17 August 2016

*To the Shareholders*

Dear Sir or Madam,

# (1) MAJOR TRANSACTION RELATING TO THE ACQUISITION OF ENTIRE INTEREST IN THE TARGET COMPANY; (2) CONNECTED TRANSACTION RELATING TO THE SUBSCRIPTION FOR NEW SHARES BY A CONTROLLING SHAREHOLDER; (3) APPLICATION FOR WHITEWASH WAIVER; AND (4) NOTICE OF SPECIAL GENERAL MEETING

## I. INTRODUCTION

Reference is made to the Announcement. On 13 April 2016 (after trading hours), the Purchaser, the Vendors and the Guarantor entered into the Acquisition Agreement, pursuant to which the Purchaser has conditionally agreed to purchase, and the Vendors have conditionally agreed to sell the Sale Shares (representing all the issued shares of the Target Company) for an aggregate consideration of HK$160 million, which will be satisfied in cash from the net proceeds of the Subscription. The Vendors and Mr. Zhuang are Independent Third Parties and as at the Latest Practicable Date, did not hold any Shares.

In addition, on 13 April 2016 (after trading hours), the Subscriber entered into the Subscription Agreement with the Company pursuant to which the Subscriber has conditionally agreed to subscribe for, in cash, and the Company has conditionally agreed to allot and issue a total of 2,440,000,000 Subscription Shares at the price of HK$0.074 per Subscription Share.

Assuming there is no change in the share capital of the Company other than the issue of the Subscription Shares since the date of the Subscription Agreement up to completion of the Subscription, the 2,440,000,000 Subscription Shares represent (i) approximately 94.95% of all the issued shares of the Company as at the Latest Practicable Date; and (ii) approximately 48.70% of all the issued shares of the Company as enlarged by the allotment and issue of the Subscription Shares.

As one or more of the applicable percentage ratios calculated under Rule 14.07 of the Listing Rules exceeds 25% but is less than 100%, the Acquisition constitutes a major transaction of the Company under Chapter 14 of the Listing Rules and is subject to the approval of the Independent Shareholders at the SGM. In addition, given the Acquisition and the Subscription are inter-conditional, the Company voluntarily complies with the reporting, announcement and Independent Shareholders' approval requirements in respect of the Acquisition under Chapter 14A of the Listing Rules.

Since the Subscriber is a controlling shareholder of the Company and is therefore a connected person of the Company. Accordingly, the Subscription constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules and is subject to the approval of the Independent Shareholders by way of poll at the SGM.

Given the Subscriber is beneficially wholly-owned by Mr. Tse and the Acquisition and the Subscription are inter-conditional, Mr. Tse, the Subscriber, their respective associates and parties acting in concert with any of them, which together are interested in 1,100,091,988 Shares, representing approximately 42.81% of the issued share capital of the Company as at the Latest Practicable Date, will abstain from voting in respect of the resolution(s) approving the Acquisition, the Subscription (including the grant of a specific mandate for the issuance of new Shares pursuant to the Subscription) and the Whitewash Waiver at the SGM. As at the Latest Practicable Date, to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, save for the 1,100,091,988 Shares that Mr. Tse, the Subscriber, their respective associates and parties acting in concert with any of them are interested in, no other Shareholder will be required to abstain from voting at the SGM in respect of the resolution(s) approving the Acquisition, the Subscription (including the grant of a specific mandate for the issuance of new Shares pursuant to the Subscription) and the Whitewash Waiver at the SGM.

As at the Latest Practicable Date, the Subscriber held 1,085,267,988 Shares, representing approximately 42.23% of the voting rights of the Company. Upon completion of the Subscription, 2,440,000,000 Subscription Shares will be issued to the Subscriber, and the interests of the Concert Group in the voting rights of the Company will be increased from approximately 42.81% to approximately 70.66% (assuming that no additional Shares other than the Subscription Shares will be issued since the date of the Subscription Agreement up to completion of the Subscription). Accordingly, the Concert Group, in the absence of the Whitewash Waiver, would be obliged to make a general offer under Rule 26 of the Takeovers Code for all the securities of the Company not already owned or agreed to be acquired by them.

An application to the Executive for the Whitewash Waiver has been made by the Subscriber. The Executive has agreed, subject to the approval of the Independent Shareholders at the SGM by way of poll and such other condition(s) as may be imposed by the Executive, to grant the Whitewash Waiver. The Subscriber and parties acting in concert with it, and any other Shareholders who are involved or interested in the Acquisition, Subscription and/or the Whitewash Waiver shall abstain from voting at the SGM in respect of the resolution approving the Subscription Agreement and the transactions contemplated thereunder and the Whitewash Waiver. If the Executive does not grant the Whitewash Waiver, neither the Acquisition nor the Subscription will proceed.

The purpose of this circular is to provide you, among other things, (i) further details of the Acquisition Agreement; the Subscription Agreement and the Whitewash Waiver; (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders in respect of the Acquisition Agreement and the transactions contemplated thereunder, the Subscription Agreement and the transactions contemplated thereunder as well as the Whitewash Waiver and as to voting at the SGM; (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Acquisition Agreement and the transactions contemplated thereunder, the Subscription Agreement and the transactions contemplated thereunder and the Whitewash Waiver; (iv) a notice of the SGM; and (v) other information as required under the Listing Rules and the Takeovers Code, for the purpose of the SGM.

## II. ACQUISITION

### 1. Principal Terms of the Acquisition Agreement

*Date:*

13 April 2016 (after trading hours)

*Parties:*

| | |
|---|---|
| Purchaser: | Artini Sales Company Limited |
| Vendors: | (1) Stand Charm; and |
| | (2) Dragon Max |
| | The principal business of each Vendor is investment holding. |
| Guarantor: | Mr. Zhuang, as guarantor of the Vendors' obligations under the Acquisition Agreement |

Mr. Zhuang is the sole director and ultimate legal and beneficial owner of each Vendor. The Vendors and Mr. Zhuang are Independent Third Parties and as at the Latest Practicable Date, did not hold any Shares.

*Assets being acquired:*

The Sale Shares, representing all the issued shares of the Target Company.

Upon completion of the Acquisition, the Target Company will become a wholly-owned subsidiary of the Company.

*Consideration of the Acquisition Agreement*

The consideration for the Acquisition under the Acquisition Agreement is HK$160 million in total and all payments will be apportioned between Stand Charm and Dragon Max as to 94% and 6% respectively, proportionate to their respective shareholding in the Target Company. The consideration is payable to a designated account of the Vendors in three installments as follows:

(i) HK$100 million within 14 days of completion of Subscription;

(ii) HK$30 million within 14 days after completion and an agreement being reached between the Purchaser and the Vendors on the Target Company's June 2016 Accounts and provided that the profit after tax attributable to shareholders based on such unaudited management accounts is not less than HK$5 million; and

(iii) HK$30 million within 14 days after completion and an agreement being reached between the Purchaser and the Vendors on the Target Company's December 2016 Accounts and provided that the profit after tax attributable to shareholders is not less than HK$11 million.

