THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in **Sino Prosper State Gold Resources Holdings Limited**, you should at once hand this circular, together with the accompanying form of proxy to the purchaser or the transferee, or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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

SINO PROSPER STATE GOLD RESOURCES HOLDINGS LIMITED
中盈國金資源控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 766)

(1) VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL IN, AND SHAREHOLDER'S LOANS TO TREASURE JOIN LIMITED INVOLVING THE ISSUE OF PROMISSORY NOTES AND CONVERTIBLE BONDS;
(2) PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL AND
(3) NOTICE OF EXTRAORDINARY GENERAL MEETING

Financial Adviser

大有融資有限公司
MESSIS CAPITAL LIMITED

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

Nuada Limited
Corporate Finance Advisory

Unless the context otherwise requires, all capitalised terms used in this circular have the meanings set out in the section headed "Definitions" of this circular. A letter from the Independent Board Committee is set out on pages 103 to 104 of this circular.

A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 105 to 136 of this circular.

A notice convening an EGM of Sino Prosper State Gold Resources Holdings Limited to be held at BC Boardroom 2-3, 1/F., Hong Kong SkyCity Marriott Hotel, 1 Sky City Road East, Hong Kong International Airport, Lantau, Hong Kong on Monday, 30 September 2013 at 10:30 a.m. (or immediately following the extraordinary general meeting to be held at 10:00 a.m. pursuant to the notice dated 3 September 2013 given by the Company, whichever is later) or any adjournment thereof is set out on pages EGM-1 to EGM-3 of this circular. A proxy form for use in the EGM is enclosed. Whether or not you propose to attend the meeting, you are requested to complete the enclosed proxy form in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Tricor Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event not later than 48 hours before the time appointed for holding of the EGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

11 September 2013

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The Acquisition, being the subject matter of this circular, involves the acquisition of the Target Group (the principal operating subsidiaries of which have not been established at the time of the Agreement and have only commenced their business operation since December 2012) from the Vendor (Mr. Leung, a substantial Shareholder, the chairman of the Company and an executive Director) at the maximum Consideration of up to HK$850 million (while the total amount of original investment cost paid by the Vendor was only approximately RMB51 million). Shareholders should carefully consider all information set out in this circular and, in particular, the associated risk factors and material issues as set out in the paragraphs headed "Risk factors" and "Material issues for consideration" in the letter from the Board contained in this circular, before making a voting decision at the EGM. The Board would like to highlight and draw the attention of the Shareholders to the following material risk factors and key issues:

- **Target PRC No.1 and Target PRC No.2 had not been established when the Company entered into the Agreement in September 2012 and the principal business operation of the Target Group has only been commenced since December 2012. The Target Group has limited track records as of the Latest Practicable Date.**

- **No member from the Board has experience in operating the Target Business in the PRC.**

- **No member from the Board has any experience in investing and operating any business in Jilin City.**

- **The Company has already paid a refundable deposit of HK$200 million to the Vendor as part of the Consideration, and such deposit is interest free and is of a considerable size in terms of the Group's current cash level.**

- **The Vendor has injected RMB50 million as registered capital of Target PRC No.1 while pursuant to the Agreement, should the Completion take place and the T3 Payment Conditions be fulfilled or waived (to the extent waivable), the Company is required to inject a further sum of RMB150 million as registered capital of Target PRC No.1.**

- **The maximum Consideration of HK$850 million represents a substantial premium to the original investment cost paid by the Vendor.**

- **There is no assurance that the key parameters adopted in the Valuation Report as well as the market value of the Target Group determined by the Valuer will be sustained in the future.**

- **There is keen competition in the micro-financing industry in Jilin City and the PRC.**

- **The Target Group is subject to government policy risk. In particular, there is no assurance that Target PRC No.1 will remain as the only wholly-foreign-owned or foreign invested micro-financing company in Jilin Province or that the Target Group will be able to renew the Permits on a timely basis or at all.**

- **There is no assurance that Target PRC No.2 will always be able to renew the Tax Benefits currently granted to it.**

If any of the risk factors described above or in the paragraph headed "Risk factors" in the letter from the Board contained in this circular materialises, the Enlarged Group's business, financial condition and results of operations could be materially and adversely affected and the market price of the Shares could fall significantly.

In particular, impairment of a significant, or even the entire, amount of goodwill arising as a result of the Acquisition (being up to approximately HK$545 million as currently estimated, the derivation of which is disclosed on page III-11 of this circular) may be recorded in the future if there is any material adverse deviation in the financial position or results of operations of the Target Group in the future from what is currently projected. Such impairment of up to HK$545 million, should it become necessary, will be charged against the profit and loss of the Group, and will therefore materially and adversely affect the financial position and results of the Group in the future.

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

"1st Supplemental Agreement"	the supplemental agreement dated 19 November 2012 and entered into between the Purchaser and the Vendor to amend certain terms and conditions of the Agreement
"2nd Supplemental Agreement"	the supplemental agreement dated 19 December 2012 and entered into between the Purchaser and the Vendor to amend certain terms and conditions of the Agreement
"Acquisition"	the purchase of the Sale Shares and the Sale Debts by the Purchaser from the Vendor, on and subject to the terms and conditions of the Agreement
"Agreement"	the sale and purchase agreement dated 27 September 2012 (or, where the context so requires, such agreement as supplemented by the 1st Supplemental Agreement and the 2nd Supplemental Agreement) entered into between the Purchaser and the Vendor in respect of the Acquisition
"Announcement"	the announcement of the Company dated 21 December 2012 in relation to, among other things, the Acquisition
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"Business Day(s)"	a day (other than Saturdays, Sundays and such other days where a "black" rainstorm warning or a tropical cyclone warning signal number 8 or above is in force in Hong Kong), on which licensed banks in Hong Kong are open for business throughout their normal business hours
"BVI"	British Virgin Islands
"Closing Conditions"	the conditions precedent to Completion as set out in the Agreement
"Company"	Sino Prosper State Gold Resources Holdings Limited, a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on the main board of the Stock Exchange
"Completion"	completion of the Acquisition in accordance with the terms and conditions of the Agreement

"Completion Date"	the date of Completion, being the third Business Day after the fulfilment (or waiver, to the extent waivable) of all Closing Conditions, or such other date as the parties to the Agreement shall agree in writing
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Consideration"	the consideration for the Acquisition payable by the Purchaser to the Vendor in accordance with the terms and conditions of the Agreement, being a maximum of HK$850 million
"Conversion Share(s)"	Shares to be issued upon the exercise of the conversion rights attached to the Convertible Bonds
"Convertible Bonds"	collectively, T1 CB, T2 CB, T3 CB and T4 CB
"Deposit"	refundable deposit of HK$200 million paid by the Purchaser to the Vendor for the Acquisition after entering into the Agreement
"Director(s)"	directors of the Company
"EGM"	the extraordinary general meeting of the Company to be convened at BC Boardroom 2-3, 1/F., Hong Kong SkyCity Marriott Hotel, 1 Sky City Road East, Hong Kong International Airport, Lantau, Hong Kong on Monday, 30 September 2013 at 10:30 a.m. (or immediately following the extraordinary general meeting to be held at 10:00 a.m. on the same date pursuant to the notice dated 3 September 2013 given by the Company, whichever is later) to consider and, if thought fit, approve (i) the Agreement and the transactions contemplated thereunder, including the Acquisition, the issue of the Convertible Bonds and the allotment and issue of the Conversion Shares; and (ii) the proposed increase in authorised share capital of the Company
"Enlarged Group"	the Group as enlarged by the Target Group
"Funding Obligation"	the obligation of the Vendor to fund, before the Completion Date and without recourse to any member of the Target Group, the payment of the first RMB50 million in respect of the registered capital of Target PRC No.1, and the payment of the first US$50,000 in respect of the registered capital of Target PRC No.2
"GDP"	Gross Domestic Product
"GEM"	the Growth Enterprise Market of the Stock Exchange

"Group"	the Company and its subsidiaries
"HK GAAP"	accounting principles generally accepted in Hong Kong from time to time
"HK Subsidiaries"	collectively, Target HK No.1 and Target HK No.2 and the expression "**HK Subsidiary**" shall be construed accordingly
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	the independent board committee of the Company, comprising all of the independent non-executive Directors
"Independent Financial Adviser" or "Nuada"	Nuada Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, appointed by the Company as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Acquisition and the transactions contemplated thereunder
"Independent Shareholders"	Shareholders, other than the Vendor and his associates
"Jilin Bank"	Jilin Bank, Jilin Jiefangdalu Branch (吉林銀行解放大路支行)
"Jilin City ETCB"	Jilin City Economic and Technological Co-operation Bureau (吉林市經濟技術合作局)
"Jilin Province ETCB"	Jilin Province Economic and Technological Co-operation Bureau (吉林省經濟技術合作局)
"Last Trading Day"	27 September 2012, being the last trading date for the Shares prior to the signing of the Agreement
"Latest Practicable Date"	9 September 2013
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Long Stop Date"	5:00 p.m. on 30 September 2013 or such later date as the Vendor and the Purchaser may agree in writing
"Mr. Leung" or "Vendor"	Mr. Leung Ngai Man, a substantial Shareholder, the chairman of the Company and an executive Director
"PBOC"	The People's Bank of China (中國人民銀行), the central bank of the PRC

"Permits"	(i) permit, licence (including those required for carrying on the Target Business), consent, approval, certificate, qualification, specification, registration or other authorisations; and/or (ii) a filing of a notification, report or assessment, in each case necessary for the effective operation of the business of the Target Group and their respective ownership, possession, occupation or use of an asset
"PRC" or "China"	the People's Republic of China, which, for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"PRC Subsidiaries"	collectively, Target PRC No.1 and Target PRC No.2
"Promissory Notes"	collectively, the T1 P-Note and the T2 P-Note
"Purchaser"	Favour South Limited, a company incorporated in BVI and a wholly-owned subsidiary of the Company
"Reorganisation"	the reorganisation in respect of the Target Group as detailed in the paragraph headed "Information on the Target Group – Reorganisation in respect of the Target Group" in this circular
"Sale Debts"	such amount as equal to the face value of the loans outstanding as at Completion made by or on behalf of the Vendor (or his associates) to the Target Group
"Sale Shares"	such number of shares in Target BVI as shall represent the entire issued share capital of Target BVI immediately before Completion
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	existing ordinary share(s) of HK$0.10 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Shares
"SSDL"	Success State Development Limited, a company incorporated in BVI and wholly and beneficially owned by Mr. Leung, being the target company under the SSDL Acquisition

"SSDL Acquisition"	the proposed acquisition of SSDL contemplated under the agreement dated 19 December 2011 entered into between Sino Prosper State Gold HK Limited, a wholly-owned subsidiary of the Company (as purchaser), and Mr. Leung (as vendor), which acquisition has not yet completed as at the Latest Practicable Date
"SSDL CB"	the convertible bonds in the principal amount of up to RMB230 million which may be issued by the Company in favour of Mr. Leung as consideration for the SSDL Acquisition
"T1 CB"	the tranche 1 convertible bonds, which form part of the Convertible Bonds, in registered form comprising a total principal amount of HK$75 million to be issued for settlement of part of the T1 Price
"T1 Conversion Period"	the period commencing from the date of completion of the Agreement and expiring on the fifth anniversary of such date of commencement up to 4:00 p.m.
"T1 P-Note"	a promissory note (which forms part of the Promissory Notes) in the sum of HK$150 million for the settlement of part of the T1 Price upon Completion
"T1 Price"	the part of the Consideration which is payable upon Completion after all Closing Conditions are fulfilled (or waived, to the extent waivable)
"T2 CB"	the tranche 2 convertible bonds, which form part of the Convertible Bonds, in registered form comprising a total principal amount of HK$120 million to be issued for settlement of part of the T2 Price
"T2 Conversion Period"	the period commencing from the date of issue of the T2 CB and expiring on the fifth anniversary of the issue date of the T1 CB or, if that is not a Business Day, the first Business Day thereafter, up to 4:00 p.m.
"T2 P-Note"	a promissory note (which forms part of the Promissory Notes) in the sum of HK$50 million for the settlement of part of the T2 Price upon Completion
"T2 Payment Condition"	the condition precedent to the payment of the T2 Price as set out in the paragraph headed "Consideration – T2 Payment Condition" in this circular
"T2 Period"	the six-month period commencing on 1 April 2013 and ending on 30 September 2013

"T2 Price"	the part of the Consideration which is payable upon fulfilment of the T2 Payment Condition
"T3 CB"	the tranche 3 convertible bonds, which form part of the Convertible Bonds, in registered form comprising a total principal amount of HK$170 million to be issued for settlement of part of the T3 Price
"T3 Conversion Period"	the period commencing from the date of issue of the T3 CB and expiring on the fifth anniversary of the issue date of the T1 CB or, if that is not a Business Day, the first Business Day thereafter, up to 4:00 p.m.
"T3 Payment Conditions"	the conditions precedent to the payment of the T3 Price as set out in the paragraph headed "Consideration – T3 Payment Conditions" in this circular
"T3 Price"	the part of the Consideration which is payable upon fulfilment of the T3 Payment Conditions
"T4 CB"	the tranche 4 convertible bonds, which form part of the Convertible Bonds, in registered form comprising a total principal amount of HK$85 million to be issued for settlement of part of the T4 Price
"T4 Conversion Period"	the period commencing from the date of issue of the T4 CB and expiring on the fifth anniversary of the issue date of the T1 CB or, if that is not a Business Day, the first Business Day thereafter, up to 4:00 p.m.
"T4 Payment Condition"	the condition precedent to the payment of the T4 Price as set out in the paragraph headed "Consideration – T4 Payment Condition" in this circular
"T4 Period"	the six-month period commencing on 1 October 2013 and ending on 31 March 2014
"T4 Price"	the part of the Consideration which is payable upon fulfilment of the T4 Payment Condition
"Takeovers Code"	The Code on Takeovers and Mergers
"Target Business"	the business of providing micro-financing (小額貸款) and investment and management consultation services in the PRC carried on by the Target Group
"Target BVI"	Treasure Join Limited, a company incorporated in the BVI on 20 June 2012 which is wholly owned by the Vendor

"Target Group"	collectively, Target BVI, the HK Subsidiaries, the PRC Subsidiaries and any other subsidiaries of Target BVI as of the Completion Date, and the expressions "member(s) of the Target Group" and "Target Group Company(ies)" shall be construed accordingly
"Target HK No.1"	Menston Investment Limited (萬耀投資有限公司), a company incorporated in Hong Kong on 22 December 2010 and a wholly-owned subsidiary of Target BVI
"Target HK No.2"	Dragon Growth Investment Limited (龍保投資有限公司), a company incorporated in Hong Kong on 16 April 2010 and a wholly-owned subsidiary of Target BVI
"Target PRC No.1"	吉林市瑞信小額貸款有限公司 (Jilin Ruixin Microfinance Co., Ltd.*), a company established on 18 October 2012 in the PRC and a wholly-owned subsidiary of Target HK No.1
"Target PRC No.2"	吉林豐瑞投資管理諮詢有限公司 (Jilin Fengrui Investment Management Consulting Co., Ltd.*), a company established on 30 October 2012 in the PRC and a wholly-owned subsidiary of Target HK No.2
"Tax Benefits"	the recognition of only 10% of Target PRC No.2's total revenue as taxable income (as compared to 100% applicable to most enterprises in the PRC) which the standard 25% enterprise income tax rate applies to, and a refund of 50% of the business tax and additional levies and 50% of the local government retained portion of enterprise and individual income taxes paid by Target PRC No.2 if the total amount of tax payable by Target PRC No.2 is not less than RMB1 million (if the total amount of tax payable by Target PRC No.2 is RMB3 million or more, then 80% of the local government retained portion of enterprise and individual income taxes paid by Target PRC No.2 will be refunded)
"Turnover Certificate"	a certificate of the turnover of the PRC Subsidiaries arising from the Target Business (exclusive of any value added tax or business tax) for a specified period to be provided by the reporting accountants to be appointed by the Company in connection with the Acquisition
"Valuation Report"	the valuation report prepared by the Valuer on the valuation of the Target Group
"Valuer"	Peak Vision Appraisals Limited, an independent qualified valuer
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong

"RMB"	Renminbi, the lawful currency of the PRC
"US$"	United States dollars, the lawful currency of the United States of America
"%"	per cent.

For the purpose of this circular, unless otherwise specified, conversions of RMB into HK$ are based on the approximate exchange rate of RMB1 to HK$1.2501.

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

SINO PROSPER STATE GOLD RESOURCES HOLDINGS LIMITED
中盈國金資源控股有限公司

(incorporated in the Cayman Islands with limited liability)
(Stock Code: 766)

Executive Directors:
Mr. Leung Ngai Man *(Chairman)*
Mr. Sung Kin Man *(Chief Executive)*
Mr. Ng Kwok Chu, Winfield

Independent non-executive Directors:
Mr. Niu Zhihui
Mr. Cai Wei Lun
Mr. Zhang Qingkui

Registered office:
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Head office and principal place of business:
Unit A03, 11th Floor
Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

11 September 2013

To the Shareholders

Dear Sir/Madam,

(1) VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL IN, AND SHAREHOLDER'S LOANS TO TREASURE JOIN LIMITED INVOLVING THE ISSUE OF PROMISSORY NOTES AND CONVERTIBLE BONDS; (2) PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL AND (3) NOTICE OF EXTRAORDINARY GENERAL MEETING

INTRODUCTION

On 27 September 2012 (after trading hours), the Purchaser (being a wholly-owned subsidiary of the Company) and the Vendor entered into the Agreement, pursuant to which the Purchaser has agreed to acquire, and the Vendor has agreed to sell (or procure the sale of) the Sale Shares and the Sale Debts, on and subject to the terms and conditions of the Agreement.

The Consideration shall be a maximum of HK$850 million, subject to the Closing Conditions, the T2 Payment Condition, the T3 Payment Conditions and the T4 Payment Condition being fulfilled or waived (to the extent waivable). The Consideration shall be satisfied by the Purchaser by a combination of cash payment and the issue of the Promissory Notes and the Convertible Bonds to the Vendor.

Subject to the terms and conditions of the Convertible Bonds, the maximum number of Conversion Shares issuable under the Convertible Bonds is 1,216,216,216 if the Convertible Bonds are exercised in full. The 1,216,216,216 Conversion Shares represent approximately 156.8% of the existing issued share capital of the Company as at the Latest Practicable Date and approximately 61.1% of the issued share capital of the Company as enlarged by the issue of the Conversion Shares (assuming that the number of issued Shares is not otherwise altered).

Besides, in order to facilitate the possible conversion of the Convertible Bonds and to provide for future expansion in the share capital of the Company, the Directors propose that the authorised share capital of the Company be increased from HK$200,000,000 (divided into 2,000,000,000 Shares of HK$0.10 each) to HK$400,000,000 (divided into 4,000,000,000 Shares of HK$0.10 each). The proposed increase in authorised share capital of the Company is conditional upon the passing of an ordinary resolution by the Shareholders at the EGM.

The purpose of this circular is to provide you with, among other things, (i) further details of the Acquisition, and the proposed increase in authorised share capital of the Company; (ii) a letter of recommendation from the Independent Board Committee in relation to the terms of the Acquisition; (iii) a letter of advice from the Independent Financial Adviser in relation to the terms of the Acquisition; and (iv) a notice of the EGM.

THE AGREEMENT

On 27 September 2012 (after trading hours), the Purchaser (being a wholly-owned subsidiary of the Company) and the Vendor entered into the Agreement, pursuant to which the Purchaser has agreed to acquire, and the Vendor has agreed to sell, or procure the sale of, the Sale Shares and the Sale Debts, on and subject to the terms and conditions of the Agreement. Set out below are the principal terms of the Agreement:

Date: 27 September 2012

Parties

Purchaser: the Purchaser, being a wholly-owned subsidiary of the Company

Vendor: Mr. Leung, a substantial Shareholder, the Chairman of the Company and an executive Director

Assets to be acquired

(i) The Sale Shares, representing the entire issued share capital in Target BVI immediately before Completion; and

(ii) the Sale Debts, representing such amount equal to the face value of the loans outstanding as at Completion made by or on behalf of the Vendor (or his associates) to the Target Group.

Consideration

The Consideration shall be a maximum of HK$850 million, subject to the Closing Conditions, the T2 Payment Condition, the T3 Payment Conditions and the T4 Payment Condition being fulfilled or waived (to the extent waivable). After the entering into of the Agreement, HK$200 million was paid by the Purchaser to the Vendor in cash as a refundable deposit (the "**Deposit**") for the Acquisition. The remaining Consideration shall be satisfied by the Purchaser to the Vendor in the following manner:

(a) as to HK$425 million by the payment of the T1 Price upon Completion, which comprises:

  (i) as to HK$75 million by procuring the Company to issue to the Vendor (or such person as nominated in writing by the Vendor) the T1 CB;

  (ii) as to HK$150 million by issuing and delivering to the Vendor (or such person as nominated in writing by the Vendor) the T1 P-Note;

  (iii) as to HK$200 million by applying the Deposit to satisfy the payment of a pro tanto amount of the T1 Price; and

(b) as to the remaining HK$425 million by the payment of the T2 Price (in the sum of HK$170 million), the T3 Price (in the sum of HK$170 million) and the T4 Price (in the sum of HK$85 million) subject to and upon the satisfaction of the T2 Payment Condition, the T3 Payment Conditions and the T4 Payment Condition respectively, details of which are set out in the following paragraphs of this circular.

The Consideration shall be HK$850 million if and only if all of the Closing Conditions, the T2 Payment Condition, the T3 Payment Conditions and the T4 Payment Condition are fulfilled or waived (to the extent waivable). If the Closing Conditions are not fulfilled or waived (to the extent waivable), Completion will not take place and the Consideration shall be zero. If only the T2 Payment Condition is not fulfilled, the T2 Price (which is in the sum of HK$170 million) will not become payable and the Consideration shall be HK$680 million. If only the T3 Payment Conditions are not fulfilled, the T3 Price (which is in the sum of HK$170 million) will not become payable and the Consideration shall be HK$680 million. If only the T4 Payment Condition is not fulfilled, the T4 Price (which is in the sum of HK$85 million) will not become payable and the Consideration shall be HK$765 million. If a combination of the T2 Payment Condition, the T3 Payment Conditions and/or the T4 Payment Condition is not fulfilled, the corresponding T2 Price, T3 Price and/or T4 Price will not become payable and the Consideration shall become an amount equivalent to HK$850 million minus the sum of the corresponding amount of the T2 Price, T3 Price and/or T4 Price as the case may be. In an extreme case where only the Closing Conditions are satisfied, the Consideration payable by the Company under the Agreement would only amount to HK$425 million.

If the Agreement is terminated due to the Closing Conditions not being fulfilled or waived (to the extent waivable) on or before the Long Stop Date, the Vendor shall, within 20 Business Days after the Long Stop Date, repay to the Purchaser an amount equivalent to the Deposit without interest.

The Deposit of HK$200 million has been paid. The Board considers that the payment of the Deposit allows the Company to secure the opportunity of acquiring the Target Group. In addition, under the Agreement, the Vendor is not entitled to forfeit the Deposit if any of the Closing Conditions are not fulfilled and the Company elects not to waive such Closing Condition, hence not to proceed with the Completion. The Board considers that the refundable nature of the Deposit allows the Company to recover the Deposit in full, in case of the Closing Conditions not being fulfilled or waived (to the extent waivable) and thereby provides safeguards to the Company's interest, and it is on normal commercial terms that such refund of the Deposit is to be made without interest. In view of the above, the Board is of the view that the payment of the Deposit and, if applicable, the refund of the Deposit without interest, are fair and reasonable to the Company and the Shareholders as a whole.

For the avoidance of doubt, if any of the T2 Payment Condition, the T3 Payment Conditions and the T4 Payment Condition is/are not fulfilled within the prescribed time limit under the Agreement, the amount of the outstanding Consideration to be satisfied by the payment of the respective tranches of the Consideration (i.e. the T2 Price, the T3 Price and/or the T4 Price) shall be deemed to be absolutely waived by the Vendor forthwith upon expiry of such prescribed time limit.

T2 Payment Condition

The T2 Payment Condition is:

(i) the reviewed (or, as the case may be, audited) consolidated (or, as the case may be, combined) turnover of the PRC Subsidiaries as shown in the Turnover Certificate for the T2 Period being not less than RMB7.5 million (or, where the registered capital in Target PRC No.1 in the sum of RMB100 million will have been paid up by more than three months during the T2 Period, RMB12 million), or

(ii) the aggregate of the following being not less than RMB15 million (or, where the registered capital in Target PRC No.1 in the sum of RMB100 million will have been paid up by more than three months during the T2 Period, RMB27 million):

  (a) the reviewed (or, as the case may be, audited) consolidated (or, as the case may be, combined) turnover of the PRC Subsidiaries arising from the Target Business (exclusive of any value added tax or business tax) as shown in the Turnover Certificate for the T2 Period, and

  (b) the reviewed (or, as the case may be, audited) consolidated (or, as the case may be, combined) turnover of the PRC Subsidiaries arising from the Target Business (exclusive of any value added tax or business tax) as shown in the Turnover Certificate for the T4 Period.

T2 Price

If the T2 Payment Condition is satisfied, the T2 Price, which is in the sum of HK$170 million, shall be paid by the Purchaser to the Vendor:

(a) as to HK$120 million by procuring the Company to issue to the Vendor (or such person as nominated in writing by the Vendor) of the T2 CB for such principal amount; and

(b) as to HK$50 million by issuing and delivering to the Vendor (or such person as nominated in writing by the Vendor) the T2 P-Note,

within 15 Business Days after the date of issue of the relevant Turnover Certificate. The issue date of the Turnover Certificate in any event shall not be later than three months from the ending date of the T2 Period or, where applicable, the T4 Period in respect of condition (ii) under the paragraph headed "T2 Payment Condition" above.

T3 Payment Conditions

The T3 Payment Conditions are:

(i) all Permits (including without limitation those issued by the relevant commerce department (商務部門), finance department (金融部門) and industry and commerce administration authority (工商管理機關) of the PRC government) for increasing the registered capital of Target PRC No.1 to no less than RMB200 million being obtained by Target PRC No.1 and Target HK No.1; and

(ii) a legal opinion being received by the Purchaser from a licensed firm of PRC legal advisers whose experience and qualification are acceptable to the Purchaser, in such form and substance to the reasonable satisfaction of the Purchaser, confirming the matters stated in the above condition (i) of the T3 Payment Conditions.

In respect of the T3 Payment Conditions, it is the obligation of the Vendor (instead of the Group) to obtain the Permits and the legal opinion as stated in paragraph (i) and (ii) above regardless of whether Completion has taken place or will take place before or after the obtaining of such Permits and legal opinion.

As at the Latest Practicable Date, the Vendor has advised that he had not commenced the application process for the aforementioned Permits for increasing the registered capital of Target PRC No.1 to no less than RMB200 million because Target PRC No.1 is not eligible to apply for increase in its registered capital until its current registered capital of RMB100 million has been fully contributed. The Vendor has further advised that he will commence the application process after the current registered capital of Target PRC No.1 is fully paid up. As at the Latest Practicable Date, the registered capital of Target PRC No.1 is RMB100 million, among which RMB50 million has already been paid up (which was entirely funded by the Vendor as part of the Funding Obligation), while the remaining RMB50 million has not been paid (which is expected to be paid by the Group after Completion). Assuming Completion is to take place in September 2013 or early October 2013 and the remaining RMB50 million of registered capital of Target PRC No.1 is to be paid up by the Group in October 2013, the Vendor expects that the application process will commence by November 2013 and that all Permits in relation to the increase in the registered capital of Target PRC No.1 to no less than RMB200 million will be obtained no later than June 2014.

For the avoidance of doubt, the payment of such increased portion of the registered capital in Target PRC No.1 need not be made by the Vendor as such payment forms part of the obligation of the Purchaser after Completion.

Please refer to the paragraphs headed "Registered and paid-up capital of the PRC Subsidiaries" below for information regarding the status of increasing the registered capital of Target PRC No.1.

T3 Price

If the T3 Payment Conditions are satisfied, the T3 Price, which is in the sum of HK$170 million, shall be paid by the Purchaser to the Vendor by procuring the Company to issue to the Vendor (or such other person as nominated in writing by the Vendor) the T3 CB for such principal amount within 15 Business Days after the date of issuance of the legal opinion as mentioned in the T3 Payment Conditions. The issue date of such legal opinion in any event should not be later than 12 months from the Completion Date.

T4 Payment Condition

The T4 Payment Condition is:

(i) the reviewed (or, as the case may be, audited) consolidated (or, as the case may be, combined) turnover of the PRC Subsidiaries arising from the Target Business (exclusive of any value added tax or business tax) as shown in the Turnover Certificate for the T4 Period being not less than RMB7.5 million (or, where the registered capital in Target PRC No.1 in the sum of RMB100 million will have been paid up by more than three months during the T2 Period, RMB12 million), or

(ii) condition (ii) as set out in the paragraph headed "T2 Payment Condition" above.

T4 Price

If the T4 Payment Condition is satisfied, the T4 Price, which is in the sum of HK$85 million, shall be paid by the Purchaser to the Vendor by procuring the Company to issue to the Vendor (or such other person as nominated in writing by the Vendor) the T4 CB for such principal amount within 15 Business Days after the date of issue of the relevant Turnover Certificate. The date of issue of such Turnover Certificate in any event should not be later than three months from the closing date of the T4 Period.

Additional information regarding T2 Payment Condition and T4 Payment Condition

The micro-financing business is generally straightforward as it involves mainly lending and borrowing of money. Unlike the manufacturing or trading business, such business does not have items such as inventories, machineries, plant and equipment, raw materials, works in progress, or accounts payable to suppliers. At the time of signing of the Agreement, it is less certain as to the number of lending transactions which Target PRC No.1 will be engaged for the relevant T2 Period or T4 Period. If there is only a limited number of transactions, review procedure (in respect of which a lower fee will be charged by auditors) of the turnover is considered to be sufficient. On the other hand, if there is a significant number of transactions, an audit (in respect of which a higher fee will be charged by auditors) of the turnover may be necessary.

At the time of signing of the Agreement, it was contemplated that the decision on whether the audit or review process will be adopted will be made by mutual agreement between the Vendor and the Purchaser, and that the Purchaser will, after the expiry of the relevant T2 Period or T4 Period, consider the financial statements and other business data and then decide, from a cost-benefit perspective, on whether an audit or review process is more appropriate. At the time of signing of the Agreement, it was intended that an audit would be conducted where there were three or more transactions and the Board considered that it is fair and reasonable to require an audit when there are three or more transactions having considered that (i) micro-financing business is generally straightforward as it involves mainly the lending and borrowing of money and does not have items such as inventories, machineries, plant and equipment, raw materials, works in progress, accounts payable to suppliers; (ii) a lower fee will be charged by auditors in respect of review procedure; (iii) a higher fee will be charged by auditors in respect of audit procedures; and (iv) requiring audit procedures for three or more transactions is considered to be appropriate from a cost-benefit perspective.

As at the Latest Practicable Date, it is the current intention of the Company that in respect of the T2 Payment Condition and the T4 Payment Condition, the turnover of the PRC Subsidiaries should be based on audited figures. The Vendor agrees with the Company's intention that the turnover of the PRC Subsidiaries should be audited in respect of the T2 Payment Condition and the T4 Payment Condition.

Turnover of the PRC Subsidiaries arising from the Target Business will mainly comprise interest income generated from the provision of micro-financing as well as consultation fee income associated with the provision of investment and management consultation services. As stipulated in the Agreement, the accounts in respect of the PRC Subsidiaries will be prepared in accordance with HK GAAP as well as the accounting policies adopted by the Company, and the reporting accountants to be appointed by the Company in connection with the Acquisition will carry out the review or audit of such accounts of the PRC Subsidiaries in accordance with the reviewing or auditing (as the case may be) standards and guidelines issued from time to time by the Hong Kong Institute of Certified Public Accountants.

Turnover will be recognised in accordance with HK GAAP. Specifically, interest income is accrued on a time basis by reference to the outstanding principal and at the effective interest rate applicable, while consultation fee income is recognised when the services are rendered.

The turnover threshold of RMB7.5 million in respect of the T2 Period was determined based on (i) the amount of registered capital of Target PRC No.1 which would have been paid up before the commencement of the T2 Period (being RMB50 million); and (ii) the amount of interest income and consultancy fee income which were expected to be reasonably derived by the PRC Subsidiaries during the T2 Period (which is a six-month period) by making use of such paid-up capital having regard to the expected interest rate that can be charged and the expected number of days during which interests can be earned. Such variables used in the determination of the turnover threshold of RMB7.5 million were consistent with those adopted in the Valuation Report.

The turnover threshold of RMB15 million in respect of the T2 Period and the T4 Period was determined based on (i) the amount of registered capital of Target PRC No.1 which would have been paid up before the commencement of the T2 Period (being RMB50 million); and (ii) the amount of interest income and consultancy fee income which were expected to be reasonably derived by the PRC Subsidiaries during the T2 Period and the T4 Period (one year if consider the T2 Period and T4 Period together) by making use of such paid-up capital having regard to the expected interest rate that can be charged and the expected number of days during which interests can be earned. Such variables used in the determination of the turnover threshold of RMB15 million were consistent with those adopted in the Valuation Report.

Basis of the Consideration

The Consideration was determined by the Vendor and the Purchaser on the basis of normal commercial terms and arm's length negotiations by reference to, inter alia: (i) the opportunity for the Group to gain access to the financial market in the PRC and to broaden the income base of the Group; (ii) Target PRC No.1 having obtained the Permits for carrying out the business of the provision of micro-financing such that Target PRC No.1 is allowed to tap into the money lending industry in Jilin City, the PRC and to earn interest income from its money lending activities and Target PRC No.2 is able to earn consultancy fee income from its consultancy services provided to customers of Target PRC No.1; and (iii) a preliminary valuation provided by the Valuer, which is subject to, among other things, the formal Valuation Report. The Board received the preliminary valuation provided by the Valuer before the determination of the Consideration. The valuation amount of the preliminary valuation was approximately HK$950 million. According to the Valuation Report set out in Appendix V to this circular, the market value of the entire equity interest in the Target Group as at 30 June 2013 is RMB1,101.8 million (equivalent to approximately HK$1,377.4 million). The difference between the preliminary valuation and the final valuation stated in the Valuation Report was mainly attributable to the Tax Benefits, which were not considered in the preliminary valuation, as well as the differences between various parameters adopted in the preliminary valuation and those adopted in the final valuation, where such differences in the parameters were mainly due to the changes made to the then estimated parameters after actual operating statistics of the Target Group become available. The valuer performed the preliminary valuation based on the best available information at that time and considers the preliminary result was fair and reasonable. The Tax Benefits were granted to Target PRC No.2, which include the recognition of only 10% of Target PRC No.2's total revenue as taxable income (as compared to 100% applicable to most enterprises in the PRC) which the standard 25% enterprise income tax rate applies to and a refund of 50% of the business tax and additional levies and 50% of the local government retained portion of enterprise and individual income taxes paid by Target PRC No.2 if the total amount of tax payable by Target PRC No.2 is not less than RMB1 million (if the total amount of tax payable by Target PRC No.2 is RMB3 million or more, then 80% of the local government retained portion of enterprise and individual income taxes paid by Target PRC No.2 will be refunded). The Tax Benefits reduce the amount of tax payable by Target PRC No.2 and can thereby lead to an increase in profits after tax of the Target Group, and thus increase in the valuation from the preliminary valuation of approximately HK$950 million to approximately HK1,377.4 million as stated in the final Valuation Report. For further details of the Tax Benefits, please refer to the paragraph headed "Tax Benefits" in this letter. For further information on the impact of the Tax Benefits on the valuation, please refer to section 15.0 of the Valuation Report as set out in Appendix IV to this circular.

The Directors consider that each of the T1 Price, T2 Price, T3 Price and T4 Price is commercially justified and is in the interest of the Company and the Shareholders as a whole because:

T1 Price

If only the Closing Conditions are satisfied, only the T1 Price would be payable by the Company to the Vendor. The T1 Price amounts to only HK$425 million, which equals only half of the maximum Consideration and is considered commercially justified having taken into account the fact that the registered capital of Target PRC No.1 would be only RMB100 million instead of RMB200 million if only the Closing Conditions are satisfied.

T3 Price

If only the T3 Payment Conditions are not fulfilled (and thereby the registered capital of Target PRC No.1 will be RMB100 million rather than RMB200 million), the Valuer has advised that the valuation of the Target Group (assuming that everything else remains unchanged) would be reduced to RMB605.62 million, or approximately HK$765 million (rather than the original HK$1,101.8 million). In such circumstances, the total consideration payable to the Vendor will be HK$680 million (being the sum of the T1 Price, T2 Price and T4 Price). Out of the current registered capital of RMB100 million for Target PRC No. 1, RMB50 million has already been contributed by the Vendor and the Group shall be responsible for the payment of the remaining RMB50 million subject to Completion. The Directors consider that even if such RMB50 million is to be regarded as part of the Company's cost of the proposed Acquisition, the Company's total cost of the proposed Acquisition under such circumstances would be the sum of HK$680 million (being the Consideration payable) and RMB50 million (being the payment of the remaining registered capital), which will add up to approximately HK$742.5 million and will still be lower than the valuation of approximately HK$765 million under such circumstances. As such, the Directors consider that the payment terms are commercially justified and in the interest of the Company and the Shareholders as a whole.

In respect of the aforementioned reduction of valuation to HK$765 million, such valuation of the Target Group is made on the basis that the T3 Payment Conditions are not fulfilled such that the registered capital of Target PRC No.1 shall be RMB100 million rather than RMB200 million, while all other assumptions and parameters adopted are the same as those adopted for the valuation of RMB1,101.8 million as stated in the Valuation Report. For details, please refer to page IV-26 of the Valuation Report.

For the avoidance of doubt, the valuation of HK$765 million includes the assumption of bank financing of RMB50 million on top of Target PRC No.1's registered capital of RMB100 million. The basis of adopting such assumption is that even if Target PRC No.1 is unable to increase its registered capital from RMB100 million to RMB200 million, Target PRC No.1 shall still be permitted under the relevant laws, and shall still be supported by the Jilin Bank to obtain bank financing of up to 50% of its net asset value. Such assumption is consistent with the assumptions adopted for the valuation of RMB1,101.8 million as stated in the Valuation Report which includes the assumption of bank financing of RMB100 million on top of the registered capital of RMB200 million.

T2 Price and T4 Price

The Directors acknowledge that there is a substantial difference between the amounts of T2 Price and T4 Price on one hand and the amounts of the respective turnover thresholds required under the T2 Payment Condition and the T4 Payment Condition on the other hand. The Directors are of the view that the T2 Price and the T4 Price are not meant to be dollar-to-dollar payments to the Vendor when the Target Group generates a certain amount of revenue. The T2 Price and the T4 Price were, as contemplated by the Directors upon the determination of the Consideration, a mechanism to release a portion of the Consideration to the Vendor if the Target Group has been proven to possess the particular level of revenue-generating ability. The Directors have therefore, under the T2 Payment Condition and the T4 Payment Condition, set out the respective turnover threshold of the Target Group during each of the six-month periods of the T2 Period and T4 Period (or the 12-month period if considering the T2 Period and the T4 Period together). Such turnover thresholds of the Target Group imposed by the Directors under the T2 Payment Condition and the T4 Payment Condition were consistent with the basis and parameters adopted in the Valuation Report and therefore, the Directors consider that if the Target Group is able to achieve such turnover thresholds specified under the T2 Payment Condition and the T4 Payment Condition, it would mean that the business value of the Target Group would be in line with the valuation as stated in the Valuation Report and as such, it would be justifiable to release a portion of the Consideration to the Vendor.

The Directors (including the independent non-executive Directors) consider that the terms of Acquisition (including the basis of the Consideration) are determined on an arm's length basis, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

In this connection, the Company has conducted and will, up to Completion, continue to conduct due diligence on the assets, liabilities, operations and affairs and the feasibility of the business plan of the Target Group, which include without limitation, the right of Target PRC No.1 to carry on the Target Business. Please refer to the paragraph headed "Information on the Target Group – Business development plan" for details of the business plan of the Target Group.

Attention of the Shareholders and potential investors of the Company is drawn to the potential investment risks in the Target Group including but not limited to the limited track record of operation, the life span of the aforesaid permits and the possible failure of the renewal thereof. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the Shares.

Closing Conditions

Completion of the Agreement is subject to the following Closing Conditions being fulfilled and remaining satisfied as at Completion (or waived by the Purchaser to the extent waivable):

(i) receipt by the Purchaser from the Vendor of a legal opinion on PRC laws (in such form and substance to the Purchaser's satisfaction) covering, among others, the following major issues:

   (a) each of the PRC Subsidiaries having been duly established and validly subsisting;

   (b) each of the PRC Subsidiaries having obtained all relevant operating Permits required at the time of its establishment and such Permits remaining valid;

   (c) the legality of the operation and business of the PRC Subsidiaries;

   (d) each of the PRC Subsidiaries having obtained the Permits for the Target Business and all such Permits being in full force and effect;

(e) the Reorganisation being legal, valid and enforceable under the PRC laws (to the extent applicable), and having been duly completed under the PRC laws (if applicable);

(f) (where applicable) the PRC Subsidiaries having obtained the rights to use and occupy all properties owned, leased or occupied by the Target Group;

(g) (if required) all necessary approval, authorisation, consent, registration and filings required having been obtained and effected by the PRC Subsidiaries and other companies within the Target Group (where applicable) in relation to the Agreement and the transactions contemplated thereunder,

and such other aspects of PRC law as the Purchaser may reasonably consider appropriate or relevant to the transactions contemplated by the Agreement;

(ii) the Listing Committee of the Stock Exchange having granted or having agreed to grant the listing of, and permission to deal in, the Conversion Shares which may be issued upon the exercise of the conversion rights attaching to the Convertible Bonds;

(iii) the approval by the Shareholders (or, as the case may be, the Independent Shareholders) at the EGM of the Agreement and the transactions contemplated thereunder (including but not limited to the allotment and issue of the Conversion Shares) and the proposed increase in authorised share capital of the Company and all other consents and acts required under the Listing Rules having been obtained and completed or, as the case may be, the relevant waiver from compliance with any of such rules having been obtained from the Stock Exchange;

(iv) (if required) all requisite waivers, consents and approvals from any relevant governments or regulatory authorities or other relevant third parties in connection with the transactions contemplated by the Agreement having been obtained;

(v) the Purchaser being reasonably satisfied with (a) the results of the due diligence exercise (whether legal, accounting, financial, operational or other aspects that the Purchaser considers relevant) on the Target Group, the Target Business and related activities, businesses, assets, liabilities, operations, prospects and other status which the Purchaser, its agents or professional advisers think necessary and appropriate to conduct, and (b) that the Reorganisation has been fully implemented and consummated;

(vi) the Purchaser being reasonably satisfied, from the date of this Agreement and at any time before the Completion, that the warranties given by the Vendor under the Agreement remain true and accurate in all material respects and are not misleading and that there is no breach in any material respect of any of such warranties or other provisions of the Agreement (including without limitation those concerning the Target Group) by the Vendor;

(vii) the Purchaser being satisfied that, from the date of the Agreement to Completion, there has not been any material adverse change in respect of any member of the Target Group;

(viii) all outstanding shareholder loans owing from the Target Group to the Vendor's associates having been assigned to become loans owing by Target BVI to the Vendor immediately before Completion and all necessary approvals, consents, authorisations and licences in relation thereto having been obtained from the relevant governmental authorities or parties concerned;

(ix) the reviewed (or, as the case may be, audited) consolidated (or, as the case may be, combined) turnover of the PRC Subsidiaries for any three months during the period of five months ending on 31 March 2013 as shown in the relevant Turnover Certificate being not less than RMB4.5 million; and

(x) the Purchaser or the Company having obtained a valuation report issued by a professional business valuer in Hong Kong that the market value of the Target Group (assuming that the Reorganisation had been completed and that the registered capital in the PRC Subsidiaries (RMB200 million for Target PRC No.1 and US$100,000 for Target PRC No.2 respectively) had been fully contributed or paid up as of 31 March 2013) is, in the opinion of such valuer, no less than HK$1,100 million as at such reference date which is within 2013 and which is no later than the Long Stop Date but no earlier than 31 March 2013.

As at the Latest Practicable Date, the Closing Conditions set out in item (i), (ix) and (x) were satisfied.

Under the Agreement, the Vendor has agreed to use all reasonable endeavours to satisfy the Closing Conditions (other than conditions (ii), (iii) and (x)) on or before the Long Stop Date. The Purchaser may at its absolute discretion at any time waive in writing any of the Closing Conditions (i), (v), (vi), (vii) and (viii) and such waiver may be made subject to such terms and conditions as may be determined by the Purchaser.

Closing Conditions (i), (v), (vi), (vii) and (viii) are waivable by the Purchaser because if these conditions are not fulfilled in full, the Company shall reserve the right to decide whether it would continue to complete the Acquisition by imposing further post-Completion obligations on the Vendor as such waiver may, as mentioned above, be made subject to such terms and conditions as may be determined by the Purchaser. As such, the Directors are of the view that so long as the right to waive these conditions is vested only in the Purchaser but not in the Vendor, the Company will have more flexibility in dealing with the Vendor in respect of the Acquisition, which, in the opinion of the Directors, is fair and reasonable and in the interest of the Company and the Shareholders as a whole. Nevertheless, the Company has no intention to waive any of the Closing Conditions, or, if exercising such wavier right, only when the non-fulfilment is of a trivial (i.e. non-material) nature. Examples of non-compliance of a trivial nature include, for illustration purpose: (i) the time of payment of registered capital was made in Hong Kong before the deadline as required by the Permits, but was received by the relevant PRC enterprise shortly (say, a few days) after such deadline; or (ii) the relevant amount of registered capital to be paid up was injected from Hong Kong, but because of the change in the exchange rate between the time of remittance and time of receipt, there could be a shortfall of a very small amount. These would constitute technical breaches, but do not have any material adverse implication. The Purchaser may choose to complete the Acquisition, and (if thought fit) require the Vendor to rectify the matters within a reasonable period of time.

In connection with the above, as of the Latest Practicable Date, the Company does not have any intention to change any Closing Condition to a condition subsequent to Completion. The Company will make further announcements when appropriate if and when any Closing Condition changes to a condition subsequent to Completion and will seek Independent Shareholders' approval in accordance with the Listing Rules for any such change if the change is of a material nature.

In the Agreement, Closing Condition (ix) did not specify whether the turnover should be reviewed or audited. However, as shown in Appendix II of this circular, the financial information of the Target Group for the three months ended 31 March 2013 was audited.

The turnover threshold of RMB4.5 million in respect of Closing Condition (ix) was determined based on: (i) the amount of registered capital of Target PRC No.1 which would have been paid up before the commencement of the said period (being RMB50 million); and (ii) the amount of interest income and consultancy fee income which was expected to be reasonably derived by the PRC Subsidiaries during the said period by making use of such paid-up capital having regard to the expected interest rate that can be charged and the expected number of days during which interests can be earned. Such variables used in the determination of the turnover threshold of RMB4.5 million were consistent with those adopted in the Valuation Report.

The following table sets out the actual turnover (audited) of the PRC Subsidiaries for the five months ended 31 March 2013:

	From the commencement of business of the PRC Subsidiaries in December 2012 to 31 December 2012	Three months ended 31 March 2013	Total
	RMB'000	*RMB'000*	*RMB'000*
Actual turnover of the PRC Subsidiaries (exclusive of any value added tax or business tax in accordance with the requirements under Closing Condition (ix))	480	4,608	5,088

Up to the Latest Practicable Date, all loans lent out during the said five-month period had been repaid except for one loan with the loan amount of RMB6 million which is due on 21 September 2013. For the loans lent out during the said five-month period, the securities provided by the borrowers for such loans included personal/corporate guarantees provided by the borrower's related entities as well as licensed financial guarantee companies.

Completion

Subject to the satisfaction (or waiver to the extent waivable) of all Closing Conditions, Completion shall take place at 11:00 a.m. on the Completion Date.

PRINCIPAL TERMS OF THE CONVERTIBLE BONDS

The Convertible Bonds comprise the T1 CB, the T2 CB, the T3 CB and the T4 CB. The terms and conditions of the Convertible Bonds have been negotiated on an arm's length basis. The following sets out the principal terms of the Convertible Bonds:

Issuer	:	The Company
Aggregate principal amount	:	Up to HK$450 million, comprising: – T1 CB: HK$75 million – T2 CB: HK$120 million – T3 CB: HK$170 million – T4 CB: HK$85 million
Interest	:	Interest free
Maturity date and redemption	:	All of the T1 CB, T2 CB, T3 CB and the T4 CB shall be due on the 5th anniversary of the date of issue of the T1 CB. The Company shall redeem any Convertible Bonds which remain outstanding at 4:00 p.m. on the maturity date at its principal amount.

Redemption before the Maturity Date	:	The Company is entitled (but is not obliged) at its absolute discretion to redeem any Convertible Bond which is outstanding before the maturity date at such principal amount as the Company considers appropriate, so long as the Board of the Company considers that such early redemption is in the best interest of the Company. To the extent that the Company issues to the bondholder an early redemption notice (which shall be irrevocable, unless with the written consent of the bondholder), the bondholder shall within 10 Business Days from the date of such notice being served on him tender the certificate(s) in respect of the Convertible Bonds in the sum (or a greater sum) stated in the redemption notice, following which the Company shall redeem the Convertible Bonds for the principal amount stated in the said redemption notice and (where applicable) issue a new certificate for such amount as equal to (i) the aggregate principal amount of the Convertible Bonds as represented by the certificate(s) tendered by the bondholder for redemption, after (ii) deducting the principal amount so redeemed. Any such early redemption shall be made available to all bondholders alike.
Conversion	:	Holders of the Convertible Bonds have the right to convert the whole or part (in the multiple of HK$185,000 unless the outstanding principal amount of the Convertible Bond held by a bondholder is less than HK$185,000) of their (a) T1 CB into Conversion Shares at any time during the T1 Conversion Period; (b) T2 CB into Conversion Shares at any time during the T2 Conversion Period; (c) T3 CB into Conversion Shares at any time during the T3 Conversion Period; and (d) T4 CB into Conversion Shares at any time during the T4 Conversion Period, at the conversion price of HK$0.37 per Conversion Share (subject to customary adjustment upon the occurrence of consolidation or subdivision of Shares, capitalisation issue, capital distribution, rights issue and other dilutive events, a summary of which is set out in paragraph 12 headed "Events triggering adjustments to conversion price and the adjustment formula of the Convertible Bonds" of Appendix VI of this circular) provided that no conversion right attaching to the Convertible Bonds shall be exercised if: (i) following such exercise, a holder of the Convertible Bonds and parties acting in concert with it, taken together, will directly or indirectly

control or be interested in 30% or more of the entire issued share capital of the Company (or in such lower percentage as may from time to time be specified in the Takeovers Code as being the level for triggering a mandatory general offer); or

(ii) immediately after such conversion, the public float of the Shares falls below the minimum public float requirements stipulated under Rule 8.08 of the Listing Rules and as required by the Stock Exchange.

Conversion price : The conversion price of HK$0.37 per Conversion Share represents:

(i) a premium of approximately 7.25% over the closing price of HK$0.345 per Share as quoted on the Stock Exchange on the Last Trading Day;

(ii) a premium of approximately 1.37% over the average of the closing prices of the Shares for the last five consecutive trading days up to and including the Last Trading Day, being HK$0.365 per Share;

(iii) a premium of approximately 5.71% over the average of the closing prices of the Shares for the last ten consecutive trading days up to and including the Last Trading Day, being HK$0.350 per Share; and

(iv) a premium of approximately 42.3% over the closing price of HK$0.26 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

Ranking : The Conversion Shares, when allotted and issued, shall rank pari passu in all respects with the Shares in issue on the date of allotment and issue of the Conversion Shares.

Transferability	:	The Convertible Bonds shall be transferable to any person provided that where the Convertible Bonds are intended to be transferable to a connected person of the Company (other than the associates of the holder of the Convertible Bonds), such transfer shall be subject to the Company's prior written consent and shall comply with the requirements under the Listing Rules and/or requirements imposed by the Stock Exchange (if any). Subject as aforesaid, a Convertible Bond may be transferred to any person in whole multiples of HK$185,000 (or such lesser amount as may represent the entire principal amount thereof).
Voting right	:	Holder(s) of the Convertible Bonds shall not be entitled to attend or vote at any meeting of the Shareholders by reason of its being a holder of the Convertible Bonds only.
Listing	:	The Convertible Bonds will not be listed on the Stock Exchange or any other stock exchange. An application will be made to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.

The issue of the Conversion Shares will be made pursuant to a specific mandate to be sought at the EGM. As illustrated in the table set out under the paragraph headed "Shareholding structure of the Company" below and based on the assumptions set out therein, the maximum number of Conversion Shares issuable under the Convertible Bonds is 1,216,216,216 if the initial conversion price of HK$0.37 per Conversion Share is not adjusted. The 1,216,216,216 Conversion Shares represent approximately 156.8% of the existing issued share capital of the Company as at the Latest Practicable Date and approximately 61.1% of the issued share capital of the Company as enlarged by the issue of the Conversion Shares (assuming that the number of issued Shares is not otherwise altered).

PRINCIPAL TERMS OF THE PROMISSORY NOTES

The Promissory Notes comprise the T1 P-Note and the T2 P-Note. The terms of the Promissory Notes have been negotiated on an arm's length basis. The principal terms of the Promissory Notes are summarised as follows:

Issuer	:	The Purchaser
Principal amount	:	Up to HK$200 million, comprising: – T1 P-Note: HK$150 million – T2 P-Note: HK$50 million
Interest	:	1.5% per annum

Maturity	:	5 years from the respective date of issue of the T1 P-Note and the T2 P-Note
Early repayment	:	The issuer may, at its option, repay the Promissory Notes with the relevant interests in whole or in part by giving a prior 7 days' written notice to the Vendor. There will not be any premium or discount to the payment obligations under the Promissory Notes for any early repayment.

INFORMATION ON THE TARGET GROUP

Reorganisation in respect of the Target Group

Pursuant to the business plan of the Vendor, the following Reorganisation in respect of the Target Group has been carried out before Completion:

(i) Target PRC No.1 was to be incorporated in the PRC on or before 31 December 2012 and to become a wholly owned subsidiary of Target HK No.1 or such other company solely owned by the Target Company;

(ii) Target PRC No.2 was to be incorporated in the PRC on or before 31 December 2012 and to become a wholly owned subsidiary of Target HK No.2;

(iii) all Permits required by the PRC Subsidiaries for carrying on the Target Business were to be obtained on or before 31 December 2012;

(iv) the PRC Subsidiaries were to start to carry on the Target Business by no later than 31 December 2012; and

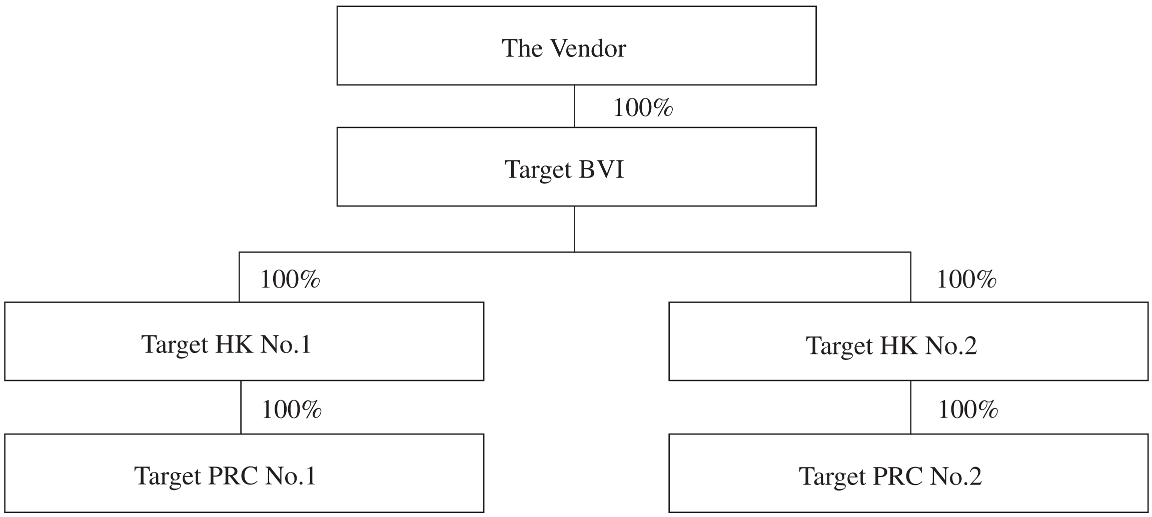
(v) such portion of the registered capital in the respective PRC Subsidiaries (which is RMB50 million for Target PRC No.1 and US$20,000 for Target PRC No.2 respectively) as required under the Permits were to be fully contributed and paid up by the respective HK Subsidiaries, as evidenced by capital verification report or reports to be issued by qualified PRC accountants.

All of the above steps under the Reorganisation were consummated before the Latest Practicable Date.

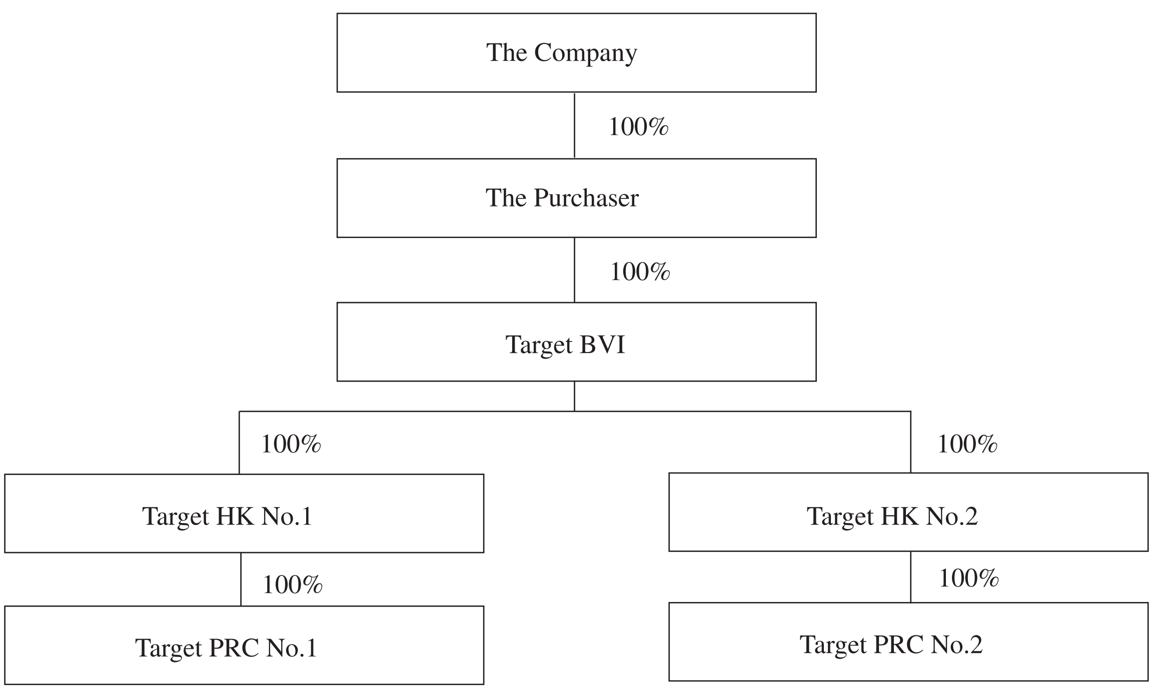
In particular, in respect of step (v), as at the Latest Practicable Date, RMB50 million was contributed by Target HK No.1 as a portion of the registered capital of Target PRC No.1 (which in turn was entirely funded by the Vendor) as required under the Permits, while the remaining RMB50 million will (assuming and subject to Completion) be paid by the Group (which is expected to be funded by the Group's internal resources) after Completion and within one year of the establishment of Target PRC No.1. In respect of Target PRC No.2, as at the Latest Practicable Date, the entire registered capital of Target PRC No.2 (being US$100,000) has been paid (which was entirely funded by the Vendor).

The shareholding structure of the Target Group (i) immediately after the Reorganisation and immediately before Completion and (ii) immediately after Completion are as follows:

Shareholding structure of the Target Group immediately after the Reorganisation and immediately before Completion



Shareholding structure of the Target Group immediately after Completion



Target BVI

Target BVI is an investment holding company incorporated in the BVI on 20 June 2012. Target BVI is wholly owned by the Vendor. Other than its investment in the HK Subsidiaries, Target BVI has not commenced any business operation since its incorporation and has no major asset or investment.

Target HK No.1

Target HK No.1 is an investment holding company incorporated in Hong Kong on 22 December 2010. Target HK No.1 owns the entire equity interest in Target PRC No.1. Other than its interest in Target PRC No.1, Target HK No.1 has not commenced any business operation since its incorporation and has no major asset or investment.

Target PRC No.1

Target PRC No.1 was established on 18 October 2012 in the PRC as a 中華人民共和國台港澳僑投資企業 (enterprise with investment of Taiwan, Hong Kong, Macao and overseas Chinese in the PRC*). Target PRC No.1 has obtained all necessary Permits to engage in the business of providing micro-financing and the provision of consultancy services in relation to the business development management and financial affairs of small enterprises. Such Permits include:

(i) a written approval issued by 吉林省金融工作辦公室 (Financial Affairs Office of Jilin Province*) which approved the business scope of Target PRC No.1 as the Target Business and stated, among other things, that Target PRC No.1 is only allowed to carry on the Target Business within Jilin City;

(ii) a written approval issued by Jilin Province ETCB approving the establishment of Target PRC No.1 as a 中華人民共和國台港澳僑投資企業 (enterprise with investment of Taiwan, Hong Kong, Macao and overseas Chinese in the PRC*) and stating, among other things, that (a) the aggregate investment amount allowed is RMB300 million; and (b) the registered capital of Target PRC No.1 is RMB100 million, among which 50% is to be paid up within three months from the date of issue of the business licence while the remaining balance is to be paid up within one year from such date; and

(iii) the business license (企業法人營業執照) issued by 吉林省工商行政管理局(Industrial and Commercial Administration Bureau of Jilin Province*) stating, among other things, that (a) Target PRC No.1 was officially established on 18 October 2012; and (b) the period of operations of Target PRC No.1 is from 18 October 2012 to 9 October 2032.

The written approval as mentioned in item (i) above in relation to the approval of the business scope of Target PRC No.1 does not contain limitation in respect of the licence period and is therefore not subject to renewal according to a PRC legal opinion obtained by the Group. According to such legal opinion, Target PRC No.1 is only subject to the renewal of the operating period as stated in its business licence, which is currently valid until 9 October 2032.

Target PRC No.1 has commenced business operation since December 2012 and is principally engaged in the provision of micro-financing in Jilin City, the PRC.

Target PRC No.1 has further obtained a written confirmation dated 23 July 2013 issued by Jilin City ETCB confirming that Target PRC No.1 was the only foreign invested micro-financing company in Jilin Province (whether in the form of Sino-foreign joint venture or wholly foreign-owned enterprise) as of the date of the confirmation.

Target HK No.2

Target HK No.2 is an investment holding company incorporated in Hong Kong on 16 April 2010. Target HK No.2 owns the entire equity interest in Target PRC No.2. Other than its interest in Target PRC No.2, Target HK No.2 has not commenced any business operation since its incorporation and has no major asset or investment.

Target PRC No.2

Target PRC No.2 was established on 30 October 2012 in the PRC as a 中華人民共和國台港澳僑投資企業 (enterprise with investment of Taiwan, Hong Kong, Macao and overseas Chinese in the PRC*).

Target PRC No.2 has obtained all necessary Permits for engaging in the business of providing consulting services in relation to corporate management and financial management, details of which are as follows:

(i) a written approval issued by Jilin City ETCB approving the establishment of Target PRC No.2 as a 中華人民共和國台港澳僑投資企業 (enterprise with investment of Taiwan, Hong Kong, Macao and overseas Chinese in the PRC*) and stating, among other things, that (a) the business scope of Target PRC No.2 is the provision of consulting services in relation to corporate management and financial management; (b) the aggregate investment amount allowed is US$140,000; and (c) the registered capital of Target PRC No.2 is US$100,000, among which 20% is to be paid up within three months from the date of issue of the business licence while the remaining is to be paid up within one year from such date; and

(ii) the business licence (企業法人營業執照) issued by 吉林市工商行政管理局 (Industrial and Commercial Administration Bureau of Jilin City*) stating, among other things, that (a) Target PRC No.2 was officially established on 30 October 2012; and (b) the period of operations of Target PRC No.2 is from 30 October 2012 to 29 October 2032.

According to the PRC legal opinion obtained by the Group, the business operations of Target PRC No.2 is not subject to any specific licencing requirement other than the obtaining of the business licence as mentioned in item (ii) above. Accordingly, Target PRC No.2 is only subject to the renewal of the operating period as stated in its business licence, which is currently valid until 29 October 2032.

The registered address of Target PRC No.2 is located in Panshi City, a county-level city in Jilin City, Jilin Province (吉林省磐石市). There is no geographical restriction on the business of Target PRC No.2, which means that Target PRC No.2 is allowed to carry on the business of provision of investment and management consultation services within as well as outside of Panshi City or Jilin City. Target PRC No.2 has commenced business operation since December 2012 and is principally engaged in the provision of consultation services. Since its commencement of business operation in December 2012 and up to the Latest Practicable Date, Target PRC No.2 has conducted businesses within Jilin City only.

Registered and paid-up capital of the PRC Subsidiaries

As at the Latest Practicable Date, the registered capital of Target PRC No.1 is RMB100 million while the registered capital of Target PRC No.2 is US$100,000.

In respect of the current registered capital of RMB100 million of Target PRC No.1, it is required under the Permits that 50% of such registered capital must be paid up on or before 10 January 2013, while the remaining 50% must be paid up within one year after the establishment of Target PRC No.1. As at the Latest Practicable Date, among the current registered capital of RMB100 million of Target PRC No.1, RMB50 million has already been paid up (which was entirely funded by the Vendor), while the remaining RMB50 million has not been paid up (which, subject to and after the Completion, will be paid by the Group).

In respect of the current registered capital of US$100,000 of Target PRC No.2, it is required under the Permits that 20% of such registered capital must be paid up on or before 29 January 2013, while the remaining 80% must be paid up within one year after the establishment of Target PRC No.2. As at the Latest Practicable Date, the entire registered capital of Target PRC No.2 (i.e., US$100,000) has already been paid up and such payment was entirely funded by the Vendor.

It is currently intended that Target PRC No.1 will apply to increase its registered capital from RMB100 million to RMB200 million after its current registered capital of RMB100 million has been fully contributed. In respect of the intended increase in the registered capital of Target PRC No.1 from RMB100 million to RMB200 million, such capital injection is expected to be made in 2014 (and in two tranches of RMB50 million each) while the source of funding is expected to be from the internal resources of the Group.

As stated in the Agreement, the Purchaser and the Vendor acknowledge and agree that the Vendor is obliged to fund, before the Completion Date and without recourse to any member of the Target Group, the payment of the first RMB50 million in respect of the registered capital of Target PRC No.1, and the payment of the first US$50,000 in respect of the registered capital of Target PRC No.2 (i.e., the Funding Obligation). Subject to Completion having taken place, the Vendor will not be obliged to fund the capital contribution in respect of the PRC Subsidiaries beyond the Funding Obligation.

The original investment cost of the Target Group of the Vendor consists mainly of the Funding Obligation and other legal and miscellaneous expenses, which in aggregate amount to approximately RMB51 million.

As mentioned above, as at the Latest Practicable Date, the Vendor has already performed the Funding Obligation, i.e., the Vendor has already funded and paid the first RMB50 million for the registered capital of Target PRC No.1 and the entire US$100,000 for the registered capital of Target PRC No.2. Notwithstanding that the Vendor's Funding Obligation in respect of Target PRC No.2 is US$50,000 only while the Vendor has funded and paid up the entire US$100,000 of the registered capital of Target PRC No.2 (representing an excess funding of US$50,000 by the Vendor in excess of the Funding Obligation), the Vendor has confirmed to the Company that the Group is not required to refund the excess funding of US$50,000 to the Vendor.

After Completion, the Group will make payment for the remaining RMB50 million of the registered capital of Target PRC No.1 for its use in its Target Business. The Group will also apply for the increase in the registered capital of Target PRC No.1 from RMB100 million to RMB200 million and the Group will also make payment for the additional RMB100 million of registered capital of Target PRC No.1. The Board intends to fund such payments (which in aggregate amount to RMB150 million in 3 installments of RMB50 million each) from the Group's internal resources.

The following table sets out the expected timetable for the payment of, and the application for increase in, the registered capital of Target PRC No.1:

Timing	**Action/event**	**Registered capital of Target PRC No.1 after completion of the relevant expected action/event** *RMB million*	**Paid-up registered capital of Target PRC No.1 after completion of the relevant expected action/event** *RMB million*
Latest Practicable Date	–	100	50
October 2013	Payment of the remaining RMB50 million of the registered capital of Target PRC No.1 before the prescribed deadline (one year from its establishment in October 2012) ("**Payment 1**")	100	100
November 2013 to no later than June 2014	Application for the increase in the registered capital of Target PRC No.1 from RMB100 million to RMB200 million	200	100
No later than June 2014	Payment of RMB50 million for the registered capital of Target PRC No.1	200	150
December 2014	Payment of RMB50 million for the registered capital of Target PRC No.1	200	200

The Director would like to draw the attention of the Shareholders that any possible delay in the above expected timetable will (assuming there is no change on other circumstances) have a negative impact on the financial performance and operation results of the Target Group as Target PRC No.1 will have less funds to lend out to its customers in conducting its micro-financing business, and will lead to a decrease in the net asset value as well as a decrease in the valuation of the Target Group as stated in the Valuation Report.

It is a requirement under the Permits that Payment 1 must be paid up within one year from the establishment of Target PRC No.1 (i.e., on or before 18 October 2013). Assuming that Completion will have taken place before 18 October 2013, if the Group does not have sufficient fund to make Payment 1 in full on or before 18 October 2013, Target PRC No.1 may be requested by the relevant PRC government authority to reduce its registered capital to RMB50 million or such higher amount of the approved registered capital that has already been contributed. As for the intended increase of RMB100 million in the registered capital of Target PRC No.1 (the "**Capital Increase**"), PRC law requires that at least 20% of the Capital Increase be paid up after Target PRC No.1 has obtained the required approvals from its original PRC approval authorities for the Capital Increase and just before it applies to 吉林省工商行政管理局 (Industrial and Commercial Administration Bureau of Jilin Province*) to register the Capital Increase. Any inability or delay of the Group to make payment for each tranche of the Capital Increase before the prescribed time limit imposed by the relevant PRC government authority may cause Target PRC No.1 to reduce its approved registered capital to RMB100 million only or such higher amount of the approved registered capital that has already been contributed, assuming Payment 1 has been made (because Target PRC No.1 would only be eligible to apply to increase its registered capital to a higher amount after the original registered capital of RMB100 million has been fully contributed) and there has been no change in other circumstances. If Target PRC No.1's registered capital is so reduced, Target PRC No. 1 will have less funds to lend out to its customers in conducting its micro-financing business. This as a result will have a negative impact on the financial performance and operation results of the Target Group and may lead to a decrease in the valuation of the Target Group from what is currently stated in the Valuation Report.

As set out in the above table, the Group will make payment for an aggregate of RMB150 million in registered capital of Target PRC No.1. The Group intends to fund such payments from the Group's internal resources. The Group will ensure that there is sufficient fund for such payments of registered capital by continuously monitoring its cash level and cash flows. In particular, the Directors would like to draw the Shareholders' attention that, apart from the Acquisition, the Company has announced the SSDL Acquisition, in relation to acquisition of a mine in Guizhou, the PRC, which constituted a major and connected transaction, on 30 December 2011; as well as a possible acquisition (the "**Possible Acquisition**"), pursuant to a memorandum of understanding (the "**MOU**"), on 19 August 2013. In respect of the SSDL Acquisition, all remaining considerations payable do not involve any additional cash payments. In respect of the Possible Acquisition, the completion of the Possible Acquisition shall be subject to and conditional upon the completion of funding for the Possible Acquisition in the equity market. As at the Latest Practicable Date, no formal agreement has been entered into by the parties thereto in respect of the Proposed Acquisition. Based on the foregoing, the Directors consider that the SSDL Acquisition and the Possible Acquisition will not have any material impact on the Group's financial position and hence its ability to pay up the registered capital of Target PRC No.1 in accordance with the aforementioned expected timetable. As at 31 March 2013, the Group has bank balances and cash of approximately HK$186.5 million and loans receivables of approximately HK$15.6 million (based on audited figures). As at 30 June 2013, the Group had bank balances and cash of approximately HK$184.8 million and loans receivables of approximately HK$8.5 million (based on unaudited figures). Having considered all of the above, the Directors are of the view that the Group will have sufficient funds available for the payment of the RMB150 million of registered capital of Target PRC No.1 according to the above expected timetable.

Nevertheless, in connection with the above, the Board will, subject to Completion, specifically reserve RMB150 million for the payments of the registered capital of Target PRC No.1 according to the above expected timetable. Among the proposed reserve of RMB150 million, an amount of RMB50 million is readily available for the immediate payment of Payment 1 at any time after the Completion. As for the remaining two payments of RMB50 million each expected to be made no later than June 2014 and December 2014, a sum of RMB100 million will be reserved by the Group for the payments of the registered capital of Target PRC No.1 in accordance with the above expected timetable. In consideration of the fact that there are still more than 9 to 15 months from the expected time of the respective payments, the Board is of the view that the Group remain flexible on the said reserved sum, for example be prepared to use the same in the Group's ordinary and usual course of business if necessary.

Business model

The principal business of the Target Group is the Target Business, i.e., the provision of micro-financing and the provision of investment and management consultation services.

Target PRC No.1 is principally engaged in the provision of micro-financing while Target PRC No.2 is principally engaged in the provision of consultation services.

Target PRC No.2 identifies potential customers who are in need of financing and provides consultation services to such customers by analysing the customers' business operations, financial position, and the nature and amount of financing needs. Target PRC No.2 also assesses the potential credit risk of the customer and, if considered appropriate, refers the customers to Target PRC No.1 for micro-financing. Target PRC No.2 will assist its customers in obtaining the necessary financing and charge a consultation fee, while Target PRC No.1 will provide micro-financing to its customers and charge interest.

Source of revenue

Revenue of the PRC Subsidiaries arising from the Target Business will mainly comprise interest income generated from the provision of micro-financing as well as consultation fee income associated with the provision of consultation services.

Target customers

The Target Group focuses on serving sole proprietors, small and medium-sized enterprises and their owners and/or related personnel. The Target Group approaches its target customers through various channels, including a direct sales team, referrals, outsourced marketing companies and tele-marketing.

The following table sets out the customer portfolio of the Target Group:

	From commencement of business operation in December 2012 up to 31 March 2013
Number of customers of Target PRC No.1	
• Individual	40
• Corporate	0
	40
Number of customers of Target PRC No.2	
• Individual	29
• Corporate	2
	31

For other operating statistics and financial information of the Target Group including its loan portfolio, default rate and value of collaterals, please refer to the paragraph headed "Financial information of the Target Group" below.

Major operating costs

The major operating costs of the Target Group include rental payments and staff costs. The Target Group has two commercial offices in Jilin City. The staff costs of the Target Group for the three months ended 31 March 2013 were approximately HK$367,000. It is currently estimated that the staff costs (including salaries, bonus, incentive payments and other insurance and subsidies) for the Target Group for the year ending 31 December 2013 would be approximately HK$1.67 million. In future, other cost for operating the Target Group includes primarily the finance cost as it is intended that Target PRC No.1 will obtain bank borrowings of RMB100 million for micro-financing business expansion. Assuming the cost of borrowing is 6% (which is based on the current long term lending rates in the PRC), the finance cost will be RMB6 million per annum.

Business development plan

After Completion, the Group intends to further develop the Target Business of the Target Group by expanding the Target Group's loan portfolio. In this connection, the Group will make payment for the remaining RMB50 million of the registered capital of Target PRC No.1 for its use in its micro-financing business. The Group will also apply for the increase in the registered capital of Target PRC No.1 from RMB100 million to RMB200 million, and the Group will also make payment for the additional RMB100 million of registered capital of Target PRC No.1 which is expected to be made in 2014. With the increase in registered capital, Target PRC No.1 is expected to be able to obtain extra bank borrowings (which are subject to a maximum amount of up to 50% of the net asset value) for its use in the micro-financing business.

Subject to Completion, it is the Company's plan to maintain the current management of the Target Group to carry on the Target Business. In order to manage the Target Group effectively, the Company plans to appoint additional and appropriate candidates especially with risk management experience in the PRC loan financing industry to the management of the Target Group.

The Company also intends to expand the Target Group's customer base especially focusing on (i) borrowers who are in need for quick access to financings on short notice and may not be able to endure the relatively long approval process of banks, and (ii) small and medium-sized enterprises (and their owners and/or related personnel) which lack the track record to obtain sufficient lines of credit from banks for their business development based on their individual circumstances and/or business operations.

Tax Benefits

Target PRC No.2 has been granted by the local tax authority the Tax Benefits, which include the recognition of only 10% of Target PRC No.2's total revenue as taxable income (as compared to 100% applicable to most enterprises in the PRC) which the standard 25% enterprise income tax rate applies to and a refund of 50% of the business tax and additional levies and 50% of the local government retained portion of enterprise and individual income taxes paid by Target PRC No.2 if the total amount of tax payable by Target PRC No.2 is not less than RMB1 million (if the total amount of tax payable by Target PRC No.2 is RMB3 million or more, then 80% of the local government retained portion of enterprise and individual income taxes paid by Target PRC No.2 will be refunded). The Company's PRC legal adviser, Jiayuan Law Fim (嘉源律師事務所) has confirmed that the said enterprise income tax benefit applicable to Target PRC No.2 pursuant to the Enterprise Income Tax Assessment and Collection Table (企業所得税徵收方式鑒定表), is in compliance with the relevant PRC laws and regulations and the said tax refund arrangement pursuant to the agreement entered into between Target PRC No.2 and the Panshi Economic Development Zone Management Committee* (磐石經濟開發區管委會) is enforceable. Such approval is subject to renewal annually and there is currently no restriction on the maximum number of renewals that can be applied for or obtained nor is there any restriction on the maximum tenure of the Tax Benefits. The Board considers that the Tax Benefits granted to Target PRC No.2 strengthen the competitiveness of the Target Group.

The Tax Benefits are assumed to continue to be valid in the Valuation Report, as the Valuer assumed there will be no major changes in the taxation laws in the localities in which the Target Group operates in the course of its valuation. The Board considers that such assumption is fair and reasonable as the Company's PRC legal adviser has confirmed that there is no major legal obstacle in obtaining such renewals in the future annually as long as it is able to meet the stated requirements, in term of its business size, revenue and profit and the laws and regulations prevailing at the time of renewal. Besides, there is no restriction on the maximum tenure of the Tax Benefits entitled to by Target PRC No.2 under the relevant laws and regulations.

If the Tax Benefits are not sustainable and Target PRC No.2 is subject to standard statutory taxes in the PRC, assuming that other basis, inputs and assumptions in the Valuation Report remain unchanged, the market value of the Target Group as at the Valuation Date would be reduced to RMB695,060,000 (or approximately HK$869 million), as compared to the original valuation of RMB1,101.8 million (or approximately HK$1,377.4 million). Please also refer to the paragraph headed "Basis of the Consideration" in this circular for details of the preliminary valuation provided by the Valuer.

Organisational structure

In terms of organisational structure, the Target Group has four divisions for the Target Business, namely, the credit business division, the credit management division, the credit risk management division and the administrative and finance division. In addition, there is a loan approval committee on top of the four divisions.

Credit business division

The credit business division is the revenue generating unit which mainly focuses on customer relationship development, product design, credit assessment, finalization of loan terms and debt collections. The division is principally responsible for identifying potential customers based on market research and conducting credit analysis of financial position, collateral quality, repayment ability and credit profiling of the borrowers. The division is also responsible for preparing analytical reports that summarizes the result such as the credit rank and risks and proposing to the customers the details of borrowing terms. This division also closely monitors the loan portfolios to ensure the borrowers' obligations are fulfilled without default.

Credit management division

The main function of this division is credit information system management. They will reassess all the materials provided by the credit business division and carry out relevant checks and verifications for further review. They will examine the findings and give preliminary advice on the analysis and investigation performed by credit business division. In addition, they will conduct internal reviews of the Target Group on, among other things, business operations, corporate governance and legal compliance issues. They will also be responsible for the provision of business training and performance appraisals.

Credit risk management division

This division is responsible for risk control activities. They will have the final review on credit analysis, in particular, the borrowing terms and conditions. Another main duty of the division is to monitor credit activities and supervise the debt collections performed by the credit business division. In case of doubtful debts, the credit risk management division and the credit business division will together provide solutions and pass the case to the senior management for instruction. Furthermore, they will prepare review reports regularly on the credit policies and suggest precautionary measures.

Administrative and finance division

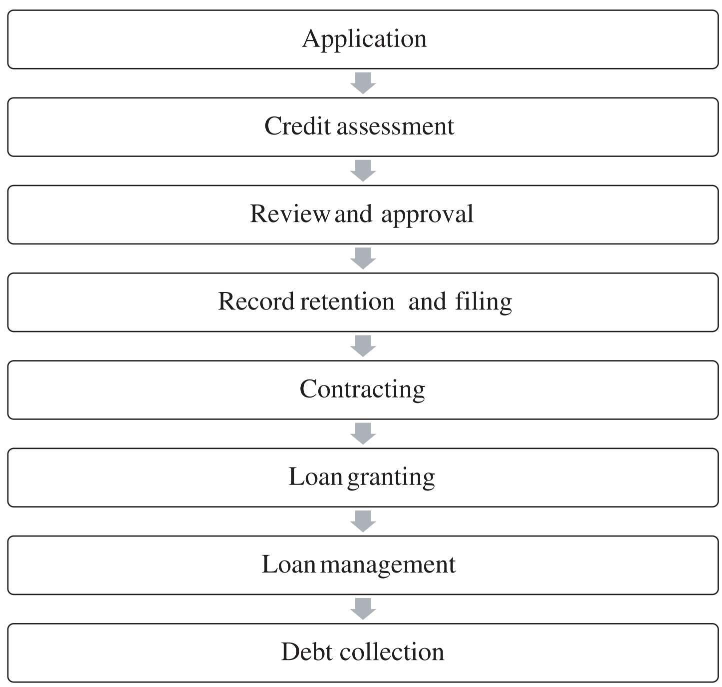
This division is in charge of administration, accounting and financial management of the Target Group. Apart from bookkeeping and business planning, its main function is to periodically report on the operations as well as the financial performance of the business based on the data and statistics. They will then highlight any issues for management consideration.

Loan approval committee

The committee is formed by each division head and the chief executive officer. All loan applications (including the borrowing terms and conditions) will be discussed among members of the loan approval committee and its final approval is required before Target PRC No.1 enters into any loan agreement.

Operating procedures

The loan approval procedures can be broadly divided into eight steps:



The borrower will first apply for loans and provide relevant information for review. Upon receiving the application, the credit business division will begin the credit assessment and forward the relevant documents for further review. The credit management division and the credit risk management division will conduct an in-depth assessment and give second opinions on the applications before submission to the loan approval committee. Once the committee approves the loans, all the related parties such as borrowers, lenders and guarantors, etc. will enter into binding contracts or agreements. The borrowing account will be monitored by officer regularly to check the use of loan proceeds and loan repayment. Additionally, a monthly investigation report concerning the credit business will be submitted to the senior management.

Criteria for loan approval

In considering whether to grant a loan to a potential customer, the Target Group will consider a range of factors on a case-by-case basis, which generally include the past credit record of the customer, the reliability of information provided by the customer, whether the customer proposes to use the loan for any illegal activities, whether the guarantor(s) of the customer is financially healthy, whether the customer has reliable and healthy source of income or cash flow to repay the loan and interest, and whether the customer or its guarantor's business is deteriorating or is difficult to improve. After assessing all relevant factors and circumstances on a case-by-case basis, the final loan approval decision will be made by the loan approval committee.

Determination of interest/fee rate

Target PRC No.1 normally charges its customers monthly interests calculated as a certain percentage of the principal amount of the loan, while Target PRC No.2 normally charges its customers a one-off consultation fee with reference to the loan principal amount that the customer is able to obtain from Target PRC No.1 as a result of the consultation service provided by Target PRC No.2. In determining such monthly interest rate charged by Target PRC No.1 and the consultation fee charged by Target PRC No.2, the Target Group mainly makes reference on a case-by-case basis to factors such as its overall risk assessment on the customer, whether personal/corporate guarantees and/or collaterals are provided and the financial healthiness and resourcefulness of the guarantors and/or the quality of the collaterals, the prevailing market conditions and negotiation with the customers.

Assessment of personal/corporate guarantees and collaterals (if any)

The Target Group will consider whether guarantees and/or collaterals are required on a case-by-case basis. When guarantees are required, the Target Group will usually require personal guarantees from the customer or the owner(s) of the customer and his/her spouse and other related persons as well as corporate guarantees from the customer or the customer's related entities or licensed financial guarantee companies. When collaterals are required, the Target Group is able to accept various types of collaterals with primary reference to the liquidity of the collaterals.

When assessing the guarantors, the Target Group will generally assess the guarantor's background, business, assets and liabilities and overall financial healthiness and resourcefulness. If the guarantor is a licensed financial guarantee company, the Target Group will also check out whether the company is properly licensed to provide guarantee service. Currently, the main financial guarantee company that provides financial guarantees for the Target Group's customers has a registered capital of RMB100 million.

When assessing the value of the collateral, the Target Group will conduct physical inspection of the collateral to ascertain its existence and conditions, require its customers to provide documentary evidence of title and ownership of the collateral, determine its value by making reference to recent market transactions, liquidity, and the condition of the collaterals based on physical inspection. The Target Group will check out the comparable market value of the collaterals based on the market prices of comparable types of goods/ properties available on the internet from relevant information websites and online trading platforms.

Determination of loan period

Loan period is typically determined based on customers' proposal in accordance with the customer's individual financial needs. The Target Group normally grants short-term loans only. Currently, the longest loan period that the Target Group has granted is 184 days.

Debt collection method

Before the interest or consultation fee falls due, the Target Group may remind its customer of the payment due date. Collection is done by the Target Group itself through communication with the customers. Customers of the Target Group may make repayments to the Target Group in cash or by way of bank transfer. If a customer fails to repay the principal or interest by its due date, the Target Group will contact the customer immediately to understand the situation. The Target Group may discuss with the customer regarding ways to resolve the situation in order to make repayments as soon as possible and/or demand immediate repayment of the full outstanding amount from the customer. The Target Group may also commence legal proceedings against the customer to recover any late payment charges and penalty interest and/or to exercise its rights under any securities provided. Currently the Target Group does not engage any third party agents for loan collection.

Prevention of fraud and misconduct by employees, customers and other third parties

The management of the Target Group regularly reviews its operations to ensure that the risk of fraud, misconduct and human error by employees, customers and other third parties are adequately managed by the organisational structure and the operating procedures of the Target Group. Please refer to the paragraphs headed "Organisational structure" and "Operating procedures" above for details of the Target Group's organisational structure and operating procedures.

Analysis from the perspective of PRC laws and overview of the practical operation as provided by the Company's PRC legal adviser

The following summarizes the information provided by the Company's PRC legal adviser in relation to: (i) the securities provided by the borrowers to micro-financing providers (including Target PRC No.1); (ii) the customer portfolio of micro-financing providers (including Target PRC No.1); and (iii) the difficulties for foreign investors to obtain the required approval and permit for setting up micro-financing business in the PRC:

(i) Securities Provided by the Borrowers to Micro-Financing Providers (including Target PRC No.1)

(a) For short term micro-financing lending transactions in the PRC, it is quite common for PRC micro-financing companies to secure the loans lent out to their customers by way of guarantee(s) provided by individuals or companies with good reputation and credit records and sound debt repayment ability.

(b) Under PRC law, joint and several liability personal/ corporate guarantees (including guarantee provided by licensed financial guarantee companies) are as legally binding and enforceable as securities over assets.

(c) Personal/ corporate guarantees will be good securities for the loans lent out so long as they are provided by individuals or companies (including licensed financial guarantee companies) with good reputation and credit records as well as sound debt paying abilities.

(ii) Customer Portfolio of Micro-Financing Providers (including Target PRC No.1)

In the PRC, micro-financing companies' target customers mainly consist of small and medium-sized enterprises and individual persons who have short-term financing need but are not willing to go through PRC banks' long approval process and/or not able to fulfill certain stringent lending criteria prescribed by PRC banks (such as financial track record). The Target Group's customer portfolio is consistent with such prevailing customer portfolio in the PRC micro-financing market.

(iii) Difficulties For Foreign Investors to Obtain the Required Approval and Permit for Setting Up Micro-Financing Business in the PRC

Micro-financing is an industry that the PRC government has only started to open up tentatively. Although the official criteria for setting up a micro-financing company in Jilin City or in the PRC do not seem to be stringent, in practice, it has been difficult for a foreign-invested enterprise (especially a wholly foreign-owned enterprise) to obtain the necessary approvals and permit for setting up a micro-financing business in Jilin City or other parts of the PRC because of the following reasons:

(a) the PRC government is tightening its foreign exchange control and hence it is also tightening the approval of investment holding or financial related companies (such as a micro-financing companies) to be set up by foreign investors. Therefore, when considering a foreign investor's application for setting up a micro-financing company (the "**Foreign Investor's Application**"), the local finance office (which is in charge of approving the Foreign Investor's Application) often could not obtain the necessary support from other relevant departments such as the local foreign exchange administrative bureau. Without such support, the local finance office would not approve the Foreign Investor's Application.

(b) Under the PRC government's tentative measures to allow foreign investors to invest in PRC's micro-financing business, there is usually prescribed quota allocated to each designated region as to the number of micro-financing business permits that the region is permitted to grant. Since the PRC government has tried to encourage domestic private capital to be invested in certain business sectors such as micro-financial services (including micro-financing business and agricultural co-operatives), the local government authority would prefer to allocate the quota to domestic PRC private investors or non-state-owned companies instead of foreign investors.

(c) The PRC government is trying to steer foreign investment to invest in high-end manufacturing and modern services sectors and would rather leave the non-industrial sectors (such as micro-financing) to be invested by domestic private capital or non-state-owned companies.

In fact, according to the Company's PRC legal adviser, the Zhejiang Province has clearly stated that foreign investors are not permitted to invest in micro-financing business in that province.

All of the above information and analysis set out in this section are provided by the Company's PRC legal adviser. The Board understands from the Company's PRC legal adviser that the above information are based on the interpretation of the Company's PRC legal adviser on the relevant PRC laws and regulations as well as its experience in practicing PRC laws. The Board is satisfied with the qualification and experience of the Company's PRC legal adviser and in view of the above, the Board considers that the source of information is reliable.

No contract-based structures

The PRC regulations applicable to the business scope of Target PRC No.1 and Target PRC No.2 do not restrict or limit foreign investment. As such, the Group will be able to enjoy all economic benefits of and to exercise management control over Target PRC No.1 and Target PRC No.2 upon Completion through its 100% ownership in the Target Group. Accordingly, it will not be necessary for the Group to rely on any contract-based structures for the business operation of the Target Group. As such, no contract-based structures have been contemplated or adopted in this regard.

Financial information of the Target Group

The following is the financial information of the Target Group as extracted from the accountants' report on the Target Group as set out in Appendix II to this circular (for each of the three years ended 31 December 2012 and the three months ended 31 March 2013), which was prepared in accordance with Hong Kong Financial Reporting Standards:

	Year ended 31 December			Three months ended 31 March	
	2010	**2011**	**2012**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	–	–	557	–	5,368
(Loss)/profit before tax	(12)	(95)	(400)	(3)	4,211
(Loss)/profit for the year/period	(12)	(95)	(433)	(3)	3,802

Prior to December 2012, the Target Group has yet to commence its business operation. It has commenced its business operation since December 2012 and generated turnover of approximately HK$557,000 and HK$5,368,000 respectively for the year ended 31 December 2012 and for the three months ended 31 March 2013.

According to the accountants' report of the Target Group as set out in Appendix II to this circular, as at 31 March 2013, the audited net assets value of the Target Group was approximately HK$123,457,000.

The following table sets out the key operating statistics of the Target Group during the period from its commencement of operation in December 2012 up to 31 March 2013:

	The period from the commencement of operation of the Target Group in December 2012 up to 31 March 2013
Number of loan transactions	46
Aggregate amount of loan principals granted (RMB'000)	110,660
Amount of outstanding loans receivables as at the end of the period that were neither past due nor impaired (HK$'000)	62,139
Amount of outstanding loans receivables as at the end of the period that were past due	0
Loan default rate	0%

Up to the Latest Practicable Date, all loans lent out during the period from the commencement of business in December 2012 up to 31 March 2013 had been repaid except for one loan involving a loan amount of RMB6 million which is due on 21 September 2013. For the loans lent out during the said period, the securities provided by the borrowers for such loans included personal/corporate guarantees provided by the borrower's related entities as well as licensed financing guarantee companies.

Subsequent event

As Closing Conditions under the Agreement, (a) all outstanding shareholder loans owing from the Target Group to Mr. Leung's associates have to be assigned to become loans owing by Target BVI to Mr. Leung immediately before the Completion and (b) all necessary approvals, consents, authorizations and licenses in relation thereto have to be obtained from the relevant governmental authorities or parties concerned. Subsequent to the reporting period, the following arrangements have been entered into for the purposes to fulfill the Closing Conditions pursuant to the Agreement:

(a) Pursuant to a special resolution passed on 12 December 2012, Target HK No.1 effected reduction of issued share capital of Target HK No.1 through cancellation of 180,000,000 paid-up ordinary shares of HK$1 each in issue. Target HK No.1 is required to return the excess capital to a related company (a company which is wholly-owned by Mr. Leung, the "**Related Company**") in the total amount of HK$180,000,000. The Related Company has signed a direction regarding funds dated 23 May 2013 pursuant to which Target HK No.1 has been authorized and directed to pay to Mr. Leung the amount of excess capital instead of paying to the Related Company, so as to make partial repayment of the amount of HK$300,000,000 owing by the Related Company to Mr. Leung;

(b) Pursuant to a deed of settlement and assumption of repayment obligation (the "**Settlement Deed**") entered into among Target BVI, Target HK No.1, Mr. Leung and the Related Company dated 23 May 2013, the parties have agreed upon the execution of the Settlement Deed that: (i) Target BVI shall assume the obligation of the Related Company to make repayment of the amount of the debt owing by Target BVI to the Related Company (the "Assumed Debt") to Mr. Leung in a total amount of approximately HK$119,610,000; (ii) Target BVI shall assume the obligation of Mr. Leung to make repayment of the outstanding balance of approximately HK$57,040,000 owing by Mr. Leung to Target HK No.1 (the "M Loan") so as to set-off against and reduce its obligation to repay the Assumed Debt to Mr. Leung by the amount of the M Loan, and as a result thereof Target BVI shall owe and be obliged to repay Mr. Leung the net balance of the Assumed Debt and the M Loan instead of the full amount of the Assumed Debt whereas Target BVI shall owe and be obliged to repay Target HK No.1 the amount of the M Loan; and (iii) the Related Company's repayment obligation to Mr. Leung shall be reduced by the amount of the Assumed Debt, leaving the amount of the reduced balance to be repayable by the Related Company to Mr. Leung.

As a result of the loan assumption and set-off of repayment obligations as stated in the Settlement Deed, the net loan balance (including an amount of approximately HK$134,000 owing to Mr. Leung by Target BVI before the completion of the Settlement Deed) of approximately HK$62,704,000 will be owing by Target BVI to Mr. Leung after the completion of the Settlement Deed. Such loan will form part of the Sale Debts.

(c) Pursuant to a deed of assignment entered into between Target BVI and Target HK No.2 dated 23 May 2013, Target HK No.2 has an amount of approximately HK$808,000 (the "D Loan") owing to Mr. Leung. Target BVI and Target HK No.2 have agreed to assign the repayment obligation of the D Loan from Target HK No.2 to Target BVI and the D Loan has become owing by Target BVI to Mr. Leung.

MANAGEMENT EXPERIENCE

Senior management of the Target Group

Mr. Teng Lin (滕林) ("Mr. Teng")

Mr. Teng, aged 42, is the chief executive officer of Target PRC No. 1. Mr. Teng has approximately 18 years of experience working for banks in the PRC. Mr. Teng obtained a bachelor's degree in finance from the Dongbei University of Finance and Economics (東北財經大學). Mr. Teng has extensive experience in credit business in banks and is mainly responsible for the overall strategic management and business development of Target PRC No.1. He joined Target PRC No. 1 in 2012.

Mr. Li Guang Qiang (李廣強) ("Mr. Li")

Mr. Li, aged 51, is the chief operating officer of Target PRC No. 1. Mr. Li obtained a bachelor's degree in financial management from the Dongbei University of Finance and Economics. Mr. Li has a qualification as a senior accountant in the PRC and he is responsible for the risk control of the micro-financing business of Target PRC No.1. Mr. Li has extensive experience in auditing, accounting and risk control. He joined Target PRC No.1 in 2012.

Ms. Wang Yan Bo (王艷波) ("Ms. Wang")

Ms. Wang, aged 48, is the chief executive officer of Target PRC No.2. Ms. Wang has about 19 years of experience in financing business for small and medium enterprises. Ms. Wang is responsible for the overall strategic management and business development of Target PRC No. 2.

The Group's existing management team

Mr. Leung Ngai Man ("Mr. Leung")

Mr. Leung, aged 52, is the Chairman of the Group. He was appointed as an executive Director in 2001. Active in China since the 1980s, Mr. Leung has over two decades of experience in the areas of trading, investment, property development and management. Mr. Leung has an extensive network and relationship with numerous PRC companies and government authorities. He is currently the chairman and executive director of China Netcom Technology Holdings Limited (stock code: 8071, "China Netcom"), the shares of which are listed on the GEM. He is also the Vendor and the beneficial owner of the Target Group.

Mr. Sung Kin Man ("Mr. Sung")

Mr. Sung, aged 41, graduated from the University of Southern California and obtained a Bachelor's Degree of Science in Business Administration majoring in finance and minoring in marketing. Mr. Sung has been working in the finance industry and international capital markets in Hong Kong and other parts of Asia since 1994. He has extensive management experience and prior to his appointment at the Company, Mr. Sung was an executive director of UBS Securities Asia Ltd., responsible for business in Greater China and had been a director of Global Equity of Merrill Lynch Asia Inc. from 2005 to 2007.

Mr. Ng Kwok Chu, Winfield ("Mr. Ng")

Mr. Ng, aged 54, joined the Group as an executive Director in 2009. Mr. Ng has over 26 years' experience in consumer and commercial finance in the markets of Hong Kong and the PRC. Mr. Ng is an executive director of China Netcom and an independent non-executive director of China Uptown Group Company Limited (stock code: 2330, whose shares are listed on GEM). Mr. Ng was an independent non-executive director of Long Success International (Holdings) Limited (stock code: 8017, whose shares are listed on GEM) during the period from January 2006 to October 2012. Mr. Ng is a director of Target HK No.1 and the legal representative of Target PRC No.1.

The Group's available experience to manage the Target Business

In addition to the senior management personnel hired by the PRC Subsidiaries, the Company's board and its senior management have experience in managing the existing Hong Kong money lending business of the Group.

In particular, Mr. Ng Kwok Chu, Winfield, an executive Director, has more than 26 years' experience in the consumer and commercial finance industry in Hong Kong. He also led the obtaining, in September 2012, of a money lenders license in Hong Kong for a subsidiary of the Company, following which the Group has commenced money lending business in Hong Kong.

In addition, Mr. Sung Kin Man, an executive Director, has been working in the industry of finance and international capital market in Hong Kong and other Asian regions since 1994 and has gained extensive management experience throughout these years. Before joining the Company, Mr. Sung was an executive director of UBS Securities Asia Limited responsible for business in Greater China and was a director of Global Equity of Merrill Lynch Asia Inc. from 2005 to 2007.

Recruitment plan for the Target Group

Assuming and subject to Completion, it is the Company's plan to continue to maintain the current management of the Target Group to carry on the business. The Company also intends to appoint appropriate candidates with experience in the PRC loan financing to the management of the Target Group in future.

VALUATION REPORT

The Valuation

Peak Vision Appraisals Limited, an independent professional valuer, has prepared the Valuation Report of the Target Group based on the income-based approach. According to the Valuation Report, the market value of the 100% equity interest of the Target Group as at 30 June 2013 was RMB1,101.8 million (equivalent to approximately HK$1,377.4 million).

Assumptions

- The Valuer has made reference to the feasibility study report (extract of the key information of which is set out on page IV-8 to IV-11 of this circular), the legal opinions (as set out in various parts of the Valuation Report including on page IV-7, IV-8, IV-13 and IV-14), the business plan (details of which are set out in the paragraphs headed "Business model" and "Business development plan" above), the financial information and the projections (details of which are set out in the paragraph headed "Due diligence performed by the Directors – Due diligence in relation to the parameters adopted in the Valuation Report" below) provided by the management of the Company, the Target Group and their representatives (hereinafter collectively referred to as the "Management") and have independently verified key inputs including the lending rate, the consultancy fee rate and the borrowing cost of funds;

- The projections are based on assumptions reflecting the best estimates of the Management and are fair and reasonable, reflecting market conditions and economic fundamentals, and will be materialized;

- Estimation of related interest income, borrowing costs, expenses and capital injections (details of which are set out in the paragraph headed "Due diligence performed by the Directors – Due diligence in relation to the parameters adopted in the Valuation Report" below) is provided by the Management;

- The profit tax is based on the legal opinions as provided by the Management;

- The terminal growth rate adopted is approximately 3%, which is based on International Monetary Fund projected inflation rate;

- For the Target Group to continue as a going concern, the Target Group will successfully carry out all necessary activities for the development of their businesses;

- The availability of finance will not be a constraint on the forecast growth of the Target Group's operations in accordance with the business plans and the projections;

- Market trends and conditions where the Target Group in operations will not deviate significantly from economic forecasts in general;

- The unaudited financial statements of the Target Group as supplied to the Valuer have been prepared in a manner which truly and accurately reflect the financial position of the Target Group as at the respective balance sheet dates;

- Key management, competent personnel and technical staff will all be retained to support the ongoing operation of the Target Group;

- There will be no material changes in the business strategy of the Target Group (details of which are set out in the paragraphs headed "Business model" and "Business development plan" above) and their operating structure (details of which are set out in the paragraphs headed "Organisational structure" and "Operating procedures" above);

- The Target Group shall have uninterrupted rights to operate their existing businesses during the unexpired term of their authorized operating period (Please refer to the paragraph headed "Due diligence performed by the Directors – Due diligence in relation to the possible circumstances, events and factors that may lead to interruption of the Target Group's business" below for further details);

- Interest rates and exchange rates in the localities for the operation of the Target Group will not differ materially from those presently prevailing;

- All relevant approvals, business certificates, licenses or other legislative or administrative authority from any local, provincial or national government, or private entity or organization required to operate in the localities where the Target Group operates or intends to operate will be officially obtained and renewable upon expiry unless otherwise stated; and

- There will be no major changes in the political, legal, economic or financial conditions and taxation laws in the localities in which the Target Group operates or intends to operate, which would adversely affect the revenues and profits attributable to the PRC Subsidiaries.

Valuer's basis regarding the assumptions

Based on the information provided by the Valuer, the following table sets out the Valuer's basis on why each of the valuation assumptions is considered to be fair and reasonable:

Assumptions	Basis
The Valuer has made reference to the feasibility study report, the legal opinions, the business plan, the financial information and the projections provided by the Management and has independently verified key inputs including the lending rate, the consultancy fee rate and the borrowing cost of funds and bad debts provision, which are representative and comparable to current market data.	Based on its sources of data, the Valuer has independently verified several key inputs, including the lending rate, consultancy rate, borrowing cost of funds and bad debt provision.
Estimation of related interest income, borrowing costs, expenses and capital injections are provided by the Management.	Based on its sources of data, the Valuer has independently verified several key inputs, including the interest income, borrowing costs, expenses and capital injections.
The profit tax is based on the legal opinions as provided by the Management.	The profit tax is supported by the legal opinions issued by the Company's PRC legal adviser.
The target aggregate paid-up capital is RMB200 million upon approval for the increase in registered capital. As advised, this will allow for bank financing in aggregate of RMB100 million, resulting in a total capital of RMB300 million available for lending in 2015.	The Valuer has been provided with the legal opinions issued by the Company's PRC legal adviser and letter of bank assurance for financial support which provides a reasonable ground that the target capital for lending is achievable.
The terminal growth rate adopted is approximately 3%, which is based on International Monetary Fund ("IMF") projected inflation rate.	The Target Group's growth will not perpetually outpace the general economic growth and thus the business growth will eventually reach a steady state. Therefore, the terminal growth rate is typically in line with historical inflation rate or historical GDP, which is sourced from IMF website. The Valuer has independently verified the key input.
The initial paid-up capital is RMB 50 million, and it is expected that additional capital of RMB150 million will be paid up in three equal installments in October 2013, June 2014 and December 2014 respectively.	The Valuer has been provided with the legal opinion stating that the company has no legal obstacle to increase the registered capital.

Assumptions	Basis
For the Target Group to continue as a going concern, the Target Group will successfully carry out all necessary activities for the development of their businesses.	Based on the internal resources of the Company, including the Company's bank balance and cash as at 31 March 2013 and the assurance of financial support from local bank, it is of the view that the business will be run continuously.
Market trends and conditions where the Target Group in operations will not deviate significantly from economic forecasts in general.	Since 1992, the economic growth of Jilin Province is growing steadily and maintained at a level above 8% as stated in 吉林統計年鑒 Jilin Statistics Year Book 2012. The historical figures support the growth of the market without substantial deviation.
The unaudited financial statements of the Target Group as supplied to the Valuer have been prepared in a manner which truly and accurately reflect the financial position of the Target Group as at the respective balance sheet dates.	The management of the Target Group has confirmed that they have exercised reasonable care and caution in preparing the financial statements.
Key management, competent personnel and technical staff will all be retained to support the ongoing operation of the Target Group.	This is a common but necessary assumption to carry out the valuation. There must be a group of experienced and skilled staffs in place to carry out the business as planned and support the ongoing operations. Without such assumption, the projections of the business will be subject to uncertainty and the future results will also be questionable.
There will be no material changes in the business strategy of the Target Group and their operating structure.	The Valuer is given to understand that the management will try its best endeavour to implement the proposed business plan and monitor the development closely. It is also evident that the track record of the business approximates to the target results, which provides a basis of support that the business has been carried out as intended since its operations.
The Target Group shall have uninterrupted rights to operate their existing businesses during the unexpired term of their authorized operating period.	According to the legal opinions, the PRC companies have obtained all relevant business licences and approvals for their operations in Jilin, and hence the PRC companies should have no difficulty in running the business.

Assumptions	Basis
Interest rates and exchange rates in the localities for the operation of the Target Group will not differ materially from those presently prevailing.	This is a common but necessary assumption to carry out the valuation. Upon the Valuer's observations, the interest rates and exchange rates in the PRC market are not as volatile as other emerging markets. The markets are not completely free from control. The rates did not fluctuate wildly. The PRC also has abundant foreign reserves to maintain the stability of the markets.
All relevant approvals, business certificates, licenses or other legislative or administrative authority from any local, provincial or national government, or private entity or organization required to operate in the localities where the Target Group operate or intend to operate will be officially obtained and renewable upon expiry unless otherwise stated.	The Valuer has been provided with the legal opinion stating that the company has no legal obstacle to renew the relevant approvals and business licences.
There will be no major changes in the political, legal, economic or financial conditions and taxation laws in the localities in which the Target Group operates or intends to operate, which would adversely affect the revenues and profits attributable to the Business Enterprises.	This is a common but necessary assumption to carry out the valuation. These are the qualitative events which are highly unpredictable. Without such assumption, the projections of the business will be subject to uncertainty and the future results will also be questionable.

Directors' views on the reasonableness of assumptions adopted in the Valuation Report

The Board considers that the valuation of the PRC Subsidiaries should be prepared based on the registered capital of RMB200 million being fully paid up (rather than RMB50 million only which was funded by the Vendor and not zero which was the status of the Target Group at the time of signing of the Agreement) because the value of the PRC Subsidiaries should be arrived at after taking into account the payment of the registered capital of Target PRC No.1 such that the value of the Permits can be reflected in full. The estimated figures for items such as related interest income, borrowing costs, expenses and capital injections are determined with reference to, including without limitation, the actual operating statistics of the Target Group since commencement of the Target Business up to 31 March 2013, market data, the Management's past experiences, and the business plan of the Target Group.

After making due and careful enquiry for the preparation of the Valuation, the Directors are of the view that the assumptions adopted in the Valuation Report are fair and reasonable so far as the Company and the Independent Shareholders are concerned. In particular, the Directors have performed a range of due diligence works before coming to a conclusion that the key assumptions adopted in the Valuation Report are fair and reasonable. The Directors have taken into account the results of their due diligence work, including in particular:

- the actual operating results of the Target Group based on the audited financial information of the Target Group for the three months ended 31 March 2013 as well as the unaudited management accounts for the six months ended 30 June 2013 were consistent with the Directors' initial estimation, which reinforces the Directors' understanding of the operating environment in relation to the Target Business in Jilin City and as such, the Directors consider that the business plan and the relevant projections and assumptions are reasonable based on the best information currently available;

- Target PRC No.1 has obtained a written confirmation dated 23 July 2013 issued by Jilin City ETCB confirming that Target PRC No.1 was the only wholly-foreign-owned or foreign invested micro-financing company in Jilin Province as of the date of the confirmation, and such fact reinforces the Directors' understanding that it has been difficult for a foreign investor to obtain the necessary PRC government approval for setting up a wholly foreign-owned enterprise in the PRC to conduct micro-financing business. The Directors therefore believe that the Permits are valuable and the Group should seize the opportunity to acquire the Target Group so as to enable the Group to enjoy the full benefits of the Permits to carry out micro-financing business in Jilin City; and

- each of the parameters adopted in the Valuation Report is considered reasonable and were arrived at after due and careful enquiry.

Please refer to the paragraph headed "Due diligence performed by the Directors" below for details of the due diligence works performed by the Directors as well as the results and conclusion of such due diligence works. Having considered all of the above, the Directors are of the view that the assumptions adopted in the Valuation Report are fair and reasonable.

The Directors would like to draw the Shareholders' attention that if the Group does not have sufficient fund for the payment of registered capital of Target PRC No.1 in accordance with the business plan and projections as expected, it will (assuming no change on other circumstances) have a negative impact on the financial performance and operation results of the Target Group as Target PRC No.1 will have less funds to lend out to its customers in conducting its micro-financing business, and will lead to a decrease in the valuation of the Target Group currently stated in the Valuation Report. Where if there is any prescribed time limit for the payment of the registered capital (for instance, the upcoming payment of RMB50 million of the registered capital of Target PRC No.1 is due in October 2013) imposed by PRC government authority and if the payment cannot be made on time due to a lack of sufficient funds, Target PRC No.1 may be requested by PRC government authority to reduce its registered capital to the amount of capital that has been paid up.

The Directors would like to further draw to the Shareholders' attention that if the approval for the increase in the registered capital of Target PRC No.1 cannot be obtained (i.e. if the T3 Payment Conditions cannot be fulfilled), the Valuer has advised that the valuation of the Target Group (assuming no change on other circumstances) would be reduced to HK$765 million (as compare to the valuation of HK$1,101.8 million on the basis that RMB200 million of registered capital of Target PRC No.1 has been paid up) based on the same assumptions and parameters. The financial performance and operation results of the Target Group will also be negatively affected as Target PRC No.1 will have less funds to lend out to its customers in conducting its micro-financing business.

RISK FACTORS

Shareholders should consider carefully all of the information set out in this circular and, in particular, the following risk factors associated with the Enlarged Group as well as the other information including the Target Group's consolidated financial information and accompanying notes and the unaudited pro forma financial information of the Enlarged Group set forth in Appendices II and III respectively before making a voting decision at the EGM. If any of the possible events described below occur, the Enlarged Group's business, financial condition or results of operations could be materially and adversely affected and the market price of the shares of the Company could fall significantly.

Risks associated with the Acquisition

The Board has no experience in operating the Target Business in the PRC and does not have any experience at all in investing and/or operating any business in Jilin City.

The proposed Acquisition involves the acquisition of the Target Group which is principally engaged in the Target Business in the PRC and its principal place of business is in Jilin City. The Board has no experience in operating the Target Business in the PRC and does not have any experience at all in investing and/or operating any business in Jilin City.

The acquisition of such a new business in an unfamiliar location may pose significant challenges to the Group, including but not limited to challenges in administrative, financial and operational aspects. As the Board does not have any experience in carrying out the Target Business in Jilin City, it may be difficult to ascertain the time it takes to recover the Group's investment and/or whether profits can be generated from the Target Business, let alone the amount. If the business of the Target Business does not develop or progress as planned, the Group may not be able to recover the funds and resources it has spent, and this may subsequently adversely and materially affect the Group's financial position.

The valuation of the Target Group may not be accurate and may overstate the value of the Target Group. There is no assurance that the estimated parameters and assumptions adopted in the Valuation Report can be sustained and continue to be valid in the future.

The valuation of the Target Group is based on the discounted cash flow model with the projection of the future revenue and operating results of the Target Group based on a number of parameters which are estimated with reference to information currently available, including but not limited to the lending interest rate charged by Target PRC No.1 to its customers (being 12% per annum as adopted in the Valuation Report), the consultancy fee rate charged by Target PRC No.2 to its customers (being 30% per annum as adopted in the Valuation Report) and the borrowing cost of funds of the Target Group (being 6% per annum). Although the estimated parameters and assumptions applied in the Valuation Report are consistent with the actual operating statistics of the Target Group based on the audited financial information of the Target Group for the three months ended 31 March 2013, there can be no assurance that such estimated parameters can be sustained in long term in the future taking into account the limited track record of the Target Group. In addition, the actual operating statistics of the Target Group for the three months ended 31 March 2013 may not be representative of the future operating results of the Target Group. As such, the valuation of the Target Group based on such estimated parameters and assumptions may be subject to uncertain factors which may make the overall valuation highly uncertain. Therefore, there is a possibility that the valuation of the Target Group may not be accurate and may overstate the value of the Target Group.

Specifically, the Valuer has tested the sensitivity of the market value of the Target Group as stated in the Valuation Report to the changes in the underlying parameters including the discount rate, the borrowing cost, the lending rate and the consulting fee rate. The results are as follows:

Underlying parameters	**Changes in Market Value** *(RMB'000)*
Cost of equity	
1% increase in cost of equity	(139,417)
1% decrease in cost of equity	172,542
Borrowing cost	
1% increase in borrowing cost	(24,925)
1% decrease in borrowing cost	25,366
Interest rate on loans	
1% increase in interest rate	48,557
1% decrease in interest rate	(47,134)
Consultancy fee	
1% increase in consultancy fee	61,293
1% decrease in consultancy fee	(59,152)

Impairment of a significant, or even the entire, amount of goodwill arising as a result of the Acquisition may be recorded in the future if there is any material adverse deviation in the financial position or results of operations of the Target Group in the future from what is currently projected.

As a result of the Acquisition, estimated goodwill of up to approximately HK$545 million (the derivation of which is disclosed on page III-11 of this circular) may be recorded in the financial statements of the Group subsequently. If there is any material adverse deviation in the future financial position or performance of business operations of the Target Group from the current projection as a result of any of the risk factors mentioned herein or any other unforeseen reasons, a significant, or even the entire, amount of such goodwill may need to be impaired.

Such impairment of up to HK$545 million, should it become necessary, will be charged against the profit and loss of the Group, and will therefore materially and adversely affect the financial position and results of the Group in the future.

Completion of the Acquisition is subject to the fulfillment of a number of conditions precedent and may or may not proceed.

Completion of the Agreement is subject to the Closing Conditions being fulfilled and remaining to be satisfied as at Completion (or waived by the Purchaser to the extent waivable). As at the Latest Practicable Date, the Closing Conditions have not been fully satisfied (or waived, if applicable). As such, the Acquisition may or may not proceed.

Risks associated with the Target Business

The business operation of the Target Group has only commenced since December 2012, representing a very limited operating history.

Target PRC No.1 and Target PRC No.2 had not been established at the time of the Agreement (September 2012), while the Target Group has only commenced its business operation since December 2012. Due to its limited operating history, the evaluation of the Target Group's business prospects and future financial performance may not be as accurate as the evaluation of those businesses with longer track record. There is no assurance that the Target Group can maintain its profitability in the future. The historical results of the Target Group as disclosed in Appendix II to this circular may not be reflective of the results of its operations in the future.

There is keen competition in the micro-financing industry.

The Target Group competes with other micro-financing companies in Jilin City. According to a statistics report published by the Bank of Jilin, as at 30 September 2012, there were 45 micro-financing companies operating in Jilin City. In addition, the Target Group also competes with other short-term financing providers in Jilin City such as banks, entrusted loan providers, pawn loan providers and finance lease companies in Jilin City. The Target Group may not be able to outperform other short to medium-term financing providers.

The Target Group is subject to government policy risk. In particular, there is no assurance that Target PRC No.1 will remain as the only wholly-foreign-owned or foreign invested micro-financing company in Jilin Province or that the Target Group will be able to renew the Permits on a timely basis or at all.

The Target Group is subject to government policy risk in the PRC. For instance, although the government authority in Jilin City has confirmed to us that Target PRC No.1 is currently the only wholly-foreign-owned or foreign invested micro-financing company in Jilin Province so far, there can be no assurance that it will remain so. The relevant government authority has the absolute discretion to grant Permits to other foreign-invested enterprises. In addition, there is no assurance that the Target Group will be able to renew its Permits on a timely basis when the Permits expire as the renewal is subject to the approval of the relevant government authority. Furthermore, the proposed increase in the registered capital of Target PRC No.1 to RMB200 million is subject to the approval of the relevant government authorities and there is no assurance that Target PRC No.1 will be able to obtain such approval on a timely basis. If the Target Group fails to renew the Permits, or to obtain approval in relation to the increase in registered capital, or otherwise suffers from government's policies or decisions that may negatively affect the Target Group, the business performacne, financial position and operation results of the Target Group may be materially and adversely affected.

There is no assurance that Target PRC No.2 will always be able to renew the tax concessions/benefits that are granted to it currently.

Target PRC No.2 has obtained certain tax concessions/benefits from the local tax authority, including the Tax Benefits. Such concessions/benefits are subject to annual renewal. Such tax concessions/benefits are also assumed to continue to be valid in the Valuation Report. However, there can be no assurance that Target PRC No.2 will always be able to renew such tax concessions/benefits. If Target PRC No.2 becomes unable to renew such tax concessions/benefits due to, for example, the change in the relevant government policy and/or its failure to meet the renewal requirements in terms of its business size, revenue and profit, it may materially and adversely affect the financial position and results of operation of the Group in the future.

The Vendor has advised that he had not commenced the application process for the increase in the registered capital of Target PRC No.1 from RMB100 million to no less than RMB200 million.

One of the assumptions adopted in the Valuation Report is that the initial paid-up capital of Target PRC No.1 is RMB 50 million and it is expected that additional capital of RMB150 million will be paid up in three equal installments in October 2013, June 2014 and December 2014 respectively after the proposed increase in the registered capital of Target PRC No.1 from RMB100 million to no less than RMB200 million (which is also the T3 Payment Condition). As at the Latest Practicable Date, the Vendor has advised that he had not commenced the application process for the aforementioned Permits for increasing the registered capital of Target PRC No.1 to no less than RMB200 million because Target PRC No.1 is not eligible to apply for increase in its registered capital until its current registered capital of RMB100 million has been fully contributed. There is no assurance that Target PRC No.1 will be able to increase its registered capital to RMB200 million.

If only the T3 Payment Conditions are not fulfilled (and thereby the registered capital of Target PRC No.1 will be RMB100 million rather than RMB200 million), the Valuer has advised that the valuation of the Target Group (assuming that everything else remains unchanged) would be significantly reduced to RMB605.62 million, or approximately HK$765 million (rather than the original HK$1,101.8 million).

There are risks associated with the expansion of the Target Business.

After Completion, the Group intends to further develop the Target Business of the Target Group by expanding the Target Group's loan portfolio. The Company also intends to expand the Target Group's customer base especially focusing on (i) borrowers who are in need for quick access to financings on short notice and may not be able to endure the relatively long approval process of banks, and (ii) small and medium-sized enterprises (and their owners and/or related personnel) which lack the track record to obtain sufficient lines of credit from banks for their business development based on their individual circumstances and/or business operations. Such business plan may involve substantial time, costs, cash outflows and market uncertainties. There is no assurance that the Target Group will be able to execute such business expansion plan successfully in the future in light of the keen competition in the micro-financing industry, government policy risks and other risks associated with the Target Business as set out in this circular.

The Target Group has not purchased any insurance to cover its risk against customers' default or other potential risks associated with the Target Business.

The Target Group has not purchased any insurance to cover its risk against customers' default or other potential risks associated with the Target Business as described in this section of "Risk factors". This is consistent with the market practice. If any of the risk factors described in this section materialises, the business, financial conditions and operation results of the Target Group may be adversely and materially affected.

The Target Group is exposed to default risk from customers.

The Target Group focuses on serving sole proprietors, small and medium-sized enterprises and their owners and/or related personnel, which, in general, have higher credit risk. If the Target Group's customers fail to repay the full loan outstanding by the respective due date or default on the loan, the liquidity, financial position and results of operations of the Target Group may be adversely affected.

The personal/corporate guarantees provided and/or collateral pledged to the Target Group may not be sufficient.

The Target Group accepts different types of collateral from some of its customers. The value of such collateral may fluctuate and decline due to various factors, including market conditions, economic environment, depreciation, etc. In addition, the procedures for liquidating or otherwise realising the value of collateral may depend on the enforcement process in the PRC as well as the liquidity of the collateral in the market and as such, the collateral realisation procedures may be difficult for legal and practical reasons. The Target Group is therefore exposed to the risk that it may not be able to realise the value of collateral in a timely manner or at all, and that the collateral may not be sufficient to cover losses in the event of borrower default.

The Target Group is dependent on key personnel.

The development of the Target Group's business is, to a large extent, attributable to the contribution of its existing management team. The knowledge and experience of these key personnel has played a significant role in the business operations and strategic planning of the Target Group. There could be an adverse impact on the Target Group's operations should any of these management personnel resign and the Target Group fails to identify the appropriate candidates to replace them. There is no assurance that the Target Group will be able to attract and retain capable staff to serve the Target Group or that they will not resign in the future.

If the Target Group fails to adhere to the relevant laws and regulations, it may have a material and adverse impact on the business, operation results and financial conditions of the Target Group.

The Target Group is subject to a number of laws and regulations that are relevant to the Target Business. For instance, there are requirements for obtaining the Permits, restrictions on the interest rate that Target PRC No.1 may charge its customers, restrictions on the source of funding for Target PRC No.1, geographical restriction on business activities for Target PRC No.1, etc. Please refer to the paragraph headed "Regulatory overview" below for further details. If the Target Group fails to observe and comply with the relevant laws and regulations, the Target Group and/or its management may be exposed to civil or criminal liabilities including penalties, fines, damages and other sanctions, which may have a material and adverse impact on the business, results of operation and financial conditions of the Target Group.

The Target Group is exposed to fraud or other misconduct committed by its employees, customers or other third parties.

The Target Group may be exposed to fraud or other misconduct committed by its employees, agents, customers or other third parties that could subject the Target Group to financial losses and sanctions imposed by governmental authorities as well as serious harm to the Target Group's reputation. Since the commencement of business operation of the Target Group, no such fraud or other misconduct was committed by the Target Group's employees, agents, customers or third parties that had an adverse material effect on the Target Group's business reputation, financial condition and results of operations nor were there any sanctions imposed by governmental authorities. However, it is not always possible for the Target Group to detect and prevent fraud and other misconduct. There will therefore continue to be the risk that fraud and other misconduct may occur and that negative publicity, government sanctions and/or financial losses may result, which may have an adverse effect on the Target Group's business reputation, financial condition and results of operations.

There are risks associated with the availability of funds to sustain the operations and growth of the Target Group.

The Target Group requires substantial amount of capital to finance its micro-financing business operations. It provides financing to its customers out of its available capital. It has been financing its operations mainly through capital contributions from the Vendor. In the event that the Target Group has insufficient internal resources and if it is unable to obtain external loans or other credit facilities on reasonable terms or at all, it may not be able to continue to provide micro-financing services to its customers and its operations will be adversely affected.

If the economy of Jilin City significantly deteriorates, the financial condition and results of operations of the Target Group may be materially and adversely affected.

As at the Latest Practicable Date, the Target Group operated only through their offices located in Jilin City. It is expected that the future growth of the business will continue to be concentrated in Jilin City. In case there is a significant economic downturn in Jilin City, it may affect the ability of the Target Group's customers to repay their loans, and will thus materially and adversely affect the financial condition and operation results of the Target Group.

The pricing of micro-financing services are subject to certain prescribed limits and can be affected by changes in government policies, rules and regulation.

According to the Interim Measures for Micro-financing Companies in Jilin Province (吉林省小額貸款公司試點暫行管理辦法), the interest rate of the micro-financing loan must not exceed 4 times the basic lending interest rate of PBOC (which is currently at approximately above 6% per annum), the lower limit shall not be less than 0.9 times the basic lending rate of PBOC.

Further, the room for enlarging client's base for the Target Group's business may also be restricted due to the requirement of the geographical restriction as prescribed in the relevant PRC rules and regulations.

Besides, there can be no assurance that future directives or notices in respect of the pricing limits applicable to the Target Group's businesses or changes in the government policies in this regard will not have an adverse effect on its revenue or operation results.

The growth of the PRC micro-financing industry may be affected by global economic and financial conditions.

The PRC micro-financing industry has experienced rapid growth. However, since late 2009, global markets have experienced tremendous volatility as a result of the turmoil originating from the US subprime mortgage and the European sovereign debt crises, which have brought about a global economic downturn. As such, the growth and development of the PRC micro-financing industry may not be sustainable. If the rate of growth of the overall economy or the micro-financing industry in the PRC slows down, the business, financial conditions and operation results of the Target Group may be materially and adversely affected.

There may be seasonality in the Target Group's business, which could cause the revenue of the Target Group to fluctuate.

The Company considers that the seasonality of the Target Group's business is insignificant. However, the Directors noted that during the period of the Chinese New Year, there are less economic activities in the PRC and the Target Group may conduct substantially fewer businesses during the period. Such seasonality may cause the revenue of the Target Group to fluctuate.

THE COMPANY'S ASSESSMENT OF THE LIKELIHOOD OF THE ABOVE RISKS AND PLAN TO MANAGE THE ABOVE RISKS

The Directors cannot assure that the above risks will not happen in future. However, to minimise any risks related to above, the Directors will ensure that adequate resources are available to manage the above risks and the management of the Target Group will regularly review these risks and report to the Board if there is any likelihood of the happening of the above risks.

Your attention is drawn to the sections headed "Material Issues for Consideration" and "Due Diligence Performed by the Directors" for the steps taken by the Directors to manage the risk factors set out above, including: (i) performing various due diligence works in relation to (a) the Target Group, (b) the Permits, the Consideration and the payment terms; and (c) the approach and parameters adopted in the valuation; (ii) visiting the relevant PRC government authorities and local banks in Jilin Province in a few occasions, to seek for continuous supports from such government authorities and banks; and (iii) adopting the contingency payment approach in regards the Consideration and the payment terms, to ensure that conditions will be met before the Group is obliged to pay the maximum Consideration.

In addition, the Group intends to implement the following plan to manage the above risks:

- It is the Company's intention for the Target Group to maintain the current senior management of the Target Group, who has extensive experience in the financing industry in the PRC, after the Acquisition. The Board believes that in addition to the Target Group's senior management personnel, the Board and its senior management would also contribute to the operation of the Target Group. Certain members of the Board also have experience in managing the existing Hong Kong money lending business of the Group, including, Mr. Ng Kwok Chu, Winfield (one of the executive Directors, who has more than 26 years' experience in the consumer and commercial banking industry in Hong Kong) and Mr. Sung Kin Man (an executive Director, who has been working in the industry of finance and international capital market in Hong Kong and other Asian regions since 1994). Therefore, the Board is of the view that the Company will be able to monitor the development of the Target Business effectively.

- When considered appropriate, the Target Group requires personal and/or corporate guarantees from its customers and/or its related parties and accepts different types of collateral from them. In addition, the Target Group had not experienced any material delay or default in payments from its customers since its commencement of the Target Business and up to the Latest Practicable Date. The Board reasonably believes that the risk of delay or default in payments from the Target Group's customers is and will continue to be properly managed by the Target Group.

- The Group will use its best effort to attract and retain appropriate and suitable candidates to serve the Target Group. The Board is of the view that with the proposed remuneration package and benefits, the existing Target Group's management will continue to serve the Target Group after the Acquisition. Also, in order to strengthen the management of the Target Group, the Company intends to appoint additional appropriate candidates with relevant experience in the PRC loan financing industry to complement the existing management of the Target Group in the future.

- Despite the keen competition in the micro-financing industry, the demand for short-term financing from small and medium sized enterprises and individual entrepreneurs has been increasing rapidly in recent years. The Board considers that there are opportunities in the industry and it is an appropriate time to enter into the industry. The Board considers that the growth of the micro-financing industry in Jilin City provides not only keen competition but also ample opportunities for the Group to operate successfully in the micro-financing industry.

- In order to minimise the risks of fraud and other misconduct committed by its employees, customers, and other third parties, it is planned that a comprehensive internal control system will be formulated and implemented in order to detect and prevent possible fraud and other misconduct as early as practicable. On such basis, the Group considers that with a sound internal control system being established and implemented, fraud or other misconduct may be detected and deterred effectively.

- Assuming that the application for the increase of registered capital of Target PRC No.1 from RMB100 million to RMB200 million will be approved, Target PRC No.1 will have cash amounting to RMB200 million upon the full payment of the registered capital. As such, Target PRC No.1 is expected to be able to obtain bank borrowings of RMB100 million. Furthermore, based on the preliminary discussion between Target PRC No.1 and the Jilin Bank followed by written agreement with the Jilin Bank, the Board believes that there would not be any major obstacles for Target PRC No.1 to obtain bank borrowings of RMB100 million. Together with its paid-up registered capital and retained earnings, the Board is of the view that the Target Group will have sufficient funds to sustain its operation and growth.

- The Board anticipates that the economy of Jilin Province and Jilin City will continue to grow steadily having regard to the historical growth of Jilin City and Jilin Province as well as the PRC as a whole, in particular the increase in the GDP of Jilin Province of approximately 12% in 2012. In case of an economic downturn, the Group intends to monitor closely the individual circumstances of each customer of the Target Group in order to minimise the risk associated with delay or default in payments from the Target Group's customers.

- The Group intends to ensure that all renewal of Permits will be made in a timely manner and the Group currently does not anticipate any obstacles in renewing the Permits in the future.

MATERIAL ISSUES FOR CONSIDERATION

Shareholders should consider carefully all of the information set out in this circular and, in particular, the associated material issues as set out in the following paragraphs before making a voting decision at the EGM.

Target PRC No.1 and Target PRC No.2 had not been established at the time of the Agreement (September 2012) and the business operation of the Target Group has only commenced in December 2012, representing a very limited operating history.

The Directors noted that Target PRC No.1 and Target PRC No.2 had not been established at the time of the Agreement (September 2012). In addition, the Target Group has only commenced its business operation since December 2012. Due to this limited operating history, it may be difficult to evaluate the Target Group's business prospects and future financial performance. There is no assurance that the Target Group can maintain its profitability in the future. The historical results of the Target Group may not be reflective of the results of its operations in the future.

Nevertheless, the Directors consider that it is in the interest of the Company and the Shareholders as a whole for the Group to acquire the Target Group from the Vendor after balancing the relevant factors including the risk associated with setting up the Target Business by itself.

Although the establishments of the PRC Subsidiaries have not yet been completed at the time of the entering into of the Agreement on 27 September 2012, the most critical Permit required for the Target Business and for the establishment of Target PRC No.1 (namely, the written approval issued by 吉林省金融工作辦公室 (Financial Affairs Office of Jilin Province) approving Target PRC No.1 to engage in the micro-financing business) has already been obtained. Accordingly, the PRC Subsidiaries were established in October 2012, shortly after the signing of the Agreement. In addition, the Target Business has already commenced in December 2012.

In addition, under the Agreement, one of the conditions precedent to Completion is that all Reorganisation steps must be duly completed, including the establishment of the PRC Subsidiaries, to obtain all requisite Permits, and the commencement of the Target Business. As mentioned above these conditions have been fulfilled, as the PRC Subsidiaries have been duly established and the most essential and critical Permits (namely, the aforementioned written approval issued by 吉林省金融工作辦公室 (Financial Affairs Office of Jilin Province) approving Target PRC No.1 to engage in the micro-financing business, and the written approval issued by Jilin Province ETCB approving the establishment of Target PRC No.1 as a 中華人民共和國台港澳僑投資企業 (enterprise with investment of Taiwan, Hong Kong, Macao and overseas Chinese in the PRC) and stating, among other things, that the registered capital of Target PRC No.1 is RMB100 million) have been obtained before the Company entered into the Agreement. Further, before the Company entered into the Agreement, the Board was aware that the Target Group might be able to obtain certain tax incentives from the local tax authority (and the approvals from the local government authorities were eventually obtained after the date of the Agreement granting the Tax Benefits to Target PRC No.2).

In addition, the Board considers that it is in the interest of the Company and the Shareholders as a whole for the Group to acquire the Target Group from the Vendor instead of setting up the Target Business by itself for the following reasons: to the best knowledge of the Directors after enquiry, (i) the Vendor has taken more than 10 months for obtaining all necessary Permits for commencement of the Target Business, and (ii) in general it is difficult for a foreign-owned enterprise to obtain from the relevant PRC governmental authorities the Permits to engage in the micro-financing business. If the Company had decided to set up the Target Business itself, it is anticipated that substantial amount of time and efforts would be required in order to apply for all the required Permits for commencement of the Target Business. Furthermore, there is no guarantee that the Company will be able to obtain all such necessary Permits by itself even after spending a substantial amount of time and effort. As the Target Group already obtained most of the essential Permits to establish the PRC Subsidiaries and to engage in the Target Business, the Board then considered and still considers that the acquisition of the Target Group from the Vendor (vis-à-vis setting up the Target Business by itself) minimized any risk of the Group being unable to obtain any Permits by itself and ensured that the Target Business would be able to operate as soon as practicable, and therefore is in the best interest of the Group and the Shareholders.

The maximum Consideration of HK$850 million represents a substantial premium to the original investment cost of the Vendor.

The Consideration shall be at maximum of HK$850 million, subject to the Closing Conditions, the T2 Payment Condition, the T3 Payment Conditions and the T4 Payment Condition being fulfilled or waived (to the extent waivable). Taking into account the original investment cost paid by the Vendor, amounted only RMB50 million for Target PRC No.1 and US$100,000 for Target PRC No.2 respectively, the maximum Consideration of HK$850 million represents a substantial premium to the Vendor's original investment cost.

Nevertheless, the Consideration shall be HK$850 million only if all of the Closing Conditions, the T2 Payment Condition, the T3 Payment Conditions and the T4 Payment Condition are fulfilled or waived (to the extent waivable). If the Closing Conditions are not fulfilled or waived (to the extent waivable), Completion will not take place and the no Consideration will be payable, while the Company will be entitled to the refund of the deposit. If only the T2 Payment Condition is not fulfilled, the T2 Price (which is in the sum of HK$170 million) will not become payable and the Consideration shall be HK$680 million. If only the T3 Payment Conditions are not fulfilled, the T3 Price (which is in the sum of HK$170 million) will not become payable and the Consideration shall be HK$680 million. If only the T4 Payment Condition is not fulfilled, the T4 Price (which is in the sum of HK$85 million) will not become payable and the Consideration shall be HK$765 million. If a combination of the T2 Payment Condition, the T3 Payment Conditions and/or the T4 Payment Condition is not fulfilled, the corresponding T2 Price, T3 Price and/or T4 Price will not become payable and the Consideration shall become an amount equivalent to HK$850 million minus the sum of the corresponding amount of the T2 Price, T3 Price and/or T4 Price. In an extreme case where only the Closing Conditions are satisfied, the Consideration payable by the Company under the Agreement would only amount to HK$425 million.

In addition, the Board considers that in any normal arm's length commercial transaction, the consideration would be determined based primarily on the market value of the asset subject to the transaction, rather than the original costs of the vendor of the asset. The Board considers that the Consideration is fair and reasonable having taken into account the Valuation Report provided by the Valuer. The Directors consider each of the T2 Price, T3 Price and T4 Price is commercially justified. Please refer to the paragraph headed "Basis of the Consideration" above.

Impairment of a significant, or even the entire, amount of goodwill arising as a result of the Acquisition may be recorded in the future if there is any material adverse deviation in the financial position or results of operations of the Target Group in the future from what is currently projected.

As a result of the Acquisition, estimated goodwill of approximately HK$545 million (the derivation of which is disclosed on page III-11 of this circular) may be recorded in the financial statements of the Group subsequently. If there is any material adverse deviation in the future financial position or performance of business operations of the Target Group from the current projection as a result of any of the risk factors mentioned under the paragraph headed "Risk factors" above or any other unforeseen reasons, a significant, or even the entire, amount of such goodwill may need to be impaired. Such impairment of up to HK$545 million, should it become necessary, will be charged against the profit and loss of the Group, and will therefore materially and adversely affect the financial position and results of the Group in the future.

Nevertheless, based on the information currently available to the Directors, the Directors are confident in the financial and business prospect of the Target Group and consider that the Acquisition is in the interest of the Company and the Shareholders as a whole.

The Vendor has injected RMB50 million as registered capital of Target PRC No.1 whereas the Company is responsible for further injection of RMB150 million after Completion.

As at the Latest Practicable Date, the Vendor has already performed the Funding Obligation, i.e., the Vendor has already funded and paid the first RMB50 million for the registered capital of Target PRC No.1 and the entire US$100,000 for the registered capital of Target PRC No.2. After Completion, pursuant to the Agreement the Group will be required to make payment for the remaining RMB50 million of the registered capital of Target PRC No.1 for its use in the Target Business. The Group will also apply for the increase in the registered capital of Target PRC No.1 from RMB100 million to RMB200 million and the Group will also make payment for the additional RMB100 million of registered capital of Target PRC No.1. The Board intends to fund such payments (in aggregate RMB150 million) from the Group's internal resources.

After the Completion, the Vendor has no obligation for injecting any further amount as registered capital of Target PRC No.1. Any further increment in the registered capital of Target PRC No.1 shall be responsible by the Company after the Completion.

The Board would like to emphasize that the RMB50 million injected by the Vendor and the RMB150 million to be injected by the Company will, after injection, become part of the asset of the Target Group, and therefore will, subject to Completion, also become part of the asset of the Group. In this connection, the RMB150 million that is required to be injected by the Group shall not be simply regarded as "given away" as part of the cost of Acquisition for the Company.

The Board further considers that even if such RMB150 million is to be regarded as part of the cost of Acquisition for the Company, the Company's total cost of Acquisition would be the sum of RMB150 million (or approximately HK$187.5 million) and the Consideration of a maximum of HK$850 million, i.e. approximately HK$1,037.5 million. According to the Valuation Report, the market value of the entire equity interest in the Target Group as at 30 June 2013 is RMB1,101.8 million, equivalent to approximately HK$1,377.4 million. Such deficit between the market value and the Consideration can be regarded as discount of nearly 11% to the market value of the Target Group.

The Company has already paid a refundable deposit of HK$200 million to the Vendor as part of the Consideration, and such deposit is interest free and is of a considerable size of the Group's cash level.

After the entering into of the Agreement, HK$200 million was paid by the Company to the Vendor in cash as a refundable deposit for the Acquisition. Such Deposit is interest free and is of a considerable size of the Group's current cash level.

Nevertheless, the Board considers that it is a normal commercial term for a purchaser to pay earnest money or deposit to a vendor in order to secure the opportunity of acquisition. To the understanding of the Board and having regard to a number of transactions made by listed issuers on the Stock Exchange where the level of deposit involved is greater than 20% of the total consideration of the respective transactions within the 24 months prior to the Agreement, the Directors consider that deposit in the range of 10% to 25% of the total consideration is not abnormal, while the Deposit of HK$200 million represents approximately 23.5% of the maximum Consideration of HK$850 million.

In addition, under the Agreement, the Vendor is not entitled to forfeit the Deposit if any of the Closing Conditions are not fulfilled and the Company elects not to waive such Closing Condition, hence not to proceed with the Completion. The Board considers that the refundable nature of the Deposit allows the Company to recover the Deposit in full in case of the Closing Conditions not being fulfilled or waived (to the extent waivable) and thereby provides safeguards to the Company's interest, and that it is on normal commercial terms that such refund of the Deposit is to be made without interest. The Board is therefore of the view that the payment of the Deposit and, if applicable, the refund of the Deposit without interest, are fair and reasonable to the Company and the Shareholders as a whole.

Also, in formulating and agreeing on the payment term, the Company has taken into account the fact that the Target Group was a start-up business (hence, payment on earn-out basis), the amount of cash-on-hand and the Group's other working capital needs. The deposit of RMB200 million represents about 23.5% of the total maximum Consideration payable by the Group under the Agreement. The Company would like to show its commitment to the Vendor and to secure the transaction by making such deposit, since the Directors consider the transaction represents an opportunity that is in line with the Group's business developments, which may generate diversified income for the Group.

In view of the above, the Board considered and still consider that payment of the Deposit (which represents about 23.5% of the maximum Consideration) was on normal commercial terms, fair and reasonable and in the interest of the Company and the Shareholders as a whole.

The Board has no experience in operating the Target Business in the PRC and does not have any experience at all in investing and/or operating any business in Jilin City.

The proposed Acquisition involves the acquisition of the Target Group which is principally engaged in the Target Business in the PRC and whose principal place of business is in Jilin City. The Board has no experience in operating the Target Business in the PRC and does not have any experience at all in investing and/or operating any business in Jilin City.

The acquisition of such a new business in an unfamiliar location may pose significant challenges to the Group, including but not limited to challenges in administrative, financial and operational aspects. As the Board does not have any experience in carrying out the Target Business in Jilin City, it may be difficult to ascertain the time it takes to recover the Group's investment and/or whether profits can be generated from the Target Business, let alone the amount. If the business of the Target Business does not develop or progress as planned, the Group may not be able to recover the funds and resources it has spent, and this may subsequently adversely and materially affect the Group's financial position.

Nevertheless, the Directors consider that the Board's former experience in operating similar businesses is not a prerequisite for the Acquisition or any acquisition by any company. In addition, subject to Completion, the Board intends to maintain the current management of the Target Group to manage the Target Business. The Target Group has already hired a number of experienced personnel to take up the senior management position of the PRC Subsidiaries and to report to the Board for the management of the daily operation of the Target Business. The Board considers that the senior management personnel hired by the Target Group possess the sufficient experience, industry knowledge, and management skills to manage the Target Business in Jilin City. In particular, Mr. Teng Lin, the chief executive officer of Target PRC No.1, has approximately 18 years of experience working for banks in the PRC, and Ms. Wang Yan Bo, the chief operating officer of Target PRC No.2, has about 19 years of experience in financing business for small and medium enterprises.

In addition, although the Directors do not have the experience in operating the Target Business in Jilin City, the Directors consider that they have a sufficient understanding of the PRC market and the micro-financing industry in the PRC. The Board further considers that the Company's existing senior management has relevant experience in managing the existing Hong Kong money lending business of the Group. In particular, Mr. Ng Kwok Chu, Winfield, one of the executive Directors, has more than 26 years' experience in the consumer and commercial banking industry in Hong Kong, while Mr. Sung Kin Man, an executive

Director, has been working in the industry of finance and international capital market in Hong Kong and other Asian regions since 1994. Furthermore, the Board is of the view that the Target Group's operations in Jilin City will benefit from the supports of the local bank and the local government in Jilin City.

In view of the above, the Board is of the view that, although the Group has no existing business in Jilin City, through the combined experience of the personnel hired by the PRC Subsidiaries, the finance and money lending business managing experience of some of the executive Directors, in addition to the Group's solid management experience in the PRC, the Group has the ability to operate the Target Business effectively.

The valuation of the Target Group may not be accurate and may overstate the value of the Target Group. There is no assurance that the estimated parameters and assumptions adopted in the Valuation Report can be sustained and continue to be valid in the future.

The Valuation of the Target Group is based on the discounted cash flow model with the projection of the future revenue and operating results of the Target Group based on a number of parameters which are estimated with reference to information currently available, including but not limited to the lending interest rate charged by Target PRC No.1 to its customers (being 12% per annum as adopted in the Valuation Report), the consultancy fee rate charged by Target PRC No.2 to its customers (being 30% per annum as adopted in the Valuation Report) and the borrowing cost of funds of the Target Group (being 6% per annum). Although the estimated parameters and assumptions applied in the Valuation Report are consistent with the actual operating statistics of the Target Group based on the audited financial information of the Target Group for the three months ended 31 March 2013, there can be no assurance that such estimated parameters can be sustained in long term in the future taking into account the limited track record of the Target Group. In addition, the actual operating statistics of the Target Group for the three months ended 31 March 2013 may not be representative of the future operating results of the Target Group. As such, the valuation of the Target Group based on such estimated parameters and assumptions may be subject to uncertain factors which may affect the overall valuation. Therefore, there is a possibility that the valuation of the Target Group may not be accurate and may overstate the value of the Target Group.

The Directors have reviewed the sensitivity analysis prepared by the Valuer contained in the Valuation Report as set out in Appendix IV to this circular, to ascertain the effect of the changes in certain estimated parameters on the overall Valuation. Attention of the Shareholders and potential investors of the Company is drawn to the sensitivity analysis contained in paragraph 14 of the Valuation Report and the effect of the changes in market value of the Target Group resulted from the changes in certain estimated parameters on the Valuation.

Nevertheless, the Directors, after their due diligence, consider that the estimated parameters and assumptions adopted in the Valuation Report are based on the best available information. Please refer to the paragraph headed "Due diligence performed by the Directors" below for further details of the due diligence works performed. The Directors noted that the actual operating statistics of the Target Group for the three months ended 31 March 2013 were consistent with the Valuers' preliminary estimation of the estimated parameters and assumptions, which has proven that such estimations of the parameters and assumptions were reasonable. As such, the Directors consider that there was no reason to cause the Directors to doubt the fairness and reasonableness of the preliminary estimations of the estimated parameters and assumptions adopted in the valuation based on the best available information after the due diligence performed by the Directors.

There is keen competition in the micro-financing industry.

The Target Group competes with other micro-financing companies in Jilin City. According to a statistics report published by the Bank of Jilin, as at 30 September 2012, there were 45 micro-financing companies operating in Jilin City. In addition, the Target Group also competes with other short-term financing providers in Jilin City such as banks, entrusted loan providers, pawn loan providers and finance lease companies in Jilin City. The Target Group may not be able to outperform other short to medium-term financing providers.

Nevertheless, the Board considers that every market player is subject to competition. The Board understands that micro-financing industry in Jilin City has been growing in the past few years. Instead of viewing the existence of competitors in Jilin City as a deterring factor, the Board believes that the Acquisition allows the Group to tap into the growing micro-financing industry in Jilin City. The PRC micro-financing industry is a supplement to mainstream financing channels such as commercial banks. With the gradual implementation of the 12th Five-Year Period Plan in the PRC, the demand for investment in fixed asset and equipment is expected to continue to grow as the policies regarding, among others, urbanization, industrialization, upgrading of trading industries, reform of healthcare and educational system, are introduced, and this will bring opportunities for the development of the micro-financing industry.

Furthermore, the Board understands that the local bank and the local government in Jilin City are supportive of the Target Group's operations, which was evidenced by the granting of the Tax Benefits to Target PRC No.2 by the local tax authority. Such approval is subject to renewal annually and the Board has obtained a legal opinion from the PRC legal adviser confirming that there is no major legal obstacle in such renewal in the future. The Board considers that the Tax Benefits granted to Target PRC No.2 strengthen the competitiveness of the Target Group.

The Target Group is subject to government policy risk. In particular, there is no assurance that Target PRC No.1 will remain as the only wholly-foreign-owned micro-financing company in Jilin Province or that Target Group will be able to renew the Permits on a timely basis or at all.

The Target Group is subject to government policy risk in the PRC. For instance, although the government authority in Jilin City has confirmed to us that Target PRC No.1 is currently the only wholly-foreign-owned or foreign invested micro-financing company in Jilin Province so far, there can be no assurance that it will remain so. The relevant government authority has the absolute discretion to grant Permits to other foreign-invested enterprises. In addition, there is no assurance that the Target Group will be able to renew its Permits on a timely basis when the Permits expire as the renewal is subject to the approval of the relevant government authority. Furthermore, the increase in the registered capital of Target PRC No.1 is subject to the approval of the relevant government authorities and there is no assurance that Target PRC No.1 will always be able to obtain such approval on a timely basis. If the Target Group fails to renew the Permits, or to obtain approval in relation to the increase in registered capital, or otherwise suffers from government's policies or decisions that may negatively affect the Target Group, the business performance, financial position and operation results of the Target Group may be materially and adversely affected.

Nevertheless, certain Directors and senior officers of the Company have visited the local government authorities in Jilin City and the Jilin Bank and obtained verbal confirmation of their respective supports to the Target Group before and after the Completion. The Directors have also confirmed from its due diligence work that Target PRC No.1 has already received the required Permits to engage in micro-financing business in Jilin City. The Directors understand from their discussions with the relevant PRC government officials in Jilin Province that as of the date of the Agreement, the Permit granted to Target PRC No.1 for conducting the micro-financing business in Jilin City was the first and the only micro-finance permit granted to a foreign invested enterprise (whether in the form of joint venture or wholly foreign-owned enterprise) in Jilin Province. Target PRC No.1 has further obtained a written confirmation dated 23 July 2013 issued by Jilin City ETCB confirming that Target PRC No.1 was the only wholly-foreign-owned micro-financing company in Jilin Province as of the date of the confirmation. This fact reinforces the Directors' understanding that it has been difficult for a foreign investor to obtain the necessary PRC government approval for setting up a wholly foreign-owned enterprise in the PRC to conduct micro-financing business. The Directors therefore believe that the Permits are valuable and the Group should seize the opportunity to acquire the Target Group so as to enable the Group to enjoy the full benefits of the Permits to carry out micro-financing business in Jilin City.

DUE DILIGENCE PERFORMED BY THE DIRECTORS

Due diligence in relation to the Target Group

Certain Directors and senior officers of the Company, as representatives of the Company, have (i) physically visited the Target Group's principal operation site in Jilin City and looked into the income methods and operation flows of the Target Group; (ii) obtained and reviewed the loan and consultancy service contracts for all transactions of the Target Group entered into during the three months ended 31 March 2013; (iii) reviewed the Target Group's pricing policies, i.e. policies on interest rates and consultancy fee rate; (iv) personally visited the local government authorities and the Jilin Bank and obtained verbal confirmation of their respective supports to the Target Group before and after the Completion; (v) obtained the verbal confirmation from the Jilin Bank followed by written support from the Jilin Bank that they will provide the relevant bank financing to Target PRC No.1; (vi) obtained written confirmation and support from Jilin City ETCB that there is no upper limit for Target PRC No. 1 to increase its registered capital and the business of Target PRC No. 1 is encouraged; and (vii) appointed an independent third party to conduct a research report on the industry in which the Target Group operates including the industry maturity, size, key customers, suppliers, nature of competition, barriers to entry to the markets, and future opportunities, threats and challenges to the markets.

The Directors acknowledge that there can be no assurance that the discussion and the confirmation obtained from the local government authority and the Jilin Bank will always remain valid. The Directors consider that any official government policy or established business relationship may be subject to change and such risk is commonly faced by all businesses. Nevertheless, the Directors consider that the discussion and confirmation obtained from the local government authority and the Jilin Bank are the best information currently available that are relevant to the Directors' assessment of the business operations and prospect of the Target Group.

In addition, the Directors have reviewed the Target Group's past performance since its incorporation, including its historical revenue and profit, transaction with major customers, costs of financing and working capital requirements, and discussed with the Vendor and the senior management of the Target Group regarding the future development and business plans and projections of the Target Group and were satisfied with the same.

The Directors have also reviewed the feasibility study report prepared by Target PRC No.1, the audited financial information of the Target Group up to 31 March 2013, internal management accounts up to 30 June 2013 and all corporate documents of the subsidiaries under the Target Group since its incorporation and were not aware of any evidence that cast doubt on the information provided by the Target Group or the Vendor.

The Directors acknowledge that the business operation of the Target Group has only commenced since December 2012 and that there can be no assurance that the results of the Target Group during such limited operating history will be reflective of the results of its operations in the future. Nevertheless, the Directors noted that the actual operating results of the Target Group based on the audited financial information of the Target Group for the three months ended 31 March 2013 as well as the unaudited management accounts for the six months ended 30 June 2013 were consistent with the Directors' initial estimation, which reinforces the Directors' understanding of the operating environment in relation to the Target Business in Jilin City and as such, the Directors consider that the business plan and the relevant projections and assumptions are reasonable based on the best information currently available.

Based on the above, the Directors are satisfied with the results of the above due diligence work performed by the Company and conclude that (i) there is no material discrepancy between the feasibility study report and the Director's findings and understandings; (ii) the business plans and projections of the Target Group are fair and reasonable based on the best available information; and (iii) the financial information of the Target Group truly reflect the financial position of the Target Group as at the respective balance sheet dates.

Due diligence in relation to the Permits, the Consideration and the payment terms

The Directors have confirmed from its due diligence work that Target PRC No.1 has already received the required Permits to engage in micro-financing business in Jilin City. The Directors understand from their discussions with the relevant PRC government officials in Jilin Province that as of the date of the Agreement, the Permit granted to Target PRC No.1 for conducting the micro-financing business in Jilin City was the first and the only micro-finance permit granted to a foreign invested enterprise (whether in the form of joint venture or wholly foreign-owned enterprise) in Jilin Province. Target PRC No.1 has further obtained a written confirmation dated 23 July 2013 issued by Jilin City ETCB confirming that Target PRC No.1 was the only wholly-foreign-owned micro-financing company in Jilin Province as of the date of the confirmation. This fact reinforces the Directors' understanding that it has been difficult for a foreign investor to obtain the necessary PRC government approval for setting up a wholly foreign-owned enterprise in the PRC to conduct micro-financing business. The Directors therefore believe that the Permits are valuable and the Group should seize the opportunity to acquire the Target Group so as to enable the Group to enjoy the full benefits of the Permits to carry out micro-financing business in Jilin City.

Having taken into account that the Jilin City ETCB has confirmed in writing that as of 23 July 2013, Target PRC No. 1 was the only foreign invested enterprise (whether in the form of a Sino-foreign joint venture or a wholly foreign-owned enterprise) permitted by Jilin Province's government to conduct micro-financing business in that province (the "Jilin ETCB Confirmation"), the Directors consider that Target PRC No. 1 has already enjoyed the "early bird" benefits for being able to (i) commence its micro-financing business there in about December 2012 and (ii) start to build up its business and customers and market share well before any other foreign investors would be able to compete against it. The timing of investing in a business is always a very important factor in evaluating a business opportunity and often determining the likelihood of success or failure of a business venture. Although there is no assurance that Target PRC No.1 will remain as the only foreign invested or the only wholly-foreign owned micro-financing company in Jilin Province, Target PRC No. 1 and Target PRC No. 2 would probably have built up a steady flow of business and customer base before any other foreign investors enter into the micro-financing market in Jilin City in the future. Moreover, based on the previous visits and discussions with local government officials in Jilin City and Jilin Province, as well as the fact that Target PRC No.1 has obtained the Jilin ETCB Confirmation, the Directors have reasonable grounds to believe that it would be difficult for another foreign investor to obtain the necessary PRC government approval for setting up a wholly foreign-owned enterprise in Jilin City to conduct the Target Business there in the near future.

In connection with the above, the Directors acknowledge that, as disclosed in the paragraph headed "Competing Interests" in Appendix VI – General Information to this circular, the Vendor has been taking steps to establish a micro-financing company in Changchun city, Jilin Province. Although Changchun City is also in Jilin Province, it is separate and different from Jilin City. The Directors maintain their belief that it would be difficult for another foreign investor to obtain the necessary PRC government approval for setting up a wholly foreign-owned enterprise in Jilin City to conduct the Target Business in the future despite the Vendor's said actions, given that: (i) the Vendor has advised that his application in Changchun city is still in the application-vetting stage and there is no guarantee that the application will succeed; (ii) based on the Vendor's successful record of obtaining the Permits for the Target Group in Jilin City, the Directors consider that it is possible that the Vendor possesses the necessary resources and lobbying power to obtain such kind of government approval, and that the Vendor's actions in Changchun city do not necessarily mean that any other foreign investor possess similar resources and lobbying power; (iii) the actions of the Vendor in Changchun city do not necessarily mean that PRC government approval of similar nature is going to be granted to any other foreign investors in Jilin City or in Changchun city; (iv) the actions of the Vendor in Changchun city do not necessarily mean that there is any change in the government policy in respect of the approval of wholly foreign-owned micro-financing company in Jilin City or in the PRC in general; and (v) as advised by the Company's legal adviser, micro-financing is an industry that the PRC government has only started to open up tentatively and it has been in practice difficult for a foreign-invested enterprise (especially a wholly foreign-owned enterprise) to obtain the necessary approvals and permit for setting up a micro-financing business in Jilin City or other parts of the PRC for reasons as disclosed under the paragraph headed "Additional information provided by the Company's PRC legal adviser" above in this letter, and in fact in Zhejiang Province of the PRC, foreign investors are expressly prohibited to invest in micro-financing business in that province. The Board further considers that (a) the Vendor's actions in Changchun city do not affect the Board's assessment of the Target Group and (b) there is unlikely to be any potential conflicts of interest with the Vendor in respect of the future operation of the Target Group because of the abovementioned reasons as well as the fact that even if the Vendor is able to successfully establish a micro-financing company in Changchun city, such micro-financing company will not be allowed to conduct business in Jilin City because of the geographic restriction imposed by the relevant permits and the relevant PRC laws and regulations and hence there is no potential conflicts of interest or impact on the Target Group. Please also refer to the paragraph headed "Regulatory overview – Geographical restriction on business activities" below of this "Letter from the Board" for further information.

Before the commencement of the Vendor's application process for the establishment of a micro-financing company in Changchun city, the Vendor notified the Board of his intention and a meeting of the Board was held to consider whether the Company would also take part in the Vendor's intended actions in

Changchun city. In view of the uncertainty in obtaining the relevant permits by the Vendor and the potential substantial amount of resources, time and effort to be incurred, the Board decided that the Group, subject to the Completion, should focus on the operation of the Target Group in Jilin City and would not participate in the Vendor's intended actions in Changchun city. As at the Latest Practicable Date, the Board has no intention or negotiation with the Vendor regarding the operation of the micro-financing company in Changchun city.

As at the Latest Practicable Date, the Company and the Vendor do not have any agreement in relation to the Vendor's application for setting up micro-financing companies in other parts of the PRC because the Board considers that micro-financing companies (if successfully established after obtaining the relevant required permits by the Vendor) in other parts of the PRC will not result in any competition (whether direct or indirect) with the Target Group having considered that micro-financing companies in other parts of the PRC will not be allowed to conduct business in Jilin City because of the geographic restriction imposed by the relevant permits and the relevant PRC laws and regulations.

So far the Group has not considered setting up a wholly-owned micro-financing company in other parts of Jilin Province and/or other part of the PRC because there is no guarantee that the relevant permits can be obtained despite the potential substantial amount of resources, time and effort to be incurred while the Target Group has already obtained all necessary Permits and has, up to the Latest Practicable Date, already developed a profitable track record for at least the three months ended 31 March 2013 based on the audited figures as disclosed in Appendix II to this circular.

The Vendor has also given an undertaking to the Company, pursuant to which the Vendor has undertaken to the Company that, subject to the Completion, he will not apply for any similar licence in Jilin City or engage in any business that competes with the Target Business in Jilin City, for the period during which the Group is engaging in the Target Business.

With respect to the market value of such Permits necessary for conducting the Target Business, since there is no comparable data regarding the market value of the Permits held by a wholly-foreign owned micro-financing enterprise in Jilin City, the Board believes that it would best be assessed by estimating the potential revenue and profits that the Permits would help the Target Group to generate (like the value of other licences subject to limited supply such as the banking or 3G or 4G telecommunication licence possessed by a bank or a telecommunication company in Hong Kong, the PRC or England, or the casino licence possessed by a casino operator in Macau), based on the Board's current understanding of (i) the market demand for loans in the PRC and in Jilin City, (ii) the funds available to be lent out, (iii) the interest and consultancy fees permitted under the PRC law to be charged by Target PRC No.1 and Target PRC No. 2 respectively, and taking into account all relevant risks factors and potential costs and expenses. In order to assess the value of the Target Group based on its possession of the Permits, the Board has engaged and relied on the Valuer (who possess relevant experience in valuing financing related business) to assess the business value of the Target Group. The Valuer, after performing independent verifications and applying its professional standard, methodology and judgment, has derived the value as stated in the Valuation Report. The Board has reviewed the Valuation Report and considered the working papers provided by the Valuer, and has no reason to believe that it is not a fair and reasonable reflection of the business value of the Target Group and indirectly the current market value of the Permits. The working papers demonstrate the detailed analysis performed by the Valuer, including the timing and amount of each capital injection and bank financing, profit and loss projections and balance sheet projections up to 31 March 2020, before the Target Group derives the revenue and profit after tax for each of the seven years ended on 31 March 2014 to 31 March 2020 (based on the Company's current intention to inject the last tranche of RMB50 million, out of the RMB200 million registered capital required for Target PRC No.1, on about 1 December 2014), as well as the market value of the Target Group, after applying the discount rate determined by the Valuer based on careful consideration of various relevant factors.

Having said that, the Board has disclosed in this letter the risk factors related to keen competition in the micro-financing industry and those associated with the valuation of the Target Group as contained in the Valuation Report so that the Independent Shareholders can decide whether the Company should proceed with the proposed Acquisition in light of such risks.

The Directors acknowledge that there can be no assurance that Target PRC No.1 will always remain as the only wholly-foreign-owned or foreign invested micro-financing company in Jilin Province. Nevertheless, the Directors consider that the key to this issue is whether the Group, as a foreign investor, is able to carry out the Target Business in Jilin City. The Directors consider that no one can reasonably predict whether there will be any change in the government policy in the future such that any foreign investor including the Group can easily obtain the Permits with absolute certainty. It is, however, the Directors current understand that it has been difficult for foreign investors to obtain the Permits for carrying out micro-financing business and such understanding is reinforced by the fact that Target PRC No.1 is the only wholly-foreign-owned or foreign invested micro-financing company in Jilin Province. The Directors acknowledge that the possibility of any change in the government policy is a risk factor commonly faced by all businesses. However, based on the best information currently available to the Directors, the Directors consider that the Permits are valuable and the Group should seize the opportunity to acquire the Target Group so as to enable the Group to enjoy the full benefits of the Permits to carry out micro-financing business in Jilin City.

Further, the Directors would like to highlight that HK$850 million is only the maximum amount of consideration payable by the Company under the Agreement, which does not necessarily mean the final amount to be paid by the Company for the Acquisition. When the Directors negotiated the price and payment terms of the proposed Acquisition with the Vendor, on the one hand, the Directors were keen to seize the opportunity of acquiring the Target Group so as to be able to carry out micro-finance business in the PRC, but on the other hand, they were cautious as to the price to be paid for acquiring the Target Group. Therefore, the Directors have decided to adopt the contingency payment approach to ensure that key parameters and