)
Loss for the year attributable to the owners of the Company	(108,299)	(109,008)	(143,342)

LETTER FROM INDEPENDENT FINANCIAL ADVISER

	As at 31 March		
	2014	2013	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>
Pledged bank deposits and cash and cash equivalents	11,717	52,456	96,163
Net current assets	8,390	73,730	156,408
Total assets	126,098	219,186	340,858
Total liabilities	66,695	67,335	80,686
Equity attributable to owners of the Company	59,403	151,589	259,680
Accumulated losses	(669,988)	(561,689)	(452,681)

For the year ended 31 March 2013

As set out in the 2013 Annual Report, the Group recorded total turnover of approximately HK\$191.2 million for the year ended 31 March 2013, representing a decrease of approximately 40.9% as compared to approximately HK\$323.3 million for the year ended 31 March 2012. The decrease was mainly due to the intense market competition in Hong Kong and Mainland China, the sluggish performance of the European economy, as well as the reduction in retail points as compared with that of the year ended 31 March 2012 following the strategic consolidation of the Group's overall business development. Gross profit was approximately HK\$43.8 million for the year ended 31 March 2013, representing a decrease of approximately 40.5% as compared to approximately HK\$73.7 million for the year ended 31 March 2012. Also, during the year ended 31 March 2013, the loss attributable to owners of the Company decreased to approximately HK\$109.0 million from approximately HK\$143.3 million for the year ended 31 March 2012.

As explained in the 2013 Annual Report, during the year ended 31 March 2013, the Group's retail business was affected by the weakened consumer sentiment caused by external economic uncertainties and the fierce market competition in Hong Kong and Mainland China. To cope with the impact of the challenging economic environment and fierce market competition, the Group strategically reorganised its retail network through integrating internal resources and adopting stringent cost control measures. As at 31 March 2013, across the PRC and Hong Kong, the Group had a total of approximately 30 retail points, while as at 31 March 2012, the Group had a total of approximately 50 retail points.

It is further set out in the 2013 Annual Report that during the year ended 31 March 2013, the performance of the retail business in the second half of the reporting period was weaker than the first half of the year. It was

LETTER FROM INDEPENDENT FINANCIAL ADVISER

mainly due to the further write-down of inventories of approximately HK\$18.7 million which had been recognised in the cost of sales, of which approximately HK\$17.5 million had been recognised in the retail business.

For the CDM business, during the year ended 31 March 2013, the Group maintained close cooperation with internationally renowned brands to concurrently design and manufacture their branded products, and ultimately export and distribute those products worldwide. As explained in the 2013 Annual Report, challenging economic environments in Europe, one of the Group's major regions of operations, led to the drop in import demand. In addition, the intense market competition in Hong Kong affected the export business adversely. Due to the unsatisfied performance of export business, the Group's CDM business recorded a turnover of approximately HK\$146.7 million for the year ended 31 March 2013, representing a decrease of approximately 36.9% from the year ended 31 March 2012 and accounted for about 76.7% of the Group's total turnover.

The Group recorded total assets of approximately HK\$219.2 million as at 31 March 2013, representing a decrease of approximately HK\$121.7 million as compared to approximately HK\$340.9 million as at 31 March 2012. Such decrease was mainly due to the decrease in pledged bank deposits and cash and cash equivalents of approximately HK\$43.7 million, the decrease in inventories of approximately HK\$30.0 million and the decrease in property, plant and equipment ("PPE") of approximately HK\$20.4 million. The decrease in pledged bank deposits and cash and cash equivalents was mainly resulted from the net loss during the year, while the decrease in inventories was mainly due to the provision for slow-moving inventories. The decrease in PPE was mainly due to the write-off of leasehold improvements and office equipment as a result of the Group's strategic reorganisation to reduce the number of retail points.

The Group recorded total liabilities of approximately HK\$67.3 million as at 31 March 2013, representing a decrease of approximately HK\$13.4 million as compared to approximately HK\$80.7 million as at 31 March 2012. Such decrease was mainly due to the decrease in trade and other payables. The fierce market competition and sluggish economic performance affected the business of the Group adversely. As a result, the scale of production decreased correspondingly, which led to the decrease in trade and other payables.

The Group recorded net current assets of approximately HK\$73.7 million as at 31 March 2013, representing a decrease of approximately HK\$82.7 million as compared to approximately HK\$156.4 million as at 31 March 2012. The decrease was mainly attributable to the decreases in inventories and pledged bank deposits and cash and cash equivalents as discussed above. We also noted that the Group recorded net cash used in

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operating activities of approximately HK\$25.0 million and HK\$49.1 million for the years ended 31 March 2012 and 2013 respectively, mainly due to the net losses for the respective years.

For the year ended 31 March 2014

As set out in the 2014 Annual Report, the Group recorded total turnover of approximately HK\$173.2 million for the year ended 31 March 2014, representing a decrease of approximately 9.4% as compared to approximately HK\$191.2 million for the year ended 31 March 2013. The decrease was mainly due to the intense market competition in Hong Kong and the Mainland China, and the sluggish performance of the European economy. The Group recorded loss attributable to owners of the Company of approximately HK\$108.3 million for the year ended 31 March 2014, while the Group recorded loss attributable to owners of the Company of approximately HK\$109.0 million for the year ended 31 March 2013.

It was mentioned in the 2014 Annual Report that the results of the retailing business have improved, because of the effective business plan. In 2014, the “ARTINI” brand has undergone packaging upgrade and brand restructuring, and re-positioned itself as a light luxurious trendy jewellery and clubhouse brand. The outlook of the Chinese economy has been uncertain starting from the second half of 2013, but the retail business recorded a turnover of approximately HK\$49.0 million, accounting for approximately 28.3% of the Group’s total turnover and representing an increase of approximately 10.3% as compared with the year ended 31 March 2013. The Company believed that loyal customers contributed the considerable portion of the Group’s revenue. The Group consistently developed new series of products by analysing the shopping habits of its VIP customers and thereby understanding their preferences, and strategically organised promotional activities to raise brand awareness among its existing and potential customers. Consequently, during the year ended 31 March 2014, the number of VIP customers of “ARTINI” increased by approximately 11.1% to 132,087.

For the CDM business, as explained in the 2014 Annual Report, challenging economic environments in Europe, one of the Group’s major regions of operations, led to the drop in import demand. In addition, the intense market competition in Hong Kong affected the export business adversely. Due to the unsatisfied performance of export business, the Group’s CDM business recorded a turnover of approximately HK\$124.2 million, representing a decrease of approximately 15.4% from the year ended 31 March 2013 and accounted for 71.7% of the Group’s total turnover.

As set out in the 2014 Annual Report, the Group recorded total assets of approximately HK\$126.1 million as at 31 March 2014, representing a decrease of approximately HK\$93.1 million as compared to approximately

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HK\$219.2 million as at 31 March 2013. Such decrease was mainly due to the decrease in pledged bank deposits and cash and cash equivalents of approximately HK\$40.7 million, the decrease in inventories of approximately HK\$22.4 million and the decrease in PPE of approximately HK\$15.7 million. The decrease in pledged bank deposits and cash and cash equivalents was mainly resulted from the net loss during the year, while the decrease in inventories was mainly due to the provision for slow-moving inventories. The decrease in PPE was mainly due to the write-off of plant and machinery and office equipment.

The Group recorded total liabilities of approximately HK\$66.7 million as at 31 March 2014, representing a slight decrease of approximately HK\$0.6 million as compared to approximately HK\$67.3 million as at 31 March 2013. The decrease was mainly caused by the decrease in trade and other payables.

The Group recorded net current assets of approximately HK\$8.4 million as at 31 March 2014, representing a significant decrease of approximately HK\$65.3 million as compared to approximately HK\$73.7 million as at 31 March 2013. The decrease was mainly attributable to decreases in pledged bank deposits and cash and cash equivalents and inventories as discussed above. It is noted that the Group continued to record net cash used in operating activities for the year ended 31 March 2014, which amounted to approximately HK\$49.6 million mainly as a result of the net loss for the year.

Outlook

As set out in the 2014 Annual Report, the Group will strive to enhance its brand image and brand value, as well as consolidate and increase its market share. The Group will gradually open stores with the brand-new image mainly in Guangzhou, Shenzhen and Hong Kong. Meanwhile, the Group will strengthen its cost control and adjust its manpower, introduce high-calibre talents, restructure its manufacturing facilities, and promote the team's internal control and execution capabilities. The management of the Group will devote more efforts to achieve multi-channel development and apply various business models for both retail and CDM businesses. As further set out in the 2014 Annual Report, the Group will continue to seek opportunities to acquire and cooperate with international customers in order to generate better returns for the Shareholders and the Board will decide on the best available source of funding for the investments and acquisitions when suitable opportunities arise.

Recent disposals

In view of the aforesaid aim to restructure its manufacturing facilities and to control cost and reallocating resources to expand its existing accessories retailing business and retailing business for other types of products with higher growth potential, on 9 October 2014, the Group entered into the Disposal Agreement to dispose of the manufacturing subsidiary of

its CDM business (the “**CDM Disposal**”). Upon completion of the Disposal Agreement, the Group will continue to carry out CDM business while it will outsource the manufacturing process to independent contract manufacturers which offer more competitive prices. Details of the CDM Disposal were disclosed in the Company’s announcement dated 9 October 2014.

In addition, as disclosed in the Company’s announcement dated 14 October 2014, the Group entered into the Provisional Agreement I, the Provisional Agreement II and the Provisional Agreement III in respect of the disposals of certain properties that are currently used as headquarters of the Group in Hong Kong (the “**Property Disposals**” and together with CDM Disposal, the “**Recent Disposals**”). The Company was of the view that the Property Disposals allow the Group to realise the capital gain of the properties amid the increase in property prices in Hong Kong.

2. Reasons for the Open Offer and use of proceeds

(a) Use of proceeds

As set out in the Letter from the Board, assuming there are no further issues of Shares or repurchases of Shares by the Company on or before the Record Date, the estimated net proceeds of the Open Offer (after deducting the costs and expenses in relation to the Open Offer including the underwriting commission) are expected to be approximately HK\$183.0 million. The Company intends to apply such net proceeds from the Open Offer as to (i) approximately HK\$25.0 million for expanding the existing accessories retailing business; (ii) approximately HK\$60.0 million for entering into retailing business of branded watches in Guangdong Province; (iii) approximately HK\$19.0 million for the repayment of a short-term loan from a financial institution; (iv) approximately HK\$13.0 million for the repayment of an amount due to the controlling Shareholder; and (v) the remaining net proceeds of approximately HK\$66.0 million for the general working capital of the Group.

We have discussed with the management of the Group regarding the plans of use of proceeds. Approximately HK\$25.0 million of the net proceeds is intended to be used for expanding the existing accessories retailing business. We consider this plan will facilitate the continuous development of the Group’s accessories retailing business and is in line with the Group’s strategy to gradually open stores with the brand-new image mainly in Guangzhou, Shenzhen and Hong Kong in order to enhance its brand image and increase its market share as discussed in section (1)(b) above. The Group plans to open seven self-operated retail shops and four concession counters in 2015 and three self-operated retail shops and one concession counter in 2016.

Approximately HK\$60.0 million of the net proceeds is intended to be used for establishing a new business line of cooperation with or being licensed by watch brands to distribute their products in Mainland China. The Group plans to open five retail shops in each of 2015 and 2016. We consider this will allow the Group

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to capitalise on its expertise and network in accessories retailing to achieve its strategy of multi-channel development in order to generate better returns for the Shareholders.

Approximately HK\$32.0 million of the net proceeds is intended to be used for the repayment of short term loan of HK\$19.0 million and Shareholder's loan of HK\$13.0 million. We were advised by the Company that the short term loan of approximately HK\$19.0 million has an interest rate of 10% per annum, payable in full on 28 January 2015 and is secured by the Group's properties in Hong Kong (including those to be disposed of under the Property Disposals). The loan from the controlling Shareholder of approximately HK\$13.0 million is interest-free, unsecured and repayable on demand. The repayment of the short term loan is expected to reduce the interest burden of the Group, and together with the repayment of the Shareholder's loan, are expected to help improve the gearing of the Group.

The remaining net proceeds of approximately HK\$66.0 million will be used for general working capital of the Group in the following proposed manner: (i) approximate HK\$35.0 million for the development and further upgrade of the Group's information system and information technology; (ii) approximate HK\$16.0 million for e-advertising activities; and (iii) approximate HK\$15.0 million for general selling and administrative expenses and other general operating expenses.

The Group plans to implement a comprehensive enterprise resource planning (ERP) system that combines the data processing of various functions including procurement, inventory control and accounting, which will result in higher efficiency, flexibility, accuracy and timeliness in the Group's budgeting, inventory control and financial reporting. We consider that the implementation of the ERP system, which is expected to allow the Group to improve its internal control and operating efficiency and in turn reduce costs, is in line with the Group's strategy to strengthen its cost control and execution capabilities and promote internal control as discussed in section (1)(b) above.

As discussed in the 2014 Annual Report, the Group will activate the full operation of e-commerce and will initiate a new online-to-offline (O2O) business mode, which involves an e-commerce platform and closely integrates online and offline businesses. It is intended that approximately HK\$16.0 million of the net proceeds from the Open Offer will be used to finance e-advertising activities for the promotion of the Group's e-commerce business, which we consider to be in line with the aforesaid business development strategy of the Group.

In order to further assess the funding needs of the Group and to justify the size of the Open Offer, we have reviewed the historical financial performance of the Group, including the working capital position of the Group and the proposed use of net proceeds from the Recent Disposals. As discussed in section (1)(b) above, the Group has been making losses during the past three financial years.

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The Group's net current assets and pledged bank deposits and cash and cash equivalents have also recorded a downward trend during the past three financial years. As at 31 March 2014, the Group recorded net current assets of only approximately HK\$8.4 million and pledged bank deposits and cash and cash equivalents of approximately HK\$11.7 million. It is also noted that for each of the three years ended 31 March 2012, 2013 and 2014, the Group recorded net cash outflow in operating activities of approximately HK\$25.0 million, HK\$49.1 million and HK\$49.6 million respectively. Further, we noted that the Group has been relying on its controlling Shareholder to provide liquidity and cash flows and to sustain the Group as a going concern. As disclosed in the 2014 Annual Report, on 1 May 2014, the Group obtained a borrowing of HK\$8.0 million from its controlling Shareholder, which is repayable on 30 June 2015. On 24 June 2014, the controlling Shareholder and the Company entered into a deed of undertaking whereby the controlling Shareholder agreed to provide or procure financial support to the Company and/or the Group commencing on 24 June 2014 and until 30 June 2015.

Pursuant to the Company's announcement dated 9 October 2014, it is expected that the net proceeds from the CDM Disposal will be approximately HK\$15.3 million, which will be used for the general working capital of the Group. We were advised by the management of the Group that approximately HK\$10.0 million of the net proceeds is intended to be used for marketing and advertising in order to facilitate the expansion of the retailing business of the Group, approximately HK\$3.0 million is intended to be used for professional training for salespersons to improve the service quality and royalty of the staff, and the remaining approximately HK\$2.3 million is intended to be used for other general operating expenses of the Group.

We were advised by the Company that the net proceeds from the Property Disposals will be approximately HK\$44.0 million, which is intended to be used as to approximately HK\$40.0 million for acquiring a new office premises for the Group and the remaining approximately HK\$4.0 million for general working capital of the Group. We were advised by the management of the Group that the new office premises is expected to be smaller in size but located in a more premier location in Hong Kong as compared with the current office premises of the Group which are to be disposed of under the Property Disposals.

Considering (i) the loss-making performance of the Group throughout the past three financial years; (ii) the thin net current assets position and cash level of the Group; and (iii) that the aforesaid financial support from the controlling Shareholder shall expire on 30 June 2015, we consider that there is no certainty that the existing cash level of the Group, including the net proceeds from the Recent Disposals will be adequate for its future working capital uses, particularly in light of the Group's future business development plans. Accordingly, we consider it fair and reasonable for the Group to maintain a sufficient level of funds to meet its liquidity needs through the Open Offer.

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As stated in the Letter from the Board, to the extent that the net proceeds to be used for general working capital are not applied immediately to the above purposes, the Group will deposit the net proceeds into short-term deposits/investments. The Group will only select investment products based on minimum exposure of investment risk and flexibility. It is the current intention of the Group to place a sum of HK\$5.0 million into three-month fixed time deposits in foreign currencies, mainly Renminbi, in reputable and sizeable banks in Hong Kong, which is relatively lower in investment risk. The Group may also subscribe for investment products, preferably of principal guaranteed, with expected interest returns higher than that of ordinary bank deposits in the future. The investment period is normally restricted to not more than one year in order to keep the Group with adequate cash flow for flexibility.

As set out in the Letter from the Board, the Directors are of the view that the Open Offer allows the Group to strengthen its balance sheet without facing the increasing interest rates and to enlarge the capital base of the Company, which may facilitate long-term development of the Group. The Company is now moving ahead to restructure those existing business which are now operating at loss or at low profit margin, and at the same time seeking for investment opportunities. The enlarged capital base resulting from the Open Offer will support the continuing development and daily operations of the Group's existing business activities while providing capital for the Company to invest in potential new business.

In view of the foregoing, we are of the opinion that the net proceeds from the Open Offer will provide funds to the Group for its business development and allow the Group to maintain an adequate level of funds to meet its liquidity needs. Hence, we consider the size of the Open Offer and the use of proceeds are justifiable and that the Open Offer is in the interests of the Company and the Shareholders as a whole.

(b) Alternatives

We were advised that the Directors have considered other fund raising alternatives for the Group, including bank borrowings, convertible bonds and Shareholders' loans. As set out in the Letter from the Board, the Company has also considered the possibility of rights issue instead of open offer. Taking into account that the benefits and costs of each of the alternatives, we concur with the Directors that the Open Offer allows the Group to strengthen its balance sheet without facing the increasing interest rates and to enlarge the capital base of the Company, which is an appropriate means to facilitate the long-term development of the Group, by considering that:

- (a) debt financing, such as bank borrowings and convertible bonds will create interest payment obligations to the Group and increase the gearing and incur further interest burden to the Group;
- (b) convertible bonds will create a potential dilution effect on the shareholding interest of the Shareholders;

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- (c) Shareholder's loan is subject to the financial condition of the existing Shareholders;
- (d) rights issue has a higher cost and longer time to complete due to the additional administrative costs and expenses to be incurred by the Company in arranging trading arrangement of the nil-paid rights and additional time for trading in nil-paid rights shares;
- (e) there is uncertainty of the existence of a market to trade the nil-paid entitlements and the Qualifying Shareholders may incur un-economical trading cost when trading the nil-paid entitlements in the case of a rights issue;
- (f) open offer is more time saving and cost effective as compared to rights issue; and
- (g) the Open Offer will give the Qualifying Shareholders an equal and fair opportunity to maintain their respective pro-rata shareholding interests in the Company and to participate in the enlargement of the Company's capital base and the Group's further development.

(c) Conclusion

In light of the foregoing, in particular (i) that the net proceeds from the Open Offer will support the continuing development and daily operations of the Group's existing business activities while provide capital for the Company to invest in potential new business, and (ii) the benefits of financing by way of open offer over other financing alternatives, we concur with the Directors that the Open Offer is in the interests of the Company and the Shareholders as a whole.

3. Principal terms of the Open Offer

Conditional upon the Capital Reorganisation becoming effective, the Company proposes to raise approximately HK\$185.6 million, before expenses, by issuing 1,855,980,483 Offer Shares on the basis of three Offer Shares for every one New Share held on the Record Date.

(a) Subscription price

The subscription price for the Open Offer ("**Subscription Price**") is HK\$0.10 per Offer Share payable in full upon completion. The Subscription Price represents:

- (a) a discount of approximately 78.0% to the closing price of HK\$0.454 per New Share (based on the closing price of HK\$0.227 per Existing Share as quoted on the Stock Exchange on the Last Trading Day and adjusted for the effect of the Share Consolidation);

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- (b) a discount of approximately 78.8% to the closing price of HK\$0.4712 per New Share (based on the closing price of HK\$0.2356 per Existing Share for the last ten trading days up to and including the Last Trading Day and adjusted for the effect of the Share Consolidation);
- (c) a discount of approximately 46.9% to the theoretical ex-entitlement price of HK\$0.1885 per New Share (based on the closing price of HK\$0.227 per Existing Share as quoted on the Stock Exchange on the Last Trading Day and adjusted for the effect of the Share Consolidation);
- (d) a premium of approximately 4.2% over the net asset value per New Share of approximately HK\$0.096 as at 31 March 2014 (based on the net asset value per Existing Share of approximately HK\$0.048 as at 31 March 2014 and adjusted for the effect of the Share Consolidation); and
- (e) a discount of approximately 73.5% to the closing price of HK\$0.378 per New Share (based on the closing price of HK\$0.189 per Existing Share as quoted on the Stock Exchange on the Latest Practicable Date and adjusted for the effect of the Share Consolidation).

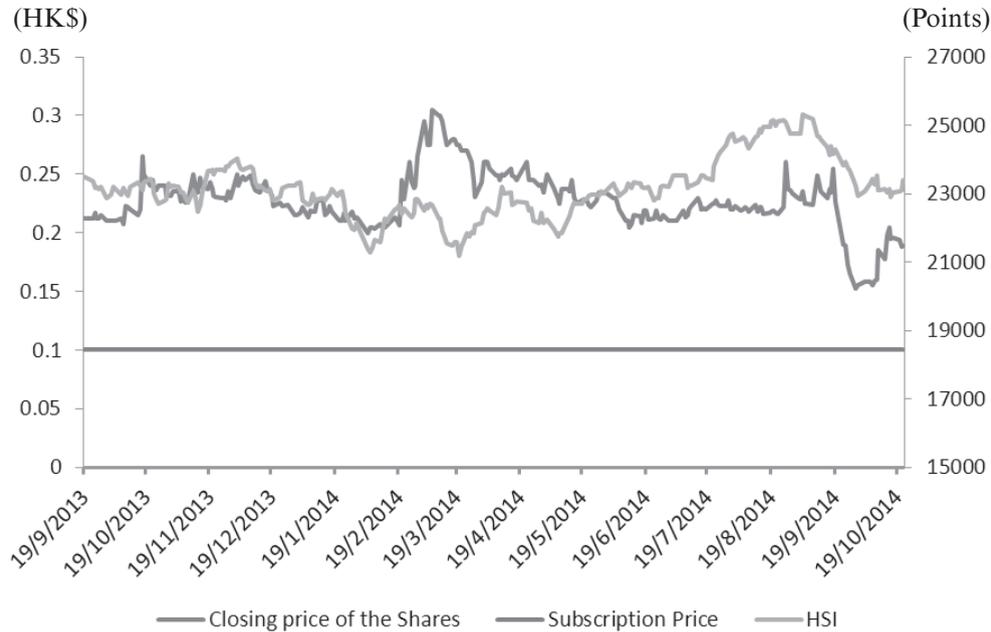
As stated in the Letter from the Board, the Subscription Price was arrived at after arm's length negotiation between the Company and the Underwriter with reference to the prevailing market conditions, the net asset value of the Company, the Company's needs of funds as further specified in the paragraph headed "(5) Reasons for the Open Offer and the Use of Proceeds" of the Letter from the Board and the allotment ratio of three Offer Shares for one New Share held. The Directors consider that the discounts to respective prevailing Share prices above would encourage the Qualifying Shareholders to participate in the Open Offer, which would enable the Qualifying Shareholders to maintain their respective shareholdings in the Company and participate in the future growth of the Group.

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Historical closing prices

Set out below is the movement in the closing prices of the Shares during the period from 19 September 2013 (being the 12 calendar months period prior to the date of the Underwriting Agreement) to the Latest Practicable Date (“**Review Period**”) as quoted from the website of the Stock Exchange and the Hang Seng Index (HSI) during the Review Period:

The daily closing price of the Shares and the Hang Sang Index during the Review Period



Source: Website of the Stock Exchange and Bloomberg

During the Review Period, the lowest and highest closing prices of the Shares were HK\$0.152 per Share on 29 September 2014 and HK\$0.305 per Share on 7 March 2014 respectively as quoted from the website of the Stock Exchange. The average daily closing price of the Shares during the Review Period is approximately HK\$0.228 per Share. The highest closing price, the average daily closing price and the lowest closing price would be HK\$0.61, HK\$0.455 and HK\$0.304 per Share respectively during the Review Period after adjusted for the effect of the Share Consolidation. The Subscription Price represents (i) a discount of approximately 83.61% to the adjusted highest closing price of the Shares; (ii) a discount of approximately 78.02% to the adjusted average daily closing price of the Shares; and (iii) a discount of approximately 67.11% to the adjusted lowest closing price of the Shares during the Review Period.

The closing price of the Shares gradually increased from HK\$0.212 per Share at the beginning of the Review Period on 19 September 2013 to the highest closing price of HK\$0.305 per Share on 7 March 2014. Thereafter, the

closing price of the Shares was on a general decreasing trend, closing at HK\$0.227 per Share on 19 September 2014, being the Last Trading Day. The closing price of the Shares further decreased to HK\$0.152 per Share on 29 September 2014 after the release of the Announcement.

We noted that the movement of the closing prices of the Shares was generally in line with the trend of the Hang Seng Index during the period from 19 September 2013 to late February 2014. Thereafter, the closing price of the Shares increased to its highest closing price of HK\$0.305 per Share on 7 March 2014 during the Review Period while the Hang Seng Index remained relatively stable. The closing price of the Shares then underwent a downward trend as opposed to a slight upward trend of the Hang Seng Index.

We note that it is a common market practice that, in order to enhance the attractiveness of an open offer exercise and to encourage the existing shareholders to participate in the open offer, the subscription price of an open offer normally represents a discount to the prevailing market prices of the relevant shares. Given that each Qualifying Shareholder has equal opportunity to participate in the Open Offer and is entitled to subscribe for the Offer Shares at the same Subscription Price in proportion to his shareholding in the Company, we consider that the Subscription Price being set at a discount to the prevailing Share prices is in line with the general market practice and is acceptable.

Comparison with other open offer and rights issue transactions

As part of our analysis in assessing the fairness and reasonableness of the Subscription Price, we have based on the information available on the website of the Stock Exchange, identified, on a best effort basis, a list which we considered exhaustive of 25 open offer and rights issue transactions announced by companies listed on the Stock Exchange since 19 September 2013 up to and including 19 September 2014, being the date of Underwriting Agreement (“**Comparables**”). For the purpose of our analysis, the bases of our selection of the Comparables are as follows: (i) open offers/rights issues which increased the issued share capital of the Comparables by more than 50%; (ii) bonus issues or warrants were not involved in the open offers/rights issues; and (iii) the companies were not under prolonged suspension of trading for more than 12 months as at the dates of the respective announcements of the open offer/rights issue transactions (given that the respective closing price of the last trading day for prolonged suspended companies may not reflect its recent market price as at the dates of the announcements and thus, may not be appropriate and shall be excluded for comparison).

As both open offer and rights issue provide all shareholders an equal opportunity to participate in the enlargement of the capital base of the listed issuers and at the same time allow them to maintain their proportionate

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interests in the listed issuers, we are of the view that taking both open offer and rights issue transactions into account in our analysis would be reasonable. We consider that the selection of 12-month period to be sufficient and appropriate for our analysis as it has covered the prevailing market conditions and sentiments in the Hong Kong stock market at the time which the terms of the Open Offer were determined.

Taking into account that (i) the terms of the Comparables are determined under similar market conditions and sentiments as the Open Offer, we consider that the Comparables may reflect the recent market trend of the open offer/rights issue transactions; and (ii) we observed that open offers/rights issues which increased the issued share capital of the Comparables by more than 50% (which is also the case of the Open Offer) would usually offer a deeper discount to the prevailing market price in order to increase the attractiveness of the relevant open offers/rights issues to induce the existing shareholders to make subscriptions, we are of the view that the Comparables offer a general market reference for the recent trend and market practices of open offer/rights issue transactions and consider the Comparables are fair and representative samples for comparison purpose.

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The table below illustrates the details of our findings on the Comparables:

Comparables	Stock Code	Date of announcement (D/M/Y)	Basis of entitlement	Subscription price (HK\$)	Discount of the subscription price to the closing price per share on the last trading day prior to the release of the relevant announcement (%)	Discount of the subscription price to the theoretical ex-right/entitlement price (Note 1) (%)	Maximum dilution effect (Note 2) (%)	Underwriting commission (%)	Open offer ("OO")/Rights issue ("RI")	Excess application (Y/N)
Easyknit Enterprises Holdings Limited	616	3/10/2013	5 for 1	0.60	76.56	35.25	83.33	1.00	RI	Y
Perception Digital Holdings Ltd.*#	1822	14/11/2013	6 for 5	0.05	73.68	56.00	54.55	2.50	OO	N
National Investments Fund Limited	1227	18/11/2013	3 for 1	0.10	71.43	38.46	75.00	5.00	RI	Y
Unlimited Creativity Holdings Limited*	8079	22/11/2013	4 for 1	0.10	65.52	27.54	80.00	1.73 (Note 3)	OO	N
China Information Technology Development Limited*	8178	28/11/2013	2 for 1	0.11	36.05	15.82	66.67	1.25	OO	N
See Corporation Limited*	491	3/1/2014	9 for 1	0.23	76.49	24.55	90.00	3.00	RI	Y
Solartech International Holdings Limited*	1166	21/1/2014	5 for 1	0.12	66.67	25.00	83.33	2.50	OO	N
Oriental Unicorn Agricultural Group Limited	8120	3/3/2014	13 for 2	0.16	57.33	15.19	86.67	3.50	RI	Y
Merdeka Mobile Group Limited*#	8163	11/4/2014	4 for 1	0.04	75.16	37.69	80.00	3.50	RI	N
Inno-Tech Holdings Limited*#	8202	25/4/2014	25 for 1	0.22	90.32	26.40	96.15	3.00	OO	N
National Arts Entertainment and Culture Group Limited*#	8228	2/5/2014	6 for 1	0.19	70.16	25.14	85.71	2.50	RI	Y
eFORCE Holdings Limited*#	943	22/5/2014	16 for 1	0.50	80.39	19.43	94.12	3.00	RI	Y
Vision Fame International Holding Ltd.	1315	19/6/2014	1 for 1	0.16	20.00	11.11	50.00	1.00	RI	N
Celebrate International Holdings Limited*	8212	30/6/2014	8 for 1	0.20	80.00	30.77	88.89	3.00	OO	Y
Opes Asia Development Limited*	810	11/7/2014	4 for 1	0.10	67.21	18.55	80.00	2.50	RI	N
Sau San Tong Holdings Limited	8200	11/7/2014	3 for 1	0.10	77.27	45.95	75.00	2.50	RI	Y
Well Way Group Limited*	8063	16/7/2014	2 for 1	0.30	62.50	35.71	66.67	3.50	OO	N
Integrated Waste Solutions Group Holdings Ltd.*	923	27/7/2014	1 for 1	0.20	50.62	33.88	50.00	2.00	OO	N
SMI Culture Group Holdings Ltd.*	2366	8/8/2014	8 for 1	0.35	83.33	35.71	88.89	4.50	RI	Y
DeTeam Co. Ltd.*#	65	8/8/2014	1 for 1	0.50	66.67	50.00	50.00	—	OO	N
South East Group Limited*	726	11/8/2014	8 for 1	0.10	64.91	17.05	88.89	2.50	RI	Y
China Yunnan Tin Minerals Group Co. Ltd.*	263	18/8/2014	9 for 1	0.60	65.22	15.79	90.00	3.00	RI	Y
Venturepharm Laboratories Ltd.*#	8225	25/8/2014	3 for 2	0.10	71.43	50.00	60.00	—	RI	Y
Easyknit Enterprises Holdings Ltd.*	616	5/9/2014	8 for 1	0.70	80.82	31.89	88.89	1.00	RI	Y
First Credit Finance Group Ltd.	8215	18/9/2014	3 for 1	0.24	77.96	46.93	75.00	2.50	RI	N
					Maximum	90.32	56.00	96.15	5.00	
					Minimum	20.00	11.11	50.00	—	
					Average	68.31	30.79	77.11	2.42	
					Median	71.43	30.77	80.00	2.50	
	The Company		3 for 1	0.10	77.97	46.95	75.00	1.00	OO	Y

Source: Website of the Stock Exchange

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Note 1: The theoretical ex-rights/entitlement price is calculated by adding the market value of all the issued shares (based on the closing price of the shares on the last trading day) with the gross amount of subscription proceeds expected to be received from the rights issue/open offer (before expenses), and then divided by the total number of issued shares as enlarged by the rights issue/open offer.

Note 2: Maximum dilution effect of each rights issue/open offer is calculated as: (number of rights/offer shares to be issued under the basis of entitlement)/(number of existing shares held for the entitlement for the rights/offer shares under the basis of entitlement + number of rights/offer shares to be issued under the basis of entitlement) x 100%.

Note 3: According to the relevant announcement, there were two underwriters for the open offer to be conducted by this company. The underwriting commissions to the two underwriters were 1.5% (for 286,203,800 underwritten shares) and 2.5% (for 117,154,724 underwritten shares) respectively. The underwriting commission rate of 1.73% is calculated as the weighted average according to the number of underwritten shares to be underwritten by the underwriters.

* represents Comparables which have recorded net loss in their latest full financial year prior to the release of their respective open offer/rights issue announcements.

represents Comparables which have recorded current ratio of less than 1.2 times according to their latest interim/annual report prior to the release of their respective open offer/rights issue announcements.

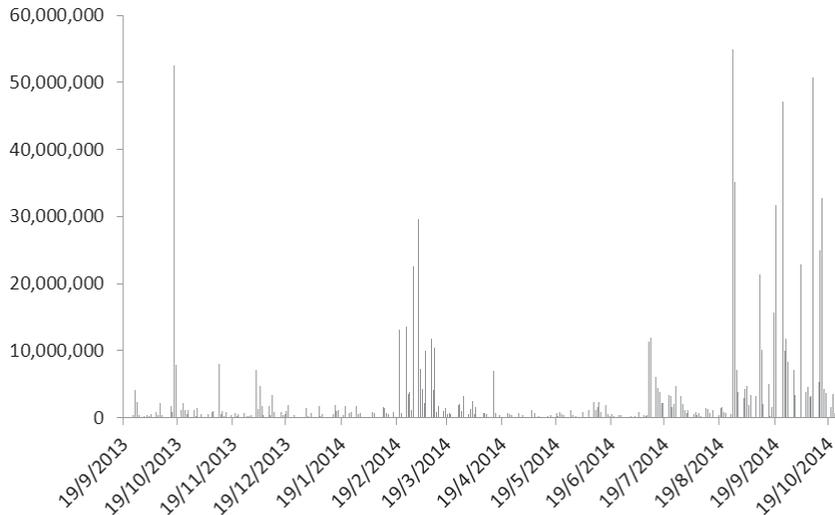
As indicated in the above table, subscription prices of all Comparables were set at discount to their respective closing price per share on the last trading day prior to the release of the relevant announcements, ranging from a discount of approximately 20.00% to a discount of approximately 90.32%, with an average discount of approximately 68.31%. The Subscription Price represents a discount of approximately 77.97% to the closing price per New Share after adjusted for the effect of the Share Consolidation on the Last Trading Day, which falls within the range of the Comparables but was greater than the median and average of the discounts of the Comparables. The discounts to the respective theoretical ex-rights/entitlement price per share of the Comparables ranged from a discount of approximately 11.11% to a discount of approximately 56.00%, with an average discount of approximately 30.79%. The Subscription Price represents a discount of approximately 46.95% to the theoretical ex-entitlement price per New Share after adjusted for the effect of the Share Consolidation on the Last Trading Day, which falls within the range of the Comparables and is higher than the median and average discounts of the Comparables.

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Historical trading volume

Set out below is the daily trading volume of the Shares during the Review Period as quoted from the website of the Stock Exchange:

The daily trading volume of the Shares during the Review Period (Shares)



Source: Website of the Stock Exchange

During the Review Period, the daily trading volume of the Shares ranged from nil to 54,880,000 Shares. The average daily trading volume during the Review Period was approximately 3,309,294 Shares, representing approximately 0.27% of the entire issued capital of the Company as at the Latest Practicable Date. Therefore, we are of the view that the Shares were traded at thin liquidity during the Review Period and we have also discussed with the Directors and concur with their view that setting the Subscription Price at discount to the respective prevailing Share prices would enhance the attractiveness of the Open Offer and encourage the Qualifying Shareholders to reinvest in the Company through the Open Offer.

Comparison with the net asset value of the Company

As stated in the Letter from the Board, the Company and the Underwriter made reference to, among other things, the net asset value of the Company when determining the Subscription Price. The Subscription Price represents a premium of approximately 4.2% over the net asset value per New Share (adjusted for the effect of the Share Consolidation) of approximately HK\$0.096 as at 31 March 2014. Based on the closing price of HK\$0.454 per New Share (adjusted for the effect of the Share Consolidation) on the Last Trading Day, the Existing Shares were trading at a premium of approximately 372.9% over the net asset value per New Share (adjusted for the effect of the Share Consolidation) as at 31 March 2014.

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Based on the information available on the website of the Stock Exchange, we have identified, on a best effort basis, a list which we considered exhaustive of five companies listed on the Stock Exchange (“**Industry Comparables**”) in order to assess the fairness and reasonableness of the Subscription Price.

For the purpose of our analysis, the bases of our selection of the Industry Comparables are as follows: (i) have their shares listed on the Stock Exchange; (ii) engaged in the manufacturing and retailing of jewellery and related fashion accessories as their principal activities; (iii) not engaged in other unrelated business; and (iv) have their own branded products, in order to identify companies engaged in similar line of business as the Company. As such, we are of the view that the Industry Comparables are fair and representative samples for comparison purpose. Despite the differences in the financial aspects and performance, the size and market capitalisation, the treasury policy and level of indebtedness between the Company and the Industry Comparables, given that the Industry Comparables are engaged in similar principal activities as the Company, we consider the Industry Comparables offer general market references for the trading multiples of companies engaging in similar businesses as the Company, as part of our analysis.

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The table below illustrates the details of our findings on the Industry Comparables:

Industry comparables	Stock code	Principal activities	Net asset value per share (HK\$) (Note 1)	Premium/(Discount) of the average closing prices for the six months preceding the Latest Practicable Date over/to the net asset value per share (%)	Premium/(Discount) of the average closing prices for the three months preceding the Latest Practicable Date over/to the net asset value per share (%)	Premium/(Discount) of the closing price on Latest Practicable Date over/to the net asset value per share (%)
Tse Sui Luen Jewellery (International) Ltd.	417	Manufacture and marketing of jewellery products.	5.09	(39.61)	(39.96)	(40.87)
Zhong Fa Zhan Holdings Ltd.	475	Design, manufacture and wholesale of fine jewelry products in the PRC.	0.06	3,239.73	3,299.04	3,858.63
Luk Fook Holdings (International) Ltd.	590	Sourcing, designing, wholesaling, trademark licensing and retailing of a variety of platinum and gold jewellery and gold ornaments, gem-set jewellery, jadeites, gemstones and other accessory items.	12.97	74.53	83.16	74.63
Chow Tai Fook Jewellery Group Ltd.	1929	Raw material procurement, design, production and marketing to sale of luxury and high-end luxury jewellery products, including gem-set jewellery, platinum/ karat gold products, gold products and watches.	3.72	194.80	194.33	187.30
Winox Holdings Ltd.	6838	Development and manufacturing of stainless steel products such as watch bracelets, costume jewellery, accessories, and mobile phone cases and accessories.	1.02	(29.66)	(24.80)	(25.57)
		Maximum	12.97	3,239.73	3,299.04	3,858.63
		Minimum	0.06	(39.61)	(39.96)	(40.87)
		Average	4.57	687.96	702.35	810.82
		Median	3.72	74.53	83.16	74.63
		The Company (Note 2)	0.10			4.17

Source: Website of the Stock Exchange

Note 1: Calculated by dividing the total equity attributable to owners of the company as extracted from the latest annual/interim reports of the relevant companies by the issued number of shares extracted from the latest monthly returns of the relevant companies.

Note 2: This refers to the Subscription Price and the premium over the net asset value per New Share (adjusted for the effect of the Share Consolidation).

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As indicated in the above table, the premium/discount of the closing price on Latest Practicable Date over/to the net asset value per share of the Industry Comparables ranged from a discount of approximately 40.87% to a premium of approximately 3,858.63%, with an average premium of approximately 810.82%. The premium of the Subscription Price over the net asset value per New Share (adjusted for the effect of the Share Consolidation) as at 31 March 2014 was approximately 4.17%, which falls within the range of the Industry Comparables.

The premium/discount of the average closing prices for the three months preceding the Last Practicable Date over/to the net asset value per share of the Industry Comparable ranged from a discount of approximately 39.96% to a premium of approximately 3,299.04%, with an average premium of approximately 702.35%. The premium of the Subscription Price over the net asset value per New Share (adjusted for the effect of the Share Consolidation) as at 31 March 2014 of approximately 4.17% falls within the range of the Industry Comparables.

The premium/discount of the average closings price for the six months preceding the Last Practicable Date over/to the net asset value per share of the Industry Comparable ranged from a discount of approximately 39.61% to a premium of approximately 3,239.73%, with an average premium of approximately 687.96%. The premium of the Subscription Price over the net asset value per New Share (adjusted for the effect of the Share Consolidation) as at 31 March 2014 of approximately 4.17% falls within the range of the Industry Comparables.

It is also set out in the Letter from the Board that the Company considered that it would be beneficial to the Company and to the Shareholders if the Subscription Price is determined at a price higher than the net asset value per Share as it would enhance the overall net asset value per Share of the Company. Base on the information set out in the “Unaudited pro forma financial information of the Group” contained in Appendix II to the Circular, the pro forma net tangible asset per New Share (assuming the Open Offer had been completed on 31 March 2014) would be approximately HK\$0.098, representing an increase of approximately 2.08% from the audited consolidated net tangible asset per New Share (adjusted for the effect of the Share Consolidation) of approximately HK\$0.096 as at 31 March 2014. We noted that the closing prices of the Shares have been trading at a premium over the net asset value per Share over the Review Period. We consider setting of the Subscription Price at a premium over the net asset value per Shares of the Company is fair and reasonable as it avoids dilution on the net asset value per Share of the Company.

Conclusion

Taking into account (i) that it is common for listed companies in Hong Kong to issue offer shares at a discount to the market price in order to enhance the attractiveness of an open offer transaction to the shareholders; (ii) the unsatisfactory historical financial performance and thin liquidity position of the Group; (iii) that the discount represented by the Subscription Price to the adjusted closing price of the New Shares on the Last Trading Day falls within the range of discount of the Comparables; (iv) that the discount represented by the Subscription Price to the theoretical entitlement price of the New Shares on the Last Trading Day falls within the range of discounts of the Comparables; (v) the general downward trend of the closing prices of the Shares since March 2014 and the thin trading volume of the Shares during the Review Period; (vi) that the premium of the Subscription Price over the net asset value per Share falls within the range of the premium/discount of the Industry Comparables and avoids dilution on the net asset value per Share of the Company as a result of the Open Offer; and (vii) that all Qualifying Shareholders are offered an equal opportunity to participate in the Open Offer and to take up their entitlements in full at the same price to maintain their respective shareholdings in the Company, we consider the Subscription Price is fair and reasonable so far as the Independent Shareholders are concerned.

(b) Allotment ratio

We have discussed with the management of the Group and noted that in determining the combination of the allotment ratio of the Open Offer and the discount of the Subscription Price, the Board considered the following factors:

- (i) the existing thin net current assets position and low cash level of the Group;
- (ii) the general downward trend of the closing prices of the Shares since March 2014, the historical thin trading volume of the Shares and the persistent loss-making performance of the Group. The setting of the Subscription Price at a relatively deep discount to the prevailing market price would enhance the attractiveness of the Open Offer to the Shareholders; and
- (iii) the Board considers the Open Offer to be an appropriate means of fund raising and in the interests of the Company and the Shareholders as a whole, as opposed to other alternative means of financing, details of which are discussed in section (2)(b) above.

As discussed in section (3)(a) above, we noted that it is a common market practice that, in order to enhance the attractiveness of an open offer exercise and to encourage the existing shareholders to participate in the open offer, the subscription price of an open offer normally represents a discount to the

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prevailing market prices of the relevant shares. As indicated in the table of Comparables in section (3)(a) above, the discounts of the subscription prices of the Comparables to their respective closing price per share on the last trading day prior to the release of the relevant announcements ranged from approximately 20.00% to 90.32%, with an average of approximately 68.31% and median of approximately 71.43%. We consider the discount of the Subscription Price to the Last Trading Day of approximately 77.97%, which was greater than the median and average of the discounts of the Comparable, is a relatively deep discount compared to the general recent trend of open offer/rights issue transactions in the market as represented by the Comparables.

Notwithstanding, we are of the view that the discount represented by the Subscription Price is justifiable based on the factors considered in our foregoing analysis in section (3)(a). In light of (i) the general downward trend of the closing prices of the Shares since March 2014 and the thin trading volume of the Shares during the Review Period; (ii) the historical unsatisfactory financial performance and tight liquidity position of the Group; and (iii) the Group's need of new capital for its business expansion and development, we are of the view that it would be difficult to attract the Qualifying Shareholders to further invest in the Company through the Open Offer if the Subscription Price was not set at a relatively deep discount to the historical closing prices of the Shares. In fact, we were advised by the Company that the Subscription Price was a commercial decision arrived at after arm's length negotiation between the Company and the Underwriter and that during the negotiation of the Underwriting Agreement, it was indicated to the Company that such level of the Subscription Price is necessary to enable the Underwriter to provide the underwriting commitment.

In order to raise sufficient funds to meet the Group's funding needs as discussed in section (2)(a) above and given that each Qualifying Shareholder has equal opportunity to participate in the Open Offer and is entitled to subscribe for the Offer Shares at the same Subscription Price in proportion to his shareholding in the Company, the amount of subscription money required for an Qualifying Shareholder to maintain his shareholding interest in the Company would be indifferent between adopting a higher allotment ratio with a lower Subscription Price and a lower allotment ratio with a higher Subscription Price.

Any Qualifying Shareholders who choose not to take up in full their assured entitlements under the Open Offer will have their shareholdings in the Company diluted by up to a maximum of 75% from their shareholding interests upon completion of the Open Offer. In all cases of open offers, the dilution on the shareholding of those shareholders who do not take up in full their assured entitlements under the open offers is inevitable. In fact, the dilution magnitude of any open offers depends mainly on the extent of the basis of entitlement under such exercise since the higher offering ratio of new shares to existing shares is the greater the dilution on the shareholding would be. Notwithstanding, based on our analysis set out in section (5) below, in particular, taking into consideration that the Open Offer is beneficial to the Group's business development and financial

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condition and that the maximum dilution effect of the Open Offer falls within the range of the Comparables, we consider that such potential dilution to the shareholding interests of the Shareholders, which may only happen to the Excluded Shareholders (if any) and the Qualifying Shareholders who decide not to accept their assured entitlements in full, as a result of the Open Offer is justifiable.

It is noted that different combination of the allotment ratio and Subscription Price would affect the dilution impact to existing Shareholders, the level of discount to the trading price of the Shares and the net asset value per Share. Hence, we have performed a sensitivity analysis to illustrate the scenarios under different combinations of allotment ratio and Subscription Price as follows:

Allotment ratio/ Subscription Price	1 for 1/ HK\$0.30 (%)	2 for 1/ HK\$0.15 (%)	3 for 1/ HK\$0.10 (%)
Maximum dilution effect (Discount) of the Subscription Price to the closing price per New Share on the Last Trading Day adjusted for the effect of the Share Consolidation	50.0	66.7	75.0
Premium of the Subscription Price over the net asset value per New Share adjusted for the effect of the Share Consolidation	(33.92)	(66.96)	(77.97)
	212.5	56.3	4.2

As illustrated by the above table, the dilution impact on existing shareholding could be reduced and the enhancement of new asset value per New Share of the Company upon the completion of the Open Offer could increase in the case of an Open Offer with allotment ratio of 1 for 1 or 2 for 1 as compared to the existing allotment ratio of 3 for 1. However, it is noted that the discount of the Subscription Price to the closing price per New Share on the Last Trading Day would be approximately 33.92% and 66.96% for the allotment ratios of 1 for 1 and 2 for 1 respectively, both of which would be smaller than the median and average discounts of the Comparables.

In addition, we have also considered the historical financial performance of the Comparables. We noted that for those Comparables which have recorded net loss in their latest full financial year prior to the release of their respective open offer/rights issue announcements, the discounts of the subscription price to their respective closing price per share on the last trading day prior to the release of the relevant announcements ranged from approximately 36.05% to approximately 90.32%, with an average of approximately 69.85% and median of approximately 70.16%. Furthermore, when considering the Comparables which have recorded (i) net loss in their latest full financial year prior to the release of their respective

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open offer/rights issue announcements; and (ii) a current ratio of less than 1.2 times (compared to approximately 1.1 times of the Group as at 31 March 2014) according to their latest interim/annual report prior to the release of their respective open offer/rights issue announcements, the discounts of the subscription price to their respective closing price per share on the last trading day prior to the release of the relevant announcements ranged from approximately 66.67% to 90.32%, with an average of approximately 75.40% and median of approximately 73.68%. We noted from the above analysis that it is a common market practice for companies with historical unsatisfactory financial performance and thin liquidity position to offer a deeper discount in the subscription price. It is noted that the discount of the Subscription Price to the closing price per New Share on the Last Trading Day of approximately 77.97% is largely about the same level as the average discount in the cases of the Comparables which also recorded historical unsatisfactory financial performance and thin liquidity position.

Considering the financial condition of the Group as discussed above, we consider that the setting of the Subscription Price at a relatively deep discount to the historical closing prices of the Shares is generally in line with common market practice. Accordingly, if the Company adopts the alternative allotment ratios (i.e. a lower allotment ratio with a higher Subscription Price), it would make the Open Offer less attractive when compared to the general recent trend of open offer/rights issue transactions in the market.

The Company announced on 22 October 2014 that based on the preliminary review of the unaudited consolidated management accounts of the Group for the six months ended 30 September 2014, the Group recorded a decrease of approximately 40% in revenue compared to the same period in 2013 and the Group is expected to record an increase in loss attributable to the Shareholders for the six months ended 30 September 2014 as compared to the same period in 2013. Taking into account the historical unsatisfactory financial performance of the Group, the thin liquidity position of the Group, the possible liquidity problem which might be encountered by the Company when the financial support from the controlling Shareholder (including the long term loan of HK\$8.0 million) cease on 30 June 2015, and the uncertainty for the Group to turnaround in the coming year and generate internal cash inflow sufficient for financing its operation and business development, we concur with the Directors' view that it would be difficult to attract the Qualifying Shareholders to further invest in the Company through the Open Offer and entice the Underwriter to provide the underwriting commitment if the Subscription Price was not set at a relatively deep discount to the historical closing prices of the Shares.

In light of the foregoing, we consider that the Subscription Price being set at a relatively significant discount to the prevailing Share prices while adopting a relatively higher allotment ratio is justifiable.

(c) Underwriting commission

As mentioned in the Letter from the Board, the underwriting commission rate of 1.0% of the aggregate subscription price in respect of the number of Underwritten Shares as determined on the Record Date underwritten by the Underwriter was determined after arm's length negotiation between the Company and the Underwriter by reference to the existing financial position of the Company, the size of the Open Offer, and the current and expected market conditions.

Based on our review of the underwriting arrangement of the Comparables set out in the table above, we noted that the underwriting commission rates paid by the Comparables ranged from nil to 5.00% with an average of approximately 2.42%. In view that the underwriting commission under the Underwriting Agreement of 1.0% falls within the range of the underwriting commissions of the Comparables and is smaller than the median and average of the underwriting commissions of the Comparables, we are of the view that the underwriting commission under the Underwriting Agreement is on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned.

(d) Excess application for the Open Offer Shares

As set out in the Letter from the Board, Qualifying Shareholders may apply for any entitlements of the Excluding Shareholders and any Offer Shares entitled but not applied for by the Qualifying Shareholders.

The Directors will allocate the excess Offer Shares (if any) at their discretion, but on a fair and equitable basis, to the Qualifying Shareholders who have applied for excess Offer Shares on a pro-rata basis with reference to the number of excess Offer Shares applied for but no reference will be made to Offer Shares comprised in applications by Application Forms or the existing number of Shares held by the Qualifying Shareholders. No preference will be given to topping-up odd lots to whole board lots to avoid such mechanism being abused.

We have reviewed a number of recent open offer/rights issue transactions performed by other companies listed on the Stock Exchange and are not aware that the above allocation arrangement is unusual and consider that it is in line with normal market practice.

4. Possible financial effects of the Open Offer

(a) Net asset value

Base on the information set out in the "Unaudited pro forma financial information of the Group" contained in Appendix II to the Circular, the Group's financial position would turn from the audited consolidated net tangible asset attributable to owners of the Company of approximately HK\$59.4 million as at 31 March 2014 to the unaudited pro forma adjusted consolidated net tangible assets

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attributable to owners of the Company of approximately HK\$242.4 million as at 31 March 2014 assuming completion of the Open Offer took place on 31 March 2014.

The pro forma net tangible asset per New Share would be approximately HK\$0.098, representing an increase of approximately 2.08% from the audited consolidated net tangible asset per New Share (adjusted for the effect of the Share Consolidation) of approximately HK\$0.096 as at 31 March 2014.

(b) Working capital

The Open Offer shall have a positive effect on the Group's working capital upon completion as the proceeds from the Open Offer will bring in a net cash inflow of approximately HK\$183.0 million to the Group.

(c) Gearing ratio

As set out in the 2014 Annual Report, the gearing ratio (being total liabilities over total assets) of the Group as at 31 March 2014 was approximately 52.9%. As advised by the Company, the total equity is expected to increase by the net proceeds of the Open Offer. Hence, the gearing ratio of the Group is expected to improve as a result of the Open Offer.

5. Potential dilution effect of the Open Offer on the shareholding interest

As the Open Offer is offered to all Qualifying Shareholders on the same basis, the Qualifying Shareholders will be able to maintain their proportional interests in the Company if they take up their assured entitlements under the Open Offer in full. Any Qualifying Shareholders who choose not to take up in full their assured entitlements under the Open Offer will have their shareholdings in the Company diluted by up to a maximum of 75% from their shareholding interests upon completion of the Open Offer. The possible dilution effect of the Open Offer on shareholding interests is set out in the section headed "Change in the shareholding structure of the Company" in the Letter from the Board.

As indicated in the table of Comparables in section (3) above, the maximum dilution effect of the Comparables ranged from 50.00% to approximately 96.15%, with an average of approximately 77.11% and median of 80.00%. The maximum dilution effect of the Open Offer of 75% falls within the range of the Comparables and smaller than the median and average of the Comparables.

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

After taking into account that (i) the Open Offer would enhance the Group's financial position and strengthen its capital base; (ii) the net proceeds from Open Offer could finance the continuing development and daily operations of the Group's existing business activities while provide capital for the Company to invest in potential new business; (iii) the discount as represented by the Subscription Price to the adjusted closing price per New Share on the Last Trading Day and the discount as represented by the Subscription Price to the theoretical ex-entitlement price per New Share on the Last Trading Day, both fall within the range of the Comparables; (iv) the Qualifying Shareholders will be offered the same opportunity to maintain their proportionate interests in the Company; (v) the Qualifying Shareholders have their choice to decide whether to accept the Open Offer or not; (vi) the dilutive nature of open offers is inherent in general; and (vii) the maximum dilution effect of the Open Offer falls within the range of the Comparables, we are of the view that such potential dilution to the shareholding interests of the Shareholders, which may only happen to the Excluded Shareholders (if any) and the Qualifying Shareholders who decide not to accept their assured entitlements in full, as a result of the Open Offer is justifiable.

6. Risks associated with the Open Offer

Shareholders and potential investors should note that the Open Offer is subject to the satisfaction of certain conditions as described in the section headed "Conditions of the Open Offer" in the Letter from the Board. In particular, the Open Offer is subject to, among others, the Capital Reorganisation becoming effective, the approval of the Open Offer at the SGM, and the Underwriting Agreement becoming unconditional and not having been terminated in accordance with the terms set out under the section headed "Termination of the Underwriting Agreement" in the Letter from the Board. Accordingly, the Open Offer may or may not proceed. Shareholders and potential investors should exercise extreme caution when dealings in the Shares and the New Shares, and if they are in any doubt about their position, they should consult their professional advisers.

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RECOMMENDATIONS

Having considered the principal factors and reasons stated above, we are of the opinion that the terms of the Open Offer are fair and reasonable insofar as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the resolution to approve the Open Offer to be proposed at the SGM.

Yours faithfully,
For and on behalf of
Celestial Capital Limited
Michael Lam
Managing Director

Mr. Michael Lam is a licensed person and responsible officer of Celestial Capital Limited registered with the SFC to carry out type 6 (advising on corporate finance) regulated activities under the SFO since 2009 and has participated in the provision of independent financial advisory services for various transactions involving companies listed in Hong Kong.

1. SUMMARY OF FINANCIAL INFORMATION OF THE GROUP

Financial information with respect to the profits and losses, financial record and position, set out as a comparative table and the latest published audited balance sheets together with the notes on the annual accounts of the Group for each of the three years ended 31 March 2012, 2013 and 2014 are disclosed on pages 48 to 120 of annual report 2012, pages 50 to 112 of annual report 2013 and pages 47 to 112 of annual report 2014 of the Company respectively.

The said annual reports of the Company are available on both the website of the Stock Exchange (www.hkex.com.hk) and the website of the Company (www.artini-china.com).

2. MATERIAL ADVERSE CHANGE

On 22 October 2014, the Company issued a profit warning announcement to the effect that, based on a preliminary review of the unaudited consolidated management accounts of the Group, the Group is expected to record an increase in the losses attributable to the Shareholders for the six months ended 30 September 2014 as compared to the corresponding period in 2013, primarily as a result of (i) the decrease in the Group's revenue of approximately 40% for the six-month ended 30 September 2014 as compared to that for the corresponding period in 2013, and (ii) the continuous increase in manufacturing costs. Save as aforesaid, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 March 2014, the date to which the latest published audited consolidated financial statements of the Group were made up.

3. INDEBTEDNESS

Borrowings

As at the close of business on 31 August 2014, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this Circular, the Group had the following outstanding borrowings:

1. Secured other borrowings with an outstanding amount of HK\$19,000,000, bearing interest of the rate of 10% per annum which is repayable on 28 January 2015;
2. Unsecured loan of HK\$13,000,000 granted by Mr. Tse Hoi Chau, a controlling shareholder of the Company which is interest-free and is repayable on demand;
3. The Group has pledged certain buildings with net carrying amounts of approximately HK6,897,000 to secure the bank and other borrowings granted to the Group;

4. The Group has pledged bank deposits of approximately HK\$800,000 to secure for the banking facilities, in which the banks provide bank guarantees in lieu of rental deposits in relation to certain shops leased by the Group.

Save as otherwise disclosed above, and apart from intra-group liabilities and normal trade payables, the Group did not have, at the close of business on 31 August 2014, any other debt securities issued and outstanding, or authorised or otherwise created but unissued, any other term loans, any other borrowings or indebtedness in the nature of borrowings including bank overdrafts and liabilities under acceptance (other than normal trade bills) or acceptance credits or hire purchase commitments, any other mortgages and charges or any guarantees or any finance lease commitments or material contingent liabilities.

Contingent liabilities or guarantees

As at the close of business on 31 August 2014, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this Circular, the Group did not have any contingent liabilities or guarantees.

4. WORKING CAPITAL

The Directors are of the opinion that after taking into account: (i) the estimated funds to be raised from the Open Offer; (ii) the existing financial resources available to the Group and the Group's expected internally generated funds; (iii) no request of the early repayment of the unsecured loan of HK\$13,000,000 granted and confirmed by Mr. Tse in writing; and (iv) Mr. Tse agreed in writing to provide or procure financial support to the Company and/or the Group commencing 3 October 2014 and until 31 December 2015, we have sufficient working capital for our present requirements, that is, for at least the next 12 months from the date of this Circular.

5. BUSINESS TREND AND FINANCIAL AND TRADING PROSPECTS

Accessories Business Line

In 2014, the "ARTINI" brand underwent certain packaging upgrade and brand restructuring, and re-positioned itself as a light luxurious trendy jewelry and clubhouse brand. The upgraded "ARTINI" brand employs more advanced and diversified materials and supplies. The overall design of "ARTINI" accessories, which comprises different sorts of environment-friendly alloys, silver, K gold, semiprecious stones and diamonds with more sophisticated and refined craftwork adopted, seeks to enhance the overall intrinsic value of the brand. In the first half of 2014, the Company grandly opened its first new store under the upgraded "ARTINI" brand image in Guiyang city of Guizhou province in the PRC. It is the Group's plan that certain highlighted well performing retail stores of the Group will be revamped to bring them up to the upgraded "ARTINI" brand image, while certain underperforming retail stores will be closed strategically in order to redeploy internal resources, streamline personnel structure and reduce expenditures, thereby lowering the Group's operating costs.

In future, the Group will concentrate its resources on its operations in Guangzhou, Shenzhen in the PRC and Hong Kong, strengthen channel expansion and initiate a new business model. The new business model will operate on an online-to-offline (O2O) model, which involves activating an e-commerce platform and closely integrating online and offline businesses. The O2O model provides information, services, and push the messages to Internet users, who in return will be converted into the customers of the offline business. The presence of the physical stores will continue to serve to provide customers with the pleasure of shopping and to promote the convenience of online sales. Through consistently adopting the customer relationship management plan and taking advantage of the popular social networking app “WeChat”, the new mode of communication, the Group manages to increase its connection and interaction with customers, thus attracting more customers to apply for membership and further enhancing their loyalty.

The Group operates a vertically-integrated business model encompassing (i) sales of merchandises and (ii) design and manufacture of fashion accessories. Under the CDM Business, the Group currently designs, procures raw materials, manufactures products for internationally renowned brands according to their specified designs, as well as coordinates the export and distribution of these products. Such internationally renowned brands include Marks & Spencer, Disney, Vivienne Westwood, HSE24, Nautica, Guess, Debenhams and Tchibo.

As disclosed in the 2014 annual report of the Company, the Group maintained its approach of income expansion and cost saving by means of reducing unnecessary expenditures and costs, and restructuring CDM business to consolidate and enhance its core capabilities and competitiveness. In view of reallocating resources to expand the existing accessories retailing business and retailing business for other types of products with higher growth potential, on 9 October 2014, the Disposal Agreement was entered into between Artist Star International Development Limited, a wholly-owned subsidiary of the Company, as vendor and Celestial Elite Investments Limited, a company wholly-owned by Mr. Tse, as purchaser in relation to the disposal of the entire issued share capital of TCK. TCK is an investment holding company which owns the entire equity interest of the WOFE, the manufacturing subsidiary of the Group. Upon the completion of the Disposal Agreement, the Group will continue to carry out CDM business while it will outsource the manufacturing process to independent contract manufacturers with more competitive price.

Looking ahead, the management will devote more efforts to achieve multi-channel development and apply various business models for both retail and CDM businesses.

The Group is committed to bring the upgraded “ARTINI” brand to a more high end and fashionable image by producing more refined quality fashionable accessories and to establish a unique tasteful “ARTINI Lifestyle” for Chinese ladies. A clubhouse concept “ARTINI TIME” will be launched to provide customers with a trendy platform which combines shopping, leisure and lifestyle. The Group will activate the full operation of e-commerce business model. The Group will employ multi-dimensional airborne to surface means to promote and market its products. Looking ahead, the operating environment of the Group is expected to remain challenging. Nevertheless, the Company is optimistic about the prospects of the long-term development of the PRC and the global economy, and is confident of the continued growth of the Group’s operation and business over the medium to long term.

New Business Line

As disclosed in the “Letter From the Board — (5) Reasons for the Open Offer and the Use of Proceeds”, the Group is currently discussing with certain distributors for potential distribution rights of both middle-end and high-end branded watches in Guangdong Province. The new product line is designed to capture the mid to upper-end market for business executives and professionals in the PRC. This new business line is expected to command a higher profit margin, and will help the Group further diversify its product and revenue base.

As disclosed in the annual report 2014 of the Company, the Group will continue to streamline our existing market and sale networks and conduct a detailed review on the current operation and business strategies of the Group, such as restructuring the Group’s manufacturing facilities to enhance the leading position of the Group and lay a solid foundation for future development. The Company considers the proposed disposal of the manufacturing operations of the Group and the introduction of the new business line are in line with the Group’s strategies to save costs while at the same time observe market opportunities with high potentials.

Additional Proceeds from the Recent Disposals

As mentioned in the announcement of the Company dated 9 October 2014, the Disposal Agreement was entered into between Artist Star International Development Limited as vendor and Celestial Elite Investments Limited as purchaser in relation to the disposal of the entire issued share capital of TCK at a consideration of HK\$16,257,000. The net proceeds of approximately HK\$15,257,000 (after deducting all relevant fees and expenses) will be used for general working capital of the Group. The Company intends to use the general working capital (i) as to approximately HK\$10 million for traditional offline marketing and advertising in order to facilitate the expansion of the retailing business of the Group; (ii) as to approximately HK\$3 million for professional training for salespersons to improve the service quality and royalty of the staff; and (iii) as to approximately HK\$2.3 million for other general operating expenses of the Group. Please refer to the announcement of the Company dated 9 October 2014 for further details of such disposal.

In addition, as mentioned in the announcement of the Company dated 14 October 2014, the Provisional Agreement I, the Provisional Agreement II and the Provisional Agreement III were entered into among three wholly-owned subsidiaries of the Group and independent third parties respectively to dispose of certain properties that are currently used as the headquarter office of the Group in Hong Kong. The Group was of the view that the disposals of the properties could realize the capital gain of the properties amid the continuous increase in property prices in Hong Kong. The proceeds of approximately HK\$44 million arising from the disposal of the properties will be used as general working capital of the Group and for future investment should such opportunities arise. The Company intends to use approximately HK\$40 million for acquiring a new office premises for the Group and the remaining approximately HK\$4 million for general working capital of the Group. Please refer to the announcement of the Company dated 14 October 2014 for further details of such disposals.

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF ADJUSTED NET TANGIBLE ASSETS OF THE GROUP

The unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to owners of the Company (the “Unaudited Pro Forma Financial Information”) has been prepared by the directors of the Company in accordance with Rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) to illustrate the effect of the Open Offer on the audited consolidated net tangible assets of the Group attributable to owners of the Company as at 31 March 2014 as if the Open Offer had taken place on 31 March 2014.

The Unaudited Pro Forma Financial Information is prepared based on the audited net assets of the Group attributable to owners of the Company as at 31 March 2014, as extracted from the published audited consolidated financial statements of the Company for the year ended 31 March 2014 and is adjusted for the effect of the Open Offer.

The Unaudited Pro Forma Financial Information has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not reflect a true picture of the consolidated net tangible assets of the Group attributable to owners of the Company immediately after completion of the Open Offer.

Audited consolidated net tangible assets of the Group attributable to owners of the Company as at 31 March 2014 <i>(Note 1)</i> <i>HK\$'000</i>	Estimated net proceeds from the Open Offer <i>(Note 2)</i> <i>HK\$'000</i>	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as adjusted for the Open Offer <i>HK\$'000</i>	Audited consolidated net tangible assets attributable to owners of the Company (before the completion of the Capital Reorganisation and Open Offer) per Existing Share <i>(Note 3)</i> <i>HK\$'000</i>	Unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Company as adjusted for the Open Offer per New Share <i>(Note 4)</i> <i>HK\$</i>
Based on 1,855,980,483 Offer Shares to be issued at Subscription Price of HK\$0.10 per Offer Share				
59,403	183,000	242,403	0.048	0.098

Notes:

1. The audited consolidated net tangible assets of the Group attributable to owners of the Company as at 31 March 2014 was approximately HK\$59,403,000 as disclosed in the published audited consolidated financial statements of the Company for the year ended 31 March 2014.
2. The Open Offer is conditional upon, among other things, the Capital Reorganisation which will involve:
 - (i) the proposed Share Consolidation whereby every two Existing Shares of 1,237,320,323 Existing Shares with nominal value of HK\$0.10 each in the issued and unissued share capital of the Company will be consolidated into one Consolidated Share of nominal value of HK\$0.20;

- (ii) the proposed Capital Reduction whereby the issued share capital of the Company will be reduced by the cancellation of (a) the paid-up capital of the Company to the extent of HK\$0.19 on each Consolidated Share such that the nominal value of each issued Consolidated Share will be reduced from HK\$0.20 to HK\$0.01, and (b) any fractional Consolidated Share in the issued share capital of the Company arising from the Share Consolidation;
- (iii) immediately following the Share Consolidation and the Capital Reduction, the proposed Share Subdivision whereby each authorised but unissued Consolidated Share of nominal value of HK\$0.20 each (including all those arising from the Capital Reduction) will be sub-divided into twenty New Shares of HK\$0.01 each; and
- (iv) the proposed Elimination of Accumulated Losses whereby the credit arising from the Capital Reduction will be transferred to the contributed surplus account of the Company, and the whole sum of which will be applied to set off against part of the accumulated losses of the Company.

Conditional upon the Capital Reorganisation becoming effective, the Company proposes to issue 1,855,980,483 Offer Shares at the subscription price of HK\$0.10 per Offer Share on the basis of three Offer Shares for every one New Share held on the Record Date and payable in full upon application.

In the event that the approval of the Capital Reorganisation cannot be obtained by the Company from the shareholders, the Open Offer will lapse.

The estimated net proceeds from the Open Offer of approximately HK\$183,000,000 is calculated based on 1,855,980,483 Offer Shares (the Company had 1,237,320,323 Existing Shares in issue on the Latest Practicable Date) on the basis of three Offer Shares for every one New Share held on the Latest Practicable Date at the Subscription Price of HK\$0.10 per Offer Share, after deduction of the estimated related expenses of approximately HK\$2,598,000.

- 3. The audited consolidated net tangible assets attributable to owners of the Company (before the completion of Capital Reorganisation and Open Offer) per Existing Share is calculated based on the audited consolidated net tangible assets of the Group attributable to owners of the Company as at 31 March 2014 of approximately HK\$59,403,000 and the 1,237,320,323 Existing Shares as at 31 March 2014 (before the completion of the Capital Reorganisation and the Open Offer).
- 4. The unaudited pro forma adjusted consolidated net tangible assets per New Share of the Company after the completion of the Open Offer is calculated based on 2,474,640,644 New Shares which represents the existing 618,660,161 New Shares in issue as at 31 March 2014 (after the completion of the Capital Reorganisation) and 1,855,980,483 Offer Shares assumed to be issued on the completion of the Open Offer as if the Open Offer had been completed on 31 March 2014.
- 5. As at 23 September 2014, there are Share Options outstanding entitling the holders thereof to subscribe for an aggregate of 108,000,000 Existing Shares. It is assumed that all the Optionholders will not exercise such Share Options from 19 September 2014 and up to the completion of the Open Offer.
- 6. No adjustments have been made to reflect any trading result or other transactions of the Group entered into subsequent to 31 March 2014, in particular, (i) the proposed major and connected transaction in relating to the disposal of the entire issued share capital of TCK Company Limited which was announced by the Company on 9 October 2014; and (ii) the disposals of certain properties of the Company under the Provisional Agreement I, Provisional Agreement II and Provisional Agreement III which were announced by the Company on 14 October 2014.

(B) ASSURANCE REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from the Company's reporting accountants, ZHONGLEI (HK) CPA Company Limited, Certified Public Accountants, Hong Kong, in respect of the Group's unaudited pro forma financial information for the purpose of incorporation in this Circular.

**INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FROMA FINANCIAL INFORMATION****TO THE DIRECTORS OF ARTINI CHINA CO., LTD**

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Artini China Co. Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group as at 31 March 2014 and related notes as set out on pages 74 and 75 of the circular issued by the Company dated 24 October 2014 (the "Circular"). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on pages 74 and 75 of the Circular.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed open offer of 1,855,980,483 offer shares with par value of HK\$0.01 each at the subscription price of HK\$0.10 per offer share on the basis of three offer shares for every one new share held on the record date (the "Open Offer") on the Group's financial position at 31 March 2014 as if the Open Offer had taken place at 31 March 2014. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's audited consolidated financial statements for the year ended 31 March 2014, on which an audited report has been published.

Directors' Responsibilities for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountant comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the unaudited pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

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

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 31 March 2014 would have been as presented.

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

- The related unaudited pro forma adjustments give appropriate effect to those criteria; and
- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

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

Opinion

In our opinion:

- (a) the unaudited pro forma financial information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

ZHONGLEI (HK) CPA Company Limited

Certified Public Accountants (Practising)

Li Man Choi

Practising Certificate Number: P03333

Suites 313–316, 3/F., Shui On Centre,
6–8 Harbour Road,
Wan Chai,
Hong Kong

24 October 2014

1. RESPONSIBILITY STATEMENT

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

2. SHARE CAPITAL

(a) Share capital

The authorised and issued capital of the Company as at the Latest Practicable Date was as follow:

Authorised:		<i>HK\$</i>
<u>3,000,000,000</u>	Shares	<u>300,000,000.00</u>
Fully paid Shares in issue:		<i>HK\$</i>
<u>1,237,320,323</u>	Shares in issue at the Latest Practicable Date	<u>123,732,032.30</u>

The authorised and issued capital of the Company assuming the Capital Reorganisation becomes effective and immediately following completion of the Open Offer:

Authorised:		<i>HK\$</i>
<u>30,000,000,000</u>	New Shares	<u>300,000,000.00</u>
Fully paid New Shares in issue or to be issued:		<i>HK\$</i>
618,660,161	New Shares in issue upon the Capital Reorganisation becoming effective	6,186,601.61
<u>1,855,980,483</u>	Offer Shares to be issued pursuant to the Open Offer	<u>18,559,804.83</u>
<u>2,474,640,644</u>	New Shares in issue immediately following the Open Offer	<u>24,746,406.44</u>

All of the New Shares, when allotted and issued, shall rank *pari passu* in all respects with each other, including in particular as to dividends, voting rights and capital.

The Offer Shares will, when allotted, issued and fully-paid, rank *pari passu* in all respects with the then existing New Shares in issue including the right to receive all future dividends and distributions which are declared, made or paid on or after the date of issue and allotment of the fully-paid Offer Shares.

The Shares are listed on the Stock Exchange. No part of the share capital or any other securities of the Company is listed or dealt in on any stock exchange other than the Stock Exchange and no application is being made or is currently proposed or sought for the Shares or any other securities of the Company to be listed or dealt in on any other stock exchange.

(b) Share Option Scheme

The Company has adopted the Share Option Scheme on 23 April 2008. The purpose of the Share Option Scheme is to reward participants who have contributed to the Group and to encourage participants to work towards enhancing value of the Company and the shares for the benefit of the Company and the Shareholders as a whole. Participants under the Share Option Scheme included Directors and employees of the Group and any advisors, consultants, distributors, contractors, suppliers, agents, customers, business partners, joint venture business partners, promoters and service providers of any member of the Group.

As at the Latest Practicable Date, there were outstanding 108,000,000 Share Options conferring rights on the holders thereof to subscribe for up to 108,000,000 Shares which are vested and exercisable at HK\$0.2618 per Share (subject to adjustment, if any) during an exercise period from 28 March 2014 to 27 March 2019.

3. DISCLOSURE OF INTERESTS

(a) Disclosure of Interests of Directors

As at the Latest Practicable Date, the interests or short positions of the Directors and chief executive 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 to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any such Director or the chief executive of the Company were taken or deemed to have under such provisions of the SFO); or which were required to be recorded in the register maintained by the Company, pursuant to Section 352 of the SFO; or which were required to be notified to the Company and the Stock Exchange, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules:

Name of Directors	Long position/ Short position	Capacity	Number of issued ordinary shares held/involved	Approximate percentage
Mr. Tse	Long Position	Beneficial Owner and Interested in controlled corporation	1,112,091,988 (Note 1)	44.83% (Note 2)
Mr. Lin Shao Hua	Long Position	Beneficial Owner	12,000,000 (Note 3)	0.97% (Note 4)

Notes:

- As at the Latest Practicable Date, Mr. Tse was interested in 542,633,994 Shares held by Walifax Investments, which is wholly and beneficially owned by Mr. Tse, and had personal interests in 7,412,000 Shares. Therefore, Mr. Tse will be interested in 275,022,997 Shares upon the completion of the Capital Reorganisation. Pursuant to the Underwriting Agreement, Mr. Tse and Walifax Investments have undertaken to take up 825,068,991 Offer Shares that will be allotted to them respectively as the holder of such New Shares under the Open Offer, Mr. Tse therefore will be interested in 1,100,091,988 Shares upon the completion of the Open Offer. Together with the 12,000,000 Share Options (which he has undertaken not to exercise from the date of the Underwriting Agreement and up to the completion of the Open Offer), Mr. Tse is interested in 1,112,091,988 Shares.
- The percentage of shareholding in the Company is calculated with reference to the number of Shares to be in issue immediately after completion of the Open Offer assuming no issue or repurchases of new Shares on or before the Record Date.
- Mr. Lin Shao Hua, the executive Director, was also granted 12,000,000 Share Options by the Company entitling him to subscribe for 12,000,000 Shares under the Share Option Scheme. Mr. Lin Shao Hua has also undertaken to the Company that he will not exercise such Share Options from the date of the Underwriting Agreement and up to the completion of the Open Offer.

4. The percentage of shareholding in the Company is calculated with reference to the number of Shares in issue as at the Latest Practicable Date.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any other Director who was a director or employee of a company which had an interest in the Shares and underlying Shares which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO.

(a) Disclosure of Interests of Substantial Shareholders

As at the Latest Practicable Date, according to the register kept by the Company pursuant to Section 336 of the SFO, and so far as is known to the Directors, the persons or entities who had an interest or a short position in Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of the Company or of any other company which is a member of the Group, or in any options in respect of such share capital are as follows:

Name of shareholder	Capacity	Number of issued ordinary shares held/involved	Approximate percentage
Walifax Investments (<i>Note 1</i>)	Beneficial owner	542,633,944	43.86%
Shanghai International Group Co., Ltd.	Beneficial owner	1,030,911,492	41.66% (<i>Note 3</i>)
Guotai Junan Securities Co., Ltd. (<i>Note 2</i>)	Interested in controlled corporation	1,030,911,492	41.66% (<i>Note 3</i>)
Guotai Junan Financial Holdings Limited (<i>Note 2</i>)	Interested in controlled corporation	1,030,911,492	41.66% (<i>Note 3</i>)
Guotai Junan Holdings Limited (<i>Note 2</i>)	Interested in controlled corporation	1,030,911,492	41.66% (<i>Note 3</i>)
Guotai Junan International Holdings Limited (<i>Note 2</i>)	Interested in controlled corporation	1,030,911,492	41.66% (<i>Note 3</i>)
Guotai Junan (Hong Kong) Limited (<i>Note 2</i>)	Interested in controlled corporation	1,030,911,492	41.66% (<i>Note 3</i>)
Guotai Junan Securities (Hong Kong) Limited (<i>Note 2</i>)	Interested in controlled corporation	1,030,911,492	41.66% (<i>Note 3</i>)

Notes:

1. Walifax Investments is wholly and beneficially owned by Mr. Tse.
2.
 - (i) Guotai Junan Securities (Hong Kong) Limited is wholly owned by Guotai Junan (Hong Kong) Limited which in turn is a wholly-owned subsidiary of Guotai Junan International Holdings Limited;
 - (ii) Guotai Junan Holdings Limited holds 66.22% interests of Guotai Junan International Holdings Limited;
 - (iii) Guotai Junan Holdings Limited is wholly owned by Guotai Junan Financial Holdings Limited which in turn is a wholly-owned subsidiary of Guotai Junan Securities Co., Ltd.;
 - (iv) Guotai Junan Securities Co., Ltd. is a controlled corporation of Shanghai International Group Co., Ltd.; and
 - (v) accordingly, Guotai Junan (Hong Kong) Limited, Guotai Junan International Holdings Limited, Guotai Junan Holdings Limited, Guotai Junan Financial Holdings Limited, Guotai Junan Securities Co., Ltd and Shanghai International Group Co., Ltd are deemed to have the same interest in the shares of the Company as Guotai Junan Securities (Hong Kong) Limited by virtue of the Underwriting Agreement.
3. The percentage of shareholding in the Company is calculated with reference to the number of Shares to be issue immediately after completion of the Open Offer assuming no issues or repurchases of new Shares on or before the Record Date.

Save as disclosed herein and so far as is known to the Directors, as at the Latest Practicable Date, no person had an interest or a short position in Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO and no person was, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of the Company, or of any other member of the Group, or in any options in respect of such share capital.

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group which does not expire or is not terminable by such member of the Group within one year without payment of compensation (other than statutory compensation).

5. DIRECTORS' INTERESTS IN CONTRACTS AND ASSETS

As at the Latest Practicable Date, save for the Underwriting Agreement and the Disposal Agreement in which Mr. Tse has material interest, there was no contract or arrangement subsisting in which any Director was materially interested and which was significant in relation to the business of the Group.

As at the Latest Practicable Date, save for the Disposal Agreement in which Mr. Tse has material interest, none of the Directors had any direct or indirect interest in any assets which have been, since 31 March 2014 (being the date to which the latest published audited accounts of the Group were made up), (i) acquired or disposed of by; or (ii) leased to; or (iii) proposed to be acquired or disposed of by; or (iv) proposed to be leased to, any member of the Group.

6. LITIGATION

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

7. EXPERT AND CONSENT

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

Name	Qualification
ZHONGLEI (HK) CPA Company Limited	Certified Public Accountants
Celestial Capital Limited	a licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the Securities and Future Ordinance (Chapter 571 of the Laws of Hong Kong)

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and report (as the case may be) and references to its name, in the form and context in which they appear.

As at the Latest Practicable Date, each of the above experts:

- (a) was not beneficially interested in the share capital of any member of the Group;
- (b) did not have any direct or indirect shareholding in any member of the Group or any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for any securities in any member of the Group; and
- (c) did not have any direct or indirect interest in any assets which have been since 31 March 2014 (the date to which the latest published audited consolidated accounts of the Group were made up), acquired or disposed of by, or leased to any member of the Group, or are proposed to be acquired or disposed of by, or leased to any member of the Group.

8. EXPENSES

The expenses in connection with the Open Offer, including financial advisory fees, underwriting commission, printing, registration, translation, legal and accountancy charges are estimated to be approximately HK\$2.6 million, which are payable by the Company.

9. MATERIAL CONTRACT

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

- (i) the Underwriting Agreement;
- (ii) the Disposal Agreement;
- (iii) the Provisional Agreement I;
- (iv) the Provisional Agreement II; and
- (v) the Provisional Agreement III.

10. CORPORATE INFORMATION OF THE COMPANY AND PARTIES INVOLVED IN THE OPEN OFFER**Board of Directors****Executive Directors**

Mr. Tse Hoi Chau
Flat B1, 1st Floor
Kaiser Estate, Phase 1
41 Man Yue Street
Hung Hom
Hong Kong

Mr. Lin Shao Hua
Flat B1, 1st Floor
Kaiser Estate, Phase 1
41 Man Yue Street
Hung Hom
Hong Kong

Independent non-executive Directors

Mr. Lau Fai Lawrence
Flat B1, 1st Floor
Kaiser Estate, Phase 1
41 Man Yue Street
Hung Hom
Hong Kong

Mr. Lau Yiu Kit
Flat B1, 1st Floor
Kaiser Estate, Phase 1
41 Man Yue Street
Hung Hom
Hong Kong

Mr. Zeng Zhaohui
Flat B1, 1st Floor
Kaiser Estate, Phase 1
41 Man Yue Street
Hung Hom
Hong Kong

Senior Management:

Ms. Ho Wing Yan
Flat B1, 1st Floor
Kaiser Estate, Phase 1
41 Man Yue Street
Hung Hom
Hong Kong

Authorised representatives	Mr. Tse Hoi Chau Ms. Ho Wing Yan
Company secretary	Ms. Ho Wing Yan (<i>ACIS, ACS(PE)</i>)
Registered office	Clarendon House 2 Church Street Hamilton HM 11 Bermuda
Principal place of business	Flat B1, 1st Floor Kaiser Estate, Phase 1 41 Man Yue Street Hung Hom Hong Kong
Principal share registrar and transfer office	MUFG Fund Services (Bermuda) Limited The Belvedere Building 69 Pitts Bay Road Pembroke Hm08
Hong Kong branch share registrar and transfer office	Union Registrars Limited 18/F, Fook Lee Commercial Centre Town Place, 33 Lockhart Road Wanchai, Hong Kong
Principal bankers	Hang Seng Bank 83 Des Voeux Road Central Central Hong Kong The Hongkong and Shanghai Banking Corporation Limited 1 Queen's Road Central Hong Kong
Underwriter	Guotai Junan Securities (Hong Kong) Limited 27th Floor, Low Block Grand Millennium Plaza 181 Queen's Road Central Hong Kong

Legal advisers as to the Open Offer	as to Hong Kong law Minter Ellison Level 25, One Pacific Place 88 Queensway Hong Kong
	as to Bermuda law Conyers Dill & Pearman 2901 One Exchange Square 8 Connaught Place Central Hong Kong
Independent financial adviser to the Independent Board Committee established in relation to the Open Offer	Celestial Capital Limited 21/F, Low Block Grand Millennium Plaza 181 Queen's Road Central Hong Kong
Auditor	Zhonglei (HK) CPA Company Limited Suites 313–316, 3/F Shui On Centre 6-8 Harbour Road Wanchai Hong Kong

11. PARTICULARS OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. TSE Hoi Chau, aged 48, was appointed as the Chairman, an executive Director and a member of the remuneration committee and the nomination committee of the Company on 1 December 2010 and was further appointed as chief executive of the Company on 21 June 2013. He possesses more than 20 years' experience in the fashion ornament and jewelry wholesale industry. He also has experience in property investment, mineral exploration and mineral trade and sales. He is currently the executive chairman of the China Jewelry Association Fashion Ornament Chapter, a member of the Standing Committee of the People's Political Consultative Conference of Shanwei City, Guangdong Province, a committee member of the People's Political Consultative Conference of Liwan District, Guangzhou City, Guangdong Province, the deputy-chairman of the Gems & Jewelry Trade Association of China, the deputy-chairman of the Confederation of Chinese Commerce and Industry Gift-industry Chamber of Commerce, and the deputy-chairman of the Guangdong Chamber of Private Enterprise. Mr. Tse is the sole director of Walifax Investments Limited which, as at the Latest Practicable Date, was interested in 542,633,994 Shares of the Company, representing approximately 43.86% of the issued share capital of the Company. Mr. Tse had also a personal interest in 7,412,000 Shares and 12,000,000 Share Options granted to him by the Company on 28 March 2014 under the Share Option Scheme, representing approximately 1.56% of the issued share capital of the Company. Mr. Tse is the brother-in-law of Mr. Lin Shao Hua, executive Director.

Mr. LIN Shao Hua, aged 55, was appointed as an executive Director on 28 June 2013. He has 23 years of experience in factory management and product development. He has worked at Artist Empire (Hai Feng) Jewellery Mfy. Limited, a wholly-owned subsidiary of the Company, as the general manager since 1991, responsible for the overall management and business development of Artist Empire (Hai Feng) Jewellery Mfy. Limited. He is currently a member of the Hai Feng County Committee of the Chinese People's Political Consultative Conference (海豐縣政協委員). Mr. Lin was an executive director of the Company from 17 July 2009 to 31 October 2011. Mr. Lin is the brother in-law of Mr. Tse, the chairman of the Company. Mr. Lin is interested in 12,000,000 Share Options granted to him by the Company on 28 March 2014 under the Share Option Scheme, representing approximately 0.97% of the issued share capital of the Company.

Independent Non-executive Directors

Mr. LAU Fai Lawrence, aged 43, was appointed as independent non-executive Director on 23 April 2008. He is also the chairman of the audit committee and the nomination committee, and a member of the remuneration committee of the Company. Mr. Lau has extensive experience in accounting, corporate finance and auditing. He is a practising certified public accountant in Hong Kong and is currently the Company Secretary of BBMG Corporation which is listed on the main board of the Stock Exchange. Before joining BBMG Corporation, he was the Group Financial Controller of Founder Holdings Limited and EC-Founder (Holdings) Company Limited, both of which are listed on the main board of the Stock Exchange. Mr. Lau has previously worked in Price Waterhouse Company Limited (now known as PricewaterhouseCoopers) as an accountant from 1994 to 1998. Mr. Lau is a member of the Hong Kong Institute of Certified Public Accountants, a member of the Institute of Chartered Accountant in England and Wales and a fellow member of the Association of Chartered Certified Accountants in the UK. Mr. Lau graduated from The University of Hong Kong with a bachelor's degree in Business Administration and obtained a Master of Corporate Finance degree from The Hong Kong Polytechnic University. Mr. Lau has also been an executive director of China Packaging Group Company Limited (Stock code: 572) since January 2014 and an independent non-executive director of Titan Petrochemicals Group Limited (Stock code: 1192) since March 2014, both of which are listed on the Stock Exchange.

Mr. LAU Yiu Kit, aged 55, was appointed as independent non-executive Director on 1 December 2010. He is also a member of the audit committee, the remuneration committee and the nomination committee of the Company. Mr. Lau is the sole proprietor and founder of Albert Y.K. Lau & Co., Certified Public Accountants. He is a member of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants, the Institute of Chartered Accountants in England and Wales and the Taxation Institute of Hong Kong.

Mr. ZENG Zhaohui, aged 44, was appointed as independent non-executive Directors on 1 October 2014. He is also the chairman of remuneration committee, a member of the audit committee and nomination committee of the Company. He is a practicing lawyer in China, and has practiced for 20 years since 1994. He graduated from Zhongshan University. He worked at the People's Court of Shanwei City of China in 1991, qualified as a lawyer in 1992, and has practiced as a certified lawyer since 1994. Mr. Zeng was a member of the Committee of the People's Political Consultative Conference of Shanwei City, the Chief Member of the Real Estate Legal Profession Committee of the Guangdong Lawyers Association and a torchbearer of the 16th Asian Games of Guangzhou. He is currently the Chief Lawyer of Guangdong Right Word Law Firm.

Senior Management

Ms. HO Wing Yan, aged 33, was appointed as Company Secretary on 3 December 2013. She has 10 years of experience in serving as company secretary of Hong Kong companies and providing company secretary services to companies listed on the Stock Exchange. She is an associate member of both The Hong Kong Institute of Chartered Secretaries (“HKICS”) and The Institute of Chartered Secretaries and Administrators. She is also a holder of the Practitioner’s Endorsement issued by HKICS.

Save as disclosed in this appendix, as at the Latest Practicable Date, none of the Directors nor the senior management of the Company (i) hold any directorships in other listed company in the last three years; (ii) have any other major appointments and professional qualifications; (iii) hold any other position with the Company or other members of the Group; and (iv) have any relationship with any other Directors, senior management, substantial or controlling Shareholders.

12. MISCELLANEOUS

- (a) The Hong Kong branch share registrar and transfer office is Union Registrars Limited at 18/F, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road Wanchai, Hong Kong.
- (b) Save as disclosed herein,
 - (i) no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option; and
 - (ii) no founder shares, management shares or deferred shares or debentures of the Company or any of its subsidiaries have been issued or agreed to be issued.
- (c) As at the Latest Practicable Date, there was no restriction affecting the remittance of profits or repatriation of capital of the Company into Hong Kong from outside of Hong Kong.
- (d) All references to times and dates in this circular refer to Hong Kong times and dates.
- (e) This circular is in both English and Chinese. In the event of inconsistency, the English text shall prevail over the Chinese text.

13. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of the Company at Flat B1, 1st Floor, Kaiser Estate, Phase 1, 41 Man Yue Street, Hunghom, Kowloon, Hong Kong during normal business hours on any business day from the date of this circular up to 14 days thereafter:

- (a) the memorandum of association and bye-laws of the Company;
- (b) the annual reports of the Company for each of the two financial years ended 31 March 2013 and 2014;
- (c) the independent reporting accountant's assurance report on the compilation of unaudited pro forma financial information of the Group issued by ZHONGLEI (HK) CPA Company Limited, the text of which is set out in appendix II to this circular;
- (d) the consent letter issued by ZHONGLEI (HK) CPA Company Limited and Celestial Capital Limited referred to in the paragraph headed "Expert and Consent" in this appendix;
- (e) a copy of each of the material contracts referred to in the paragraph headed "Material Contracts" in this appendix;
- (f) the letter of advice from Celestial Capital Limited, the text of which is set out on pages 38 to 68; and
- (g) the letter of recommendation from the Independent Board Committee to the Independent Shareholders, the text of which is set out on page 37.

ARTINI
ARTINI CHINA CO. LTD.

雅天妮中國有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 789)

NOTICE IS HEREBY GIVEN that a special general meeting of Artini China Co. Ltd. (“Company”) will be held at 10:00 a.m. on Monday, 17 November 2014 at Flat B1, 1st Floor, Kaiser Estate, Phase 1, 41 Man Yue Street, Hunghom, Kowloon, Hong Kong for the purpose of considering, if thought fit, passing the following resolutions (with or without amendments):

SPECIAL RESOLUTION

1. **“THAT** subject to and conditional upon, (i) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the New Shares (as defined below) (in issue and to be issued by the Company pursuant to the share option scheme) upon the Capital Reorganisation (as defined below) becoming effective; and (ii) compliance with the relevant procedures and requirements under the laws of Bermuda and the Listing Rules to effect the Capital Reorganisation (as defined below), with effect from 9:00 a.m. on Tuesday, 18 November 2014 (Hong Kong time) or such time or such other date and/or time as the directors of the Company may determine:
 - (a) every two (2) existing issued and unissued ordinary shares of par value HK\$0.10 each in the share capital of the Company be consolidated into one (1) ordinary share of par value HK\$0.20 (the “Consolidated Share(s)”) (the “Share Consolidation”);
 - (b) the issued share capital of the Company be reduced by the cancellation of (i) the paid-up capital of the Company to the extent of HK\$0.19 on each Consolidated Share such that the nominal value of each issued Consolidated Share will be reduced from HK\$0.20 to HK\$0.01, and (ii) any fractional Consolidated Share in the issued share capital of the Company arising from the Share Consolidation (the “Capital Reduction”);
 - (c) each authorised but unissued Consolidated Share of nominal value of HK\$0.20 (including all those arising from the Capital Reduction) be subdivided into twenty (20) ordinary shares of par value of HK\$0.01 each (the “New Share(s)”) (the “Share Subdivision”);
 - (d) the credit arising from the Capital Reduction be transferred to the contributed surplus account of the Company;

NOTICE OF SGM

- (e) the directors of the Company (the “Directors”) be and are hereby authorised to apply all or any amount from time to time standing to the credit of the contributed surplus account of the Company to set off the accumulated losses of the Company (the “Elimination of Accumulated Losses”); and
- (f) the Directors be and are hereby authorised generally to do all such acts, deeds and things and to sign all documents as he/she may, in his/her absolute discretion deem necessary, desirable or appropriate to give effect and implement the Capital Reorganisation.”

For the purpose of the Resolution No.1 above, “Capital Reorganisation” means the proposed reorganisation of the capital of the Company by way of the (i) Share Consolidation, (ii) the Capital Reduction, (iii) the Share Subdivision and (iv) the Elimination of Accumulated Losses.

ORDINARY RESOLUTION

- 2. **“THAT** subject to the fulfillment of the conditions set out in the Underwriting Agreement (as defined below):
 - (a) the allotment and issue of 1,855,980,483 New Shares (as defined in Resolution No 1 above) in the share capital of the Company (the “Offer Shares”) by way of open offer (the “Open Offer”) at the subscription price of HK\$0.10 per Offer Share to the qualifying holders of the Shares (the “Qualifying Shareholders”) of the Company whose names appear on the register of members of the Company on Tuesday, 25 November 2014 (or such later date as the Company and the Underwriter (as defined below) may agree to be the record date for such Open Offer) (the “Record Date”) other than those Shareholders with addresses on the Record Date are outside Hong Kong whom the Directors, after making relevant enquiry, consider their exclusion from the Open Offer to be necessary or expedient on account either of the legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place (the “Excluded Shareholders”) on the basis of three (3) Offer Shares for every one (1) New Share held on the Record Date, as described in further details in the circular and on and subject to such terms and conditions as may be determined by the Directors and otherwise pursuant to and subject to the fulfillment of the conditions set out in the underwriting agreement dated 19 September 2014 (the “Underwriting Agreement” including all supplemental agreements(s) relating thereto, if any) (a copy of which has been produced to this meeting marked “A” and signed by the chairman of this meeting for the purpose of identification) and made between, among others, the Company and Guotai Junan Securities (Hong Kong) Limited as underwriter (the “Underwriter”), and the transactions contemplated thereunder, be and are hereby approved;

NOTICE OF SGM

- (b) the directors of the Company (the “Directors”) be and are hereby authorised to allot and issue the Offer Shares pursuant to or in connection with the Open Offer notwithstanding that the same may be offered, allotted or issued otherwise than pro rata to the Qualifying Shareholders and, in particular, the Directors may make such exclusions or other arrangements in relation to Excluded Shareholders as they deem necessary or expedient having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory outside Hong Kong;
- (c) the entering into of the Underwriting Agreement by the Company be and is hereby approved, confirmed and ratified and the performance of the transactions contemplated thereunder by the Company (including but not limited to the arrangements for taking up of the underwritten Offer Shares, if any, by the Underwriter) be and is hereby approved;
- (d) the arrangements for application for Offer Shares by the Qualifying Shareholders in excess of their entitlements under the Open Offer be and are hereby approved, confirmed and ratified; and
- (e) the Directors be and are hereby authorised to sign and execute such documents and do all such acts and things incidental to the Open Offer as he considers necessary, desirable or expedient in connection with the implementation of or giving effect to the Open Offer, the Underwriting Agreement and the transactions contemplated thereunder or in this resolution.”

By Order of the Board
Tse Hoi Chau
Chairman

Hong Kong, 24 October 2014

Executive Directors

Mr. Tse Hoi Chau (*Chairman & Chief Executive*)

Mr. Lin Shao Hua

Independent non-executive Directors

Mr. Lau Fai Lawrence

Mr. Lau Yiu Kit

Mr. Zeng Zhaohui

NOTICE OF SGM

Notes:

- (1). A form of proxy for the meeting is enclosed.
- (2). Any member of the Company entitled to attend and vote at the meeting shall be entitled to appoint another person as his/her/its proxy to attend and vote instead of him/her/it. A member who is the holder of two or more shares may appoint more than one proxy to represent him/her/it and vote on his/her/its behalf at a general meeting of the Company. A proxy need not be a member. In addition, a proxy representing either a member who is an individual or a member which is a corporation shall be entitled to exercise the same powers on behalf of the member which he/she/it represents as such member could exercise.
- (3). The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under its seal or under the hand of an officer, attorney or other person duly authorised to sign the same.
- (4). The instrument appointing a proxy and (if required by the board of directors of the Company) the power of attorney or other authority (if any), under which it is signed or a certified copy of such power or authority shall be delivered to the Company's branch share registrar in Hong Kong, Union Registrars Limited, located at 18/F., Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the meeting at which the person named in the instrument proposes to vote.
- (5). Delivery of an instrument appointing a proxy shall not preclude a member from attending and voting in person at the meeting convened.
- (6). Where there are joint holders of any Share, any one of such joint holder may vote either in person or by proxy in respect of such Share as if he/she/it was solely entitled thereto; but if more than one of such joint holders be present at any meeting, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members in respect of the joint holding.