For the avoidance of doubt:

(i) the second installment of the consideration for the Acquisition will only be payable when (a) the Target Company's June 2016 Accounts is available and has been agreed upon by the Purchaser and the Vendors; and (b) the profit after tax attributable to the shareholders of the Target Company as set out in the Target Company's June 2016 Accounts is not less than HK$5 million. As at the Latest Practicable Date, the Vendors had prepared the Target Company's June 2016 Accounts, the contents of which were still pending agreement by the Company for the purpose of the Acquisition Agreement; and

(ii) the third installment of the consideration for the Acquisition will only be payable when (a) the Target Company's December 2016 Accounts is available and has been agreed upon by the Purchaser and the Vendors; and (b) the profit after tax attributable to shareholders of the Target Company as set out in the Target Company's December 2016 Accounts is not less than HK$11 million.

Further updates in respect of the determination of the consideration under the Acquisition Agreement will be disclosed by the Company by way of an announcement and disclosure in its annual report.

The consideration for the Acquisition was arrived at based on normal commercial terms after arm's length negotiation between the Purchaser and the Vendors with reference to, among the other things, (i) the historical financial performance of the Target Company; (ii) the growth and development potential and prospect of the Target Company, having considered the fact that the Target Company (a) was making profit for the year ended 31 December 2015 and the three months ended 31 March 2016; (b) has stable monthly maintenance income from software maintenance contracts which are renewable annually; and (c) has the resources to develop software related application that is compatible with smart accessories; (iii) the anticipated synergy to be created for the Group's existing business after completion of the Acquisition, such as enhancement on the platform for the Group's existing online sales, obtaining a better understanding on the customer's needs between both sides in our retail and internet sales and further development on smart jewellery accessories; and (iv) the historical price-to-earnings ratio of selected comparable companies ("**Comparable Companies**") that (i) are currently listed on the Main Board of the Stock Exchange; and (ii) are principally engaged in software related application business in Hong Kong and the PRC.

Given the fact that (i) at 12 April 2016, the historical price-to-earning ratio of Comparable Companies mentioned above in 2015 ranged from approximately 4.6 times to 53.1 times, with the average of approximately 28.0 times; (ii) the Target Group's business is expected to bring synergy with the Group's existing business after completion of the Acquisition as the Company intends to develop its internet retail business with the Target Company with a view to improving the sale of the Group's products and in turn the profitability and the competitiveness of the Group, which are essential for the sustainable development of the Group in the long run; and (iii) the Target Company was making profit for the year ended 31 March 2016 and able to maintain stable monthly maintenance income by (a) successfully renewing software maintenance contracts with four customers in January 2016; and (b) signing software maintenance contract with a new customer in May 2016 with a contract sum of HK$3 million for the year 2016 and subject to renewal in January 2017, the Directors (excluding independent non-executive Directors) are of the view that the implied price-to-earning ratio of approximately 19.8 times and 43.2 times based on the net profit of the Target Company for the year ended 31 December 2015 and the three month ended 31 March 2016 respectively, are fair and reasonable.

*Conditions precedent to the completion of the Acquisition:*

Completion of the Acquisition is conditional upon, among other things, upon the fulfillment of the following conditions precedent:

(i) the Whitewash Waiver being granted by the Executive;

(ii) all the conditions precedent under the Subscription Agreement (except the satisfaction of conditions precedent under the Acquisition Agreement) having been satisfied (including, among other things, the approval by the Independent Shareholders of the Acquisition Agreement and the transactions contemplated thereunder);

(iii) each key employee of the Target Company (including Mr. Zhuang) as specified in the Acquisition Agreement (none of whom was a Shareholder as at the Latest Practicable Date) having signed an employment contract with the Purchaser or its nominee in the form and substance satisfactory to the Purchaser and effective on the date of completion of the Acquisition;

(iv) the Purchaser having completed the financial and legal due diligence review on the Target Company and being satisfied with the results of such review in all aspects;

(v) all necessary approvals and/or consents in relation to authorizing the execution, delivery and performance of the Acquisition Agreement and the transactions contemplated thereunder having been obtained by the Vendors and/or the Target Company;

(vi) the consummation of the transactions contemplated under the Acquisition Agreement not having been restrained, enjoined or otherwise prohibited by any applicable laws and regulations, any order, injunction, decree or judgment of any court or other governmental authority;

(vii) all representations, warranties and undertakings given by the Vendors under the Acquisition Agreement remaining true, accurate and complete, and none of the provisions of the Acquisition Agreement having been breached in any material respect; and

(viii) there being no material adverse change in the financial position, business or operations of the Target Company.

Any of the above conditions precedent (other than in paragraphs (i) and (ii) above) can be waived by the Purchaser.

As one of the conditions precedent to the completion of the Acquisition, Mr. Zhuang will enter into an employment contract with the Purchaser or its nominee in the form and substance satisfactory to the Purchaser. While the terms of the employment contracts are still being negotiated pending finalisation, the following sets out the indicative terms of Mr. Zhuang's employment after completion of the Acquisition:-

| | |
|---|---|
| Remuneration: | RMB20,000 payable monthly (equivalent to RMB240,000 per year) |
| Term of Service: | No specified term |
| Notice Period required to terminate Contract: | 3-month notice |

If all of the conditions precedent set out in the Acquisition Agreement have not been fulfilled and/or waived (as the case maybe) on or before the Long Stop Date or such other date as may be agreed by the Vendors and the Purchaser, each of the Vendors and the Purchaser has the right to terminate the Acquisition Agreement (other than the provisions in relation to, among others, confidentiality, notice and governing law, which shall survive) and thereafter no party shall have any liability save for antecedent breaches. As at the Latest Practicable Date, condition (v) set out above has been fulfilled.

*Completion of the Acquisition:*

Completion of the Acquisition will, subject to all the conditions precedent set out in the section headed "Conditions precedent to the completion of the Acquisition" above (to the extent not waived) being fulfilled, take place on the fourth Business Day after the date of the fulfillment or waiver of such conditions precedent or such later date as the parties to the Acquisition Agreement may agree in writing.

## 2. Information of the Target Company

The Target Company is a company incorporated in Hong Kong with limited liability that is principally engaged in developing and selling software related applications which can be purchased by businesses to facilitate e-commerce of their products and services. As at the Latest Practicable Date, the Target Company is owned as to 94% by Stand Charm and 6% by Dragon Max, and to the best knowledge of the Directors, all customers of Target Company are Independent Third Parties.

Set out below is a summary of the profit or loss before and after taxation of the Target Company as extracted from the accountants' report of the Target Company set out in Appendix II to this circular, which have been prepared in accordance with generally accepted accounting standards in Hong Kong:

| | For the year ended 31 December | For the year ended 31 December | For the three months ended 31 March | |
|---|---|---|---|---|
| | **2014** | **2015** | **2015** | **2016** |
| | *(audited)* | *(audited)* | *(unaudited)* | *(audited)* |
| | *(HK$'000)* | *(HK$'000)* | *(HK$'000)* | *(HK$'000)* |
| (Loss)/Profit before taxation | (52) | 9,659 | (107) | 1,108 |
| (Loss)/Profit after taxation | (52) | 8,095 | (107) | 925 |

The audited net assets of the Target Company as at 31 March 2016 was approximately HK$9.1 million.

## 3. Management discussion and analysis of the Target Company

Accountants' report on the Target Company for the period from 18 June 2013 (date of incorporation) to 31 December 2013, the two years ended 31 December 2014 and 2015 and the three months ended 31 March 2016 was set out in Appendix II to this circular. Management discussion and analysis of the Target Company for the corresponding period are set out as follows:

*Business model and segment information*

The Target Company focuses on developing and selling software related applications and the Target Company's resources are integrated and no discrete operating segment financial information is available. However, the business of the Target Company can be classified as two major categories, namely, sales of goods and software-related application development service.

The Target Company's sale of goods segment represents the sale of mobile phone which installed with 易銷E店 (Easy Sales Electronic Shop*) ("**Easy Shop**"). Its software-related application development service segment comprises (i) the sales of Easy Shop, which may or may not bundle with the provision of maintenance services on Easy Shop to customers; and (ii) renewal of software maintenance contracts with existing customers.

For the period from 18 June 2013 to 31 December 2014, there is no revenue generated from the software-related application development service segment as none of the customers who bought the mobile phone which installed with Easy Shop had entered into software maintenance contract with the Target Company.

As the Target Company expected that the revenue from software-related application development service will be the major income and account for a significant proportion of its revenue in the next few years when compared with the revenue from sales of goods, for the year ended 31 December 2015, the Target Company is focusing on soliciting customers who would like to use the software maintenance service by entering software maintenance contracts with them. At the same time, the Target Company were also selling to those customers mobile phone installed with Easy Shop. It is expected that the business model of the Target Company can facilitate (i) maintaining a long term relationship with its existing customers by providing maintenance services to them; and (ii) generating stable revenue from such customers in the future.

From year 2016 onwards, other than selling the mobile phone installed with Easy Shop, the Target Company also sold Easy Shop as a standalone product to individual end-users directly. The Target Company will provide individual end-users with an user manual and online assistance to assist them to install Easy Shop by themselves. With this new selling channel, the Target Company believed that the standalone products can target new customers who desire flexibility in hardware, such as mobile phones and computers, and eventually maximize our number of customers.

*Revenue recognition policy*

Revenue is recognised when it is probable that the economic benefits will flow to the Target Company and when the revenue can be measured reliably, on the following bases:

(a) for income from sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Target Company maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and

(b) for income from software maintenance contracts, when rendering of services.

*Financial review, business review, prospects*

For the period from 18 June 2013 to 31 December 2013, the two years ended 31 December 2015 and the three months ended 31 March 2016, revenue generated from sales of goods were HK$10,906, HK$1,162,005, HK$1,147,923 and nil respectively. After the successful development of Easy Shop in 2013, the Target Company started outsourcing the production process of installing Easy Shop in the mobile phones to third party manufacturers and subsequently the Target Company purchased the goods from such manufacturers and resold to its customer. Those mobile phones were not manufactured by the Target Company. For the period from 18 June 2013 to 31 December 2013, the two years ended 31 December 2015 and the three months ended 31 March 2016, 8, 500, 524 and nil mobile phones were respectively sold.

In 2014, the Target Company had only one customer, which was a wholesaler of mobile phones. In 2015, the Target Company had four new customers which (i) were small and medium enterprises from different industries, including frozen and processed food industry and jewellery industry; and (ii) engaged the Target Company to provide maintenance services. While these customers entered into software maintenance contracts with us and paid monthly maintenance fee to the Target Company, the Target Company also sold to them mobiles phones installed with Easy Shop. For the three months ended 31 March 2016, the Target Company renewed the software maintenance contracts with four existing customers. Also, for the three months ended 31 March 2016, it also sold Easy Shop as a standalone product to five individuals end-users.

For the period from 18 June 2013 to 31 December 2013, the two years ended 31 December 2014 and 2015 and the three months ended 31 March 2016, revenue generated from software-related application development service were nil, nil, HK$11,147,260 and HK$2,328,309 respectively.

As the maintenance services provided by the Target Company include (i) modifying the software in response to the markets needs from time to time (whereas the software prohibits any modification without authorisation by the Target Company); and (ii) providing training to customers' staff, the nature of software maintenance contract is different from license agreement for our customers to use Easy Shop. Once Easy Shop is installed in the mobile phone, the customer can access to it without paying any further license fee.

The loss before taxation and after taxation of the Target Company for the period ended 18 June 2013 to 31 December 2013 were HK$10,526 and HK$10,526 respectively, and further increased to HK$51,594 and HK$51,594 for the year ended 31 December 2014 respectively, which were mainly due to the large operating expenses as the proportion to the revenue during the beginning stage of the operation of the Target Company.

After the initial set-up phase in the previous period under review, the Target Company has successfully marketed its software platform to customers in a number of industries, including frozen and proceed food distribution, as well as merchandise and jewellery retail. It has also secured a number of software maintenance contracts during the period under review. Normally the software maintenance contracts is renewable yearly. Accordingly, the Target Company started to make profits in 2015. The profit before taxation and after taxation of the Target Company for the year ended 31 December 2015 were approximately HK$9.7 million and HK$8.1 million respectively. The Target Company continued to make profit for the three months ended 31 March 2016, the profit before taxation and after taxation of the Target Company for the three months ended 31 March 2016 were approximately HK$1.1 million and HK$0.9 million, respectively. The relatively modest net profit of the Target Company for the three months ended 31 March 2016 was mainly influenced by (i) the decrease in monthly maintenance income, as there were slight adjustments on the monthly maintenance fee after the renewal of software maintenance contracts with customers in January 2016; and (ii) the increase in monthly staff costs from approximately HK$200,000 in December 2015 to approximately HK$320,000 in March 2016, as more sale personnel and technical staff who are responsible for the maintenance services and the product development has been employed in the first quarter of 2016 in order to cope with the future development of the Target Company.

On the assumption that if the Target Company can successfully renew software maintenance contracts with its customers, the Company expected that the revenue from software-related application development service for the year ending 31 December 2016 is expected to be maintained in a similar level on their contribution on the revenue from software-related application development service for year ended 31 December 2015.

*Cost Structure*

For the period end from 18 June 2013 to 31 December 2013, the two year ended 31 December 2015 and the three months ended 31 March 2016, the total cost (excluding income tax) that the Target Company incurred were HK$21,432, HK$1,213,599, HK$2,636,448 and HK$1,220,501, respectively. Out of which, the cost of inventories sold was HK$6,978, HK$1,077,031, HK$1,844,791 and HK$714,505 and operating expenses was HK$14,454, HK$136,568, HK$791,657 and HK$505,996, respectively. Staff cost is the major cost component of operating expenses, representing nil, HK$130,000, HK$658,458 and HK$376,715 of the operating expenses for the period end from 18 June 2013 to 31 December 2013, the two year ended 31 December 2015 and the three months ended 31 March 2016.

*Capital structure, liquidity, financial resources and gearing ratio*

As at 31 December 2013, the total assets, total liabilities and net liabilities of the Target Company were valued at HK$61,257, HK$61,783 and HK$526 respectively. As at 31 December 2014, the total assets, total liabilities and net liabilities of the Target Company were valued at HK$548,099, HK$600,219 and HK$52,120 respectively. As at 31 December 2015, the total assets, total liabilities and net assets of the Target Company were valued at approximately HK$11.6 million, HK$3.4 million and HK$8.2 million respectively. As at 31 March 2016, the total asset, total liabilities and net asset of the Target Company were valued at HK$13.0 million, HK$3.9 million and HK$9.1 million, respectively.

Of the total liabilities, HK$3,805, HK$93,805, HK$93,805 and HK$93,805 was amount due to directors which are denominated in Hong Kong dollars as at 31 December 2013, 2014 and 2015 and 31 March 2016 respectively. The amount due to directors are unsecured, interest free and has no fixed terms of repayment. As at 31 December 2015 and 31 March 2016, there was an amount due to a related party of HK$1,480,339 and HK$1,485,704 respectively (2013 and 2014: Nil), which is unsecured, interest-free and is payable on demand.

Cash and bank balances of the Target Company as at 31 December 2013, 2014 and 2015 and 31 March 2016 amounted to HK$61,257, HK$548,099, approximately HK$1.0 million and HK$6.2 million respectively. The gearing ratio (calculated as total debts over total assets) was approximately 6.2%, 17.1%, 13.6% and 12.1% as at 31 December 2013, 2014 and 2015 and 31 March 2016 respectively.

As at the Latest Practicable Date, approximately 66% of trade receivables of the Target Company had been collected subsequent to 31 March 2016.

*Capital commitment*

The Target Company did not have any capital commitment as at 31 December 2013, 2014 and 2015 and 31 March 2016.

*Treasury policies*

The Target Company has no formal treasury policy and has not entered into any form of financial arrangement or used any financial instrument for hedging purposes during the period under review.

*Exchange rate exposure*

The Target Company did not have exchange rate risk as at 31 December 2013, 2014 and 2015 and 31 March 2016.

*Contingent liabilities*

The Target Company did not have any significant contingent liabilities as at 31 December 2013, 2014 and 2015 and 31 March 2016.

*Significant investments, material acquisition and disposals*

The Target Company did not have any significant investments, material acquisition and disposals and future plans for material investments for the period under review.

*Employment and remuneration policy*

As at 31 December 2013, 2014 and 2015 and 31 March 2016, the Target Company had 0, 1, 15 and 19 employees respectively. The Target Company ensured that the remuneration of employees was attractive and bonuses were given based on the performance of the employees in accordance with the general standards of salary policies of the Target Company.

For the period end from 18 June 2013 to 31 December 2013 and the two years ended 31 December 2014, 2015 and the three months ended 31 March 2016, the staff cost of the Target Company was nil, HK$130,000, HK$658,485 and HK$376,715 respectively, which included employees benefit expense, salaries and allowance, and pension scheme contributions.

*Pledged of assets*

The Target Company did not have any pledged of assets as at 31 December 2013, 2014 and 2015 and 31 March 2016.

*Future plans for material investments or capital assets*

The Target Company does not have any plans for material investments or capital assets in coming year.

**4. Financial effects of the Acquisition**

*Earnings*

Upon completion of the Acquisition, the Target Company will become a wholly-owned subsidiary of the Company and the financial information of the Target Company will be consolidated into the consolidated financial statements of the Group. As set out in the accountants' report on the Target Company in Appendix II to this circular, the revenue and profit after taxation reached approximately HK$2.3 million and HK$0.9 million for the three months ended 31 March 2016, respectively. After completion of the Acquisition, the revenue and profit after taxation of the Target Company will be consolidated in the consolidated financial statements of the Group.

*Assets and liabilities*

According to the Annual Report, the consolidated net assets of the Group as at 31 March 2016 was approximately HK$57,319,000 comprising total assets of HK$106,716,000 and total liabilities of approximately HK$49,397,000.

According to the unaudited pro forma financial information of the Enlarged Group set out in Appendix III to this circular, the unaudited pro forma net assets of the Enlarged Group would increase to approximately HK$230.3 million, comprising unaudited pro forma total assets of approximately HK$283.6 million and unaudited pro forma total liabilities of approximately HK$53.3 million. For further information, please refer to the unaudited pro forma financial information of the Enlarged Group set out in Appendix III to this circular.

*Transaction costs for the Acquisition*

The transaction costs for the Acquisition are estimated to be approximately HK$5.1 million, which consist mainly of the professional fees directly attributable to the Acquisition.

**5. Financial and trading prospects of the Enlarged Group**

The Company is an investment holding company. The Group is principally engaged in the development, design and export of fashion accessories and gifts and sales of own brand fashion accessories. The Purchaser is an indirect wholly-owned subsidiary of the Company and is principally engaged in the trading of fashion accessories and investment holding.

As disclosed in the Annual Report, the Group recorded a total turnover of approximately HK$46,907,000 for the year ended 31 March 2016, representing a decrease of approximately 39.6% as compared with last year. The decrease was mainly due to the loss of major customers in customer's desired final design business following our factory disposal in December 2014, restructuring of our retail business and sluggish global economy.

With the rapid development of electronic commerce in recent years, it brought the huge and profound influence to brick and mortar business. The internet is constantly permeating traditional industries, and blurring the divisions across industries. The management of the Company considers that the integration between traditional industry and e-commerce represents the general market trend. Therefore, the Group has promoted the transformation of "Internet plus" innovation, and tried to seek suitable platforms, software companies, technical development personnel or other relative resources in the market, which would enable the Group's business operations to deeper integrate to internet, and bring the high-tech and big data to the conventional fashion jewelry industry. The management of the Company believes that the new concept of the combination of "Internet + Traditional accessories + Smart wearable + Big health + Big data", i.e. by using traditional accessories with smart wearable functions to provide health suggestions to customers based on users' data through the Internet in order to cater for the trends of healthy life, will be a broad prospective blue ocean in the future. Also, as mentioned in the section headed "REASONS FOR AND THE BENEFITS OF THE ACQUISITION AND THE SUBSCRIPTION", the Directors consider that the software and related applications developed by the Target Company are expected to enable the Group to expand its internet retail business.

### 6. Implication under the Listing Rules

As one or more of the applicable percentage ratios calculated under Rule 14.07 of the Listing Rules exceeds 25% but is less than 100%, the Acquisition constitutes a major transaction of the Company under Chapter 14 of the Listing Rules and is subject to the approval of the Independent Shareholders at the SGM. In addition, given the Acquisition and the Subscription are inter-conditional, the Company voluntarily complies with the reporting, announcement and Independent Shareholders' approval requirements in respect of the Acquisition under Chapter 14A of the Listing Rules.

## III. SUBSCRIPTION

### 1. Principal Terms of the Subscription Agreement

*Date:*

13 April 2016 (after trading hours)

*Parties:*

(i) Subscriber: Walifax Investments Limited

(ii) Issuer: the Company

*The Subscription Shares*

The Subscriber has conditionally agreed to subscribe for and the Company has conditionally agreed to allot and issue a total of 2,440,000,000 Subscription Shares. As at the Latest Practicable Date, there were 2,569,840,644 Shares in issue and the Subscription Shares represent approximately 94.95% of all the issued shares of the Company as at the Latest Practicable Date and, assuming that there is no change in the share capital of the Company other than the issue of the Subscription Shares since the date of the Subscription Agreement up to completion of the Subscription, approximately 48.70% of all the issued shares of the Company upon completion of the Subscription as enlarged by the issue of the Subscription Shares.

*Subscription Price:*

The Subscription Price of HK$0.074 per Subscription Share represents:

(i) a discount of approximately 24.5% to the closing price of HK$0.0980 per Share as quoted on the Stock Exchange on the Last Trading Day;

(ii) a discount of approximately 26.7% to the closing price of HK$0.101 per Share as quoted on the Stock Exchange on the date of the Subscription Agreement;

(iii) a discount of approximately 47.1% to the closing of HK$0.140 per share as quoted on the Stock Exchange on the Latest Practicable Date;

(iv) a discount of approximately 22.4% to the average closing price of HK$0.0954 per Share as quoted on the Stock Exchange for the five trading days up to and including the Last Trading Day;

(v) a discount of approximately 22.5% to the average closing price of HK$0.0955 per Share as quoted on the Stock Exchange for the last 10 trading days up to and including the Last Trading Day;

(vi) a discount of approximately 26.9% to the average closing price of HK$0.1013 per Share as quoted on the Stock Exchange for the last 30 trading days up to and including the Last Trading Day; and

(vii) a premium of approximately 98.4% over and above the Group's unaudited consolidated net asset value attributable to the Shareholders per Share as at 30 September 2015, the date to which the latest unaudited consolidated financial results of the Company were made up to, of approximately HK$0.0373 (based on a total of 2,569,840,644 Shares as at the Latest Practicable Date and the Group's unaudited consolidated net asset value attributable to the Shareholders of approximately HK$95,865,000 as at 30 September 2015).

The Subscription Price was determined after arm's length negotiations between the Company and the Subscriber with reference to, among other factors, the financial position of the Group, the historical trading volume of the Shares on the Stock Exchange and the recent trading prices of the Shares as quoted on the Stock Exchange. The total consideration for the Subscription Shares in the sum of HK$180,560,000 will be financed by internal resources available to the Subscriber.

*Rankings:*

The Subscription Shares, when issued and fully paid, will rank pari passu in all respects among themselves and with all the other existing Shares in issue at the date of allotment and issue of the Subscription Shares, including the right to any dividends or distributions made or declared on or after the date of allotment and issue of the Subscription Shares.

*Specific mandate:*

The Subscription Shares are to be issued pursuant to a special mandate to be sought from the Independent Shareholders by way of poll at the SGM. An application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares.

*Conditions precedent to the completion of the Subscription:*

Completion of the Subscription is conditional upon the fulfillment of the following conditions precedent:

(i) the obtaining of the Whitewash Waiver, and if such approval is subject to any conditions imposed by the SFC, such conditions being reasonably acceptable to the Subscriber (it being acknowledged that any condition requiring the approval of Shareholders other than the Subscriber or its associates (as defined in the Listing Rules) is acceptable to the Subscriber);

(ii) the Acquisition Agreement becoming unconditional in accordance with its terms;

(iii) the approval by the Shareholders who are not required to abstain from voting under the Listing Rules and the Takeovers Code of each of the following at the SGM in accordance with the requirements of the Listing Rules and the Takeovers Code:

(a) the Subscription Agreement and the transaction contemplated thereunder, including the allotment and issue under a specific mandate of the Subscription Shares;

(b) the Whitewash Waiver; and

(c) the Acquisition Agreement and the transactions contemplated thereunder;

(iv) the listing of, and permission to deal in, all the Subscription Shares having been granted by the Stock Exchange (either unconditionally or subject only to allotment and matters ancillary thereto) and if such approval is subject to any conditions imposed by the Stock Exchange, such conditions having been fulfilled;

(v) the Shares remaining listed and traded on the main board of the Stock Exchange at all times from the date of the Subscription Agreement up to the date of completion of the Subscription, save for any temporary suspension in connection with the approval and clearance of the documents relating to the transactions contemplated under the Subscription Agreement and the Acquisition Agreement by the SFC or the Stock Exchange prior to their release of publication;

(vi) no indication being received prior to the completion of the Subscription from the SFC and the Stock Exchange to the effect that the listing of the Shares on the main board of the Stock Exchange shall or may be withdrawn or objected to;

(vii) all the authorizations, approvals, consents, waives, and permits of the relevant authorities of the relevant jurisdictions which are necessary to give effect to the Subscription Agreement and the

Subscription as required by all laws or regulations applicable to the Company and the Subscriber having been granted, received and obtained, or where such approval, consent, waiver or permit is given subject to conditions, on such conditions as are acceptable to the Company and the Subscriber (as the case may be) acting reasonably;

(viii) the warranties made, or any of the undertakings given, by the Company under the Subscription Agreement remaining true and correct in all material respects; and

(ix) there not having occurred at any time any material adverse change or development in the financial or trading position of the Group.

None of the above conditions precedent can be waived by the parties to the Subscription Agreement, save that the Subscriber may, in its absolute discretion, waive the conditions precedent in paragraphs (viii) and (ix) above by notice in writing to the Company.

If all of the conditions precedent set out in the Subscription Agreement have not been fulfilled and/or waived (as the case may be) on or before the Long Stop Date or such other date as may be agreed by the Subscriber and the Company in writing, the Subscription Agreement will automatically terminate with immediate effect (other than the provisions in relation to, among others, notice, governing law and confidentiality, which shall survive), in which case, neither party thereto will have any liability to the other party save for any antecedent breaches of the Subscription Agreement.

None of the above conditions precedent has been fulfilled as at the Latest Practicable Date.

*Completion of the Subscription:*

Completion of the Subscription will, subject to the Whitewash Waiver and the listing permission contemplated in the condition precedent set out in paragraph (iv) of the sub-paragraph headed "Conditions precedent to the completion of the Subscription" not being revoked or withdrawn, take place on the second Business Day after the fulfillment or waiver of the conditions precedent to the completion of the Subscription (or such later date as parties to the Subscription Agreement may agree in writing).

*Use of proceeds from the Subscription:*

The gross proceeds from the Subscription and the net proceeds (after deducting estimated expenses, including mainly legal and professional fees) from the issue of the Subscription Shares) from the Subscription is estimated to be approximately HK$181 million and approximately HK$178 million, respectively. Based on the estimated net proceeds, the net subscription price would be approximately HK$0.073 per Subscription Share.

The Group intends to apply approximately HK$160 million of the net proceeds from the Subscription to finance the cash consideration for the Acquisition and to use approximately HK$18 million of the net proceeds from the Subscription as the general working capital of the Group.

**2. Information on the Subscriber and Mr. Tse**

The Subscriber is an investment holding company that is beneficially wholly-owned by Mr. Tse. As at the Latest Practicable Date, the Concert Group held 1,100,091,988 Shares, representing approximately 42.81% of all the issued shares of the Company.

Mr. Tse is the executive Director, chairman, and chief executive officer of the Company and possesses more than 20 years' experience in the fashion ornament and jewellery wholesale industry. He also has experience in property investment, mineral exploration and mineral trade and sales.

**3. Intention of Subscriber**

It is the intention of the Subscriber to maintain the listing of the Shares on the Stock Exchange and to maintain the existing business of the Group following completion of the Subscription. The Subscriber has no intention to introduce any major changes to the existing business, including any redeployment of the employees or the fixed assets of the Group after completion of the Subscription, nor to make any major changes to the continued employment of the employees of the Group, other than in its ordinary and usual course of business. The Subscriber and the Company will comply with the relevant requirements under the Listing Rules and the Takeovers Code in the event any possible diversification of the Group's business operations materializes after completion of the Subscription.

## 4. Listing Rules Implications

Since the Subscriber is a controlling shareholder of the Company, the Subscriber is a connected person of the Company. Accordingly, the Subscription constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules and is subject to the approval of the Independent Shareholders by way of poll at the SGM.

Save for Mr. Tse and the Subscriber (being a beneficially wholly-owned subsidiary of his), no other Shareholder is interested in the Acquisition, the Subscription and the Whitewash Waiver. Given the Subscriber is beneficially wholly owned by Mr. Tse and the Acquisition and the Subscription are inter-conditional, Mr. Tse, the Subscriber, their respective associates and parties acting in concert with any of them shall abstain from voting in respect of the resolution(s) approving the Acquisition, the Subscription (including the grant of a specific mandate for the issuance of new Shares pursuant to the Subscription) and the Whitewash Waiver at the SGM.

## 5. Takeovers Code Implications

As at the Latest Practicable Date, the Subscriber held 1,085,267,988 Shares, representing approximately 42.23% of the voting rights of the Company. Mr. Tse, being person acting in concert with the Subscriber, held 14,824,000 Shares, representing approximately 0.58% of the voting rights of the Company.

Upon completion of the Subscription, 2,440,000,000 Subscription Shares will be issued to the Subscriber, and the interests of the Concert Group in the voting rights of the Company will be increased from approximately 42.81% to approximately 70.66% (assuming that no additional Shares other than the Subscription Shares will be issued since the date of the Subscription Agreement up to completion of the Subscription). Accordingly, the Concert Group, in the absence of the Whitewash Waiver, would be obliged to make a general offer under Rule 26 of the Takeovers Code for all the securities of the Company not already owned or agreed to be acquired by them.

An application to the Executive for the Whitewash Waiver has been made by the Subscriber. The Executive has agreed, subject to the approval of the Independent Shareholders at the SGM by way of poll and such other condition(s) as may be imposed by the Executive, to grant the Whitewash Waiver.

Each of the Subscriber and Mr. Tse has undertaken to the Company that apart from the Subscription Agreement, the Subscriber and Mr. Tse will not and each of them will procure persons acting in concert with each of them respectively will not from the date of the Subscription Agreement until the date of completion of the Subscription acquire or dispose of or enter into any agreement or arrangement to acquire or dispose of any voting rights in the Company.

Shareholders and potential investors should be aware that, upon completion of the Subscription, the Concert Group will hold more than 50% of the voting rights of the Company. Hence, the Subscriber may increase its holdings of voting rights of the Company without incurring any further obligation under Rule 26 of the Takeovers Code to make a general offer.

## 6. Information required under the Takeovers Code

Save as the Outstanding Option, as at the Latest Practicable Date, the Company does not have any options, warrants or convertible securities in issue.

The Subscriber has confirmed that, as at the Latest Practicable Date, neither the Subscriber nor any persons acting in concert with it:

(i) apart from 2,440,000,000 new Shares under the Subscription Agreement, has acquired or disposed of or entered into any agreement or arrangement to acquire or dispose of any voting rights in the Company during the Relevant Period;

(ii) apart from the 14,824,000 Shares owned by Mr. Tse and the 1,085,267,988 Shares owned by the Subscriber (in which Mr. Tse is indirectly interested as the Subscriber is wholly-owned by Mr. Tse), and 26,671,400 Outstanding Options owned by Mr. Tse, owns, controls or has direction over any voting rights or rights over the Shares or any warrants, options, or convertible securities or derivatives of the Company, nor has entered into any outstanding derivative in respect of securities in the Company;

(iii) has made any arrangement referred to in Note 8 to Rule 22 of the Takeovers Code (whether by way of option, indemnity or otherwise) with any other persons in relation to the relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company or the Subscriber and which might be material to the transactions contemplated under the Subscription Agreement and/or the Whitewash Waiver;

(iv) has any agreements or arrangements to which the Subscriber or parties acting in concert with it is a party which relate to the circumstances in which the Subscriber or parties acting in concert with it may or may not invoke or seek to invoke a pre-condition or a condition to the transactions contemplated under the Subscription Agreement and/or the Whitewash Waiver;

(v) has received any irrevocable commitment to vote for the resolution approving the transactions contemplated under the Subscription Agreement and/or the Whitewash Waiver; and

(vi) has borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company.

### 7. Fund raising activities in the past twelve months

Save as disclosed below, the Company has not undertaken any equity fund raising exercise during the past 12 months immediately preceding the date of the Announcement.

| Date of announcement | Fund raising activity | Net proceeds raised | Intended use of proceeds | Actual use of the net proceeds up to the date of this circular |
|---|---|---|---|---|
| 27 August 2015 | Placing of new Shares under general mandate | Approximately HK$9,561,000 | Hiring technical staff and implementing Marketing Channel Expansion | All used as intended |

## IV. REASONS FOR AND THE BENEFITS OF THE ACQUISITION AND THE SUBSCRIPTION

*Reasons for the Acquisition*

The Company is an investment holding company. The Group is principally engaged in the development, design and export of fashion accessories and gifts and sales of own brand fashion accessories. The Purchaser is an indirect wholly-owned subsidiary of the Company and is principally engaged in the trading of fashion accessories and investment holding.

With the growing popularity of online shopping, the Company considered that it is necessary to expand its internet retail market. The Company has over three years' experience in the internet retail business prior to entering into the Acquisition Agreement. The Company has considered expanding its internet retail business by outsourcing or acquiring the relevant software from the market. However, having considered that (i) the Company may not have full control in operation and efficient software/customization if it is outsourced; and (ii) the software require upgrades from time to time and/or continuous development in order to meet the fast-changing environment, the Directors are of the view that acquiring a company with existing technology, software and expertise is the most appropriate way to expand its internet retail market.

The Target Company is principally engaged in developing and selling software related application which can be purchased by businesses to facilitate distribution of their products and services via e-commerce. The management of the Target Company has over five years' experience in developing software related application for internet retail business. Three of the software developed by the Target Company, namely PrimeView 微信分銷管理平台軟件2.0.0 (PrimeView WeChat Sales Management Platform Software 2.0.0*), PrimeView 微信即時通訊平台軟件2.0.0 (PrimeView WeChat Instant Messaging Software 2.0.0*) and PrimeView 電子商城平台軟件2.0.0 (PrimeView Electronic Emporium Platform Software 2.0.0*) had been registered with 中華人民共和國國家版權局 (National Copyright Administration of the People's Republic of China) in February 2016.

As at the Latest Practicable Date, the existing product of the Target Company was Easy Shop, which is a multi-layer distribution system designed for use with WeChat, a telecommunications software developed primarily for smart phone. Through Easy Shop, WeChat users can be engaged as the distributor of an enterprise and market a product to friends in their circle. An enterprise can manage the distributors more effectively and efficiently by obtaining sales record of the distributors, the sales network of the distributors and monthly commission of the distributors through the backstage system of Easy Shop. Besides, Easy Shop can improve the seamless shopping experience across multiple channels, including both online and offline, to the customer. The software of Easy Shop can be modified for applying in other mobile shopping apps.

In light of the above, by using Easy Shop, the existing software developed by the Target Company, the Directors are of the view that the operation of the Company's internet retail business can be improved and expanded in below several ways:

(i) Engaging WeChat users as the Company's distributors to promote our products, which can boost our internet sales business;

(ii) Analysing customer's behavior and thereby improving our ability to assess and react to changes in consumer demand, preferences and tastes; and

(iii) Strengthening our inventory management and order management by reducing lead time.

Shareholders should note that the Target Company currently has only one product and five enterprises customers as at 31 May 2016 and thus its operation performance is currently solely reliant on this product and heavily reliant on few customers. The future business prospects of the Target Company depends on a number of factors including the following: (i) the continuous success of the Target Company's product; (ii) its successful development and launch of new software related application that is compatible with smart accessories; (iii) the renewal of the maintenance contracts with the existing customers; and (iv) its success in securing new customers in order to minimize the risk of customer concentration. There is no assurance that the existing software of the Target Company will continue to be well-received by the market or that the Target Company will be able to successfully develop and launch new software that is well-received by the market, or that the Target Company will be able to maintain its relationship with the customers or explore and secure new customers and in the event the existing/new software developed by the Target Company is not well-received by the market and/or its relationship with its customers cannot be maintained; and/or its customer base cannot be strengthened, the prospect, financial conditions and results of operations of the Enlarged Group will be materially and adversely affected.

Although the Target Company currently has only one product, in view of that the management of the Target Company has over five years of experience in developing software related application, the Directors believe the Target Company can still develop and launch of new software related application that is compatible with smart accessories, which can be (i) used by the Company to further expand its internet retail business or create synergy for the Group's existing business such as enhancement on the platform for the Group's existing sales, obtaining a better understanding on the customer's needs and spending behavior and further development on smart jewellery accessories; (ii) sold to other target customers to make profits.

Based on the above, the Directors are of the view that the software and related applications developed by the Target Company will enable the Group to expand its internet retail business, which would increase the sales of the Group's products and in turn improve the profitability and the competitiveness of the Group and is essential for the sustainable development of the Group in the long run. Taking into account the benefits of the Acquisition, the Directors are of the view that the terms of the Acquisition Agreement are normal commercial terms and are fair and reasonable and in the interests of the Independent Shareholders as a whole.

The Company has no plan to terminate the employment of any other employees or other personnel of the Target Company after the completion of the Acquisition, and will continue to operate the Target Company's business.

*Reasons for the Subscription*

Having considered that (i) the cash and cash equivalents of the Group as at 30 September 2015 was approximately HK$68 million as stated in the Interim Report, (ii) the Group used its internal resources to satisfy an aggregate consideration of RMB20 million (equivalent to approximately HK$23.8 million) for the acquisition by an indirect wholly-owned subsidiary of the Company of certain properties in Zhengzhou City in the PRC in March 2016, and (iii) the Group has utilised all of the net proceeds from the placing completed on 10 September 2015, the Directors are of the view that Company does not have sufficient cash to satisfy the consideration for the Acquisition.

The Company had considered the availability of the following funding alternatives (apart from the Subscription) for the cash consideration for the Acquisition and to increase the working capital of the Company:

(i) debt financing: the Board does not consider this to be appropriate for the Group since it would increase the gearing level of the Group and the Group would have to incur interest expenses which would impose additional financial burden on the Group's future cash flows;

(ii) equity financing through placement of new Shares to independent investors: the Company encountered difficulties in engaging a placing agent, which the Board believes to be attributable to the relative small market capitalization of the Company and the low trading volume of the Shares under the current market sentiment; and

(iii) a rights issue or an open offer: the Company encountered difficulties in procuring an independent underwriter in Hong Kong in underwriting a rights issue or an open offer of the Company. Moreover, in light of the uncertainty involved, the Subscriber was not willing to act as an underwriter of a right issue or an open offer.

In light of the above, the Company is of the view that equity financing by way of the Subscription is the most appropriate means of raising additional capital to finance the cash consideration for the Acquisition and to increase the working capital, as it is:

(i) more practicable and direct under a volatile market and the uncertain global market conditions currently prevailing;

(ii) less costly and no interest expenses will need to be paid;

(iii) less time consuming; and

(iv) in the interest of the Group and the Independent Shareholders as a whole, given it signifies the confidence of the Company's controlling shareholder in the existing and future development potentials of the Group.

Based on the above, the Directors (other than the independent non-executive Directors who will express their view after considering the advice from the Independent Financial Adviser in the letter from the Independent Board Committee in this circular) consider that the Subscription represents a straightforward and cost-effective means of financing for the Group, and the terms of the Acquisition Agreement, the Subscription Agreement and the Whitewash Waiver are fair and reasonable and on normal commercial terms, and in the interests of the Independent Shareholders as a whole.

## V. EFFECT OF THE SUBSCRIPTION

The shareholdings in the Company as at the Latest Practicable Date and immediately after the completion of the Subscription (assuming there are no changes to the share capital and shareholding structure of the Company other than the issue of the Subscription Shares from the date of the Subscription Agreement up to the date of completion of the Subscription):

| | As at the Latest Practicable Date | | Immediately after completion of the Subscription (assuming no Outstanding Options are exercised)(Note 4) | | Immediately after completion of the Subscription (assuming all Outstanding Option are exercised)(Note 4) | |
|---|---|---|---|---|---|---|
| | *No. of Shares* | *%* | *No. of Shares* | *%* | *No. of Shares* | *%* |
| **Controlling Shareholder** | | | | | | |
| The Subscriber(Note 1) | 1,085,267,988 | 42.23 | 3,525,267,988 | 70.37 | 3,525,267,988 | 65.43 |
| Mr. Tse(Note 2) | 14,824,000 | 0.58 | 14,824,000 | 0.29 | 41,495,400 | 0.77 |
| Sub-total of the Subscriber and persons acting concert with it | 1,100,091,988 | 42.81 | 3,540,091,988 | 70.66 | 3,566,763,388 | 66.20 |
| **Executive Director(s)** | | | | | | |
| Mr. Lin Shao Hua | – | – | – | – | 26,671,400 | 0.50 |
| **Public** | | | | | | |
| Grantees of Outstanding Options (other than Mr. Tse and the Directors(Note 3) | – | – | – | – | 324,699,800 | 6.03 |
| Other Public Shareholders | 1,469,748,656 | 57.19 | 1,469,748,656 | 29.34 | 1,469,748,656 | 27.27 |
| | 2,569,840,644 | 100.0 | 5,009,840,644 | 100.0 | 5,387,883,244 | 100.0 |

*Notes:*

1. The Subscriber is wholly-owned by Mr. Tse.

2. Mr. Tse is the executive Director, chairman and chief executive officer of the Company.

3. None of these grantee of the Outstanding Options is a director, chief executive or substantial shareholder of the Company, or any of their respective associates or parties acting in concert with the Subscriber.

4. Full exercise of the Outstanding Option would result in a maximum of 378,042,600 new Shares being fallen to be allotted and issued to its holders.

## VI. GENERAL

A SGM will be convened to for the purpose of approving the Acquisition and the transactions contemplated thereunder, the Subscription and the transaction contemplated (including the grant of a specific mandate for the issue and allotment of the Subscription Shares pursuant to the Subscription), and the Whitewash Waiver, pursuant to the Listing Rules and Takeovers Code.

As at the Latest Practicable Date, the Vendors and Mr. Zhuang did not hold any Shares.

Pursuant to Rule 14A.40 of the Listing Rules, the Independent Board Committee comprising all the independent non-executive Directors has been established by the Company to advise and to give a recommendation to the Independent Shareholders as to whether the terms of the Acquisition Agreement and the transactions contemplated thereunder and the terms of the Subscription Agreement and the transactions contemplated thereunder are on normal commercial terms, in the ordinary and usual course of business of the Group, fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole, and as to voting at the SGM. Pursuant to Rule 2.1 of the Takeovers Code, the Independent Board Committee comprising all the independent non-executive Directors has been established by the Company to advise and to give a recommendation to the Independent Shareholders on whether the terms of the Subscription and Whitewash Wavier are fair and reasonable, and as to voting at the SGM.

None of the members of the Independent Board Committee have any direct or indirect interest or involvement in the transactions contemplated under the Acquisition Agreement, the Subscription Agreement and/or the Whitewash Waiver.

## VII. SPECIAL GENERAL MEETING

A notice convening the SGM to be held at 9/F., Gloucester Tower, The Landmark, 15 Queen's Road, Central, Hong Kong on 7 September 2016 (Wednesday) at 9:00 a.m. is set out on pages SGM-1 to SGM-3 of this circular. Ordinary resolutions will be proposed at the SGM to consider and, if thought, fit, to approve (i) the Acquisition Agreement and the transaction contemplated thereunder; (ii) the Subscription Agreement and the transaction contemplated thereunder; and (iii) the Whitewash Waiver by way of poll, the result of which will be announced after the SGM.

A form of proxy for use at the SGM is enclosed with this circular. Whether or not you are able to attend the SGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for holding the SGM or any adjournment thereof to the office of the Company's branch share registrar and transfer office in Hong Kong, Union Registrars Limited at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish in such event, the proxy shall be deemed to be revoked.

## VIII. RECOMMENDATION

The Directors (including all the independent non-executive Directors after considering the advice of the Independent Financial Adviser) consider that (i) the Acquisition Agreement and the transaction contemplated thereunder are fair and reasonable and on normal commercial terms despite the entering into of the Acquisition Agreement being not in the ordinary and usual course of business of the Group; (ii) the Subscription Agreement and the transaction contemplated thereunder are fair and reasonable and on normal commercial terms despite the entering into of the Subscription Agreement being not in the ordinary and usual course of business of the Group; (iii) the Whitewash Waiver is fair and reasonable; (iv) the Acquisition Agreement and the transactions contemplated thereunder, the Subscription Agreement and the transactions contemplated thereunder and the Whitewash Waiver are in the interests of the Group and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favor of the resolution to be proposed at the SGM to approve (i) the Acquisition Agreement and the transaction contemplated; (ii) the Subscription Agreement and the transaction contemplated thereunder; and (iii) the Whitewash Waiver.

Your attention is drawn to:

(a) this letter of the Board;

(b) the letter of recommendation from the Independent Board Committee, the text of which is set out on pages 40 to 41 of this circular; and

(c) the letter from TC Capital International Limited, the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 42 to 89 in this circular.

## IX. FURTHER INFORMATION

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

Yours faithfully,
By order of the Board
**Artini China Co., Ltd.**
**Tse Hoi Chau**
*Chairman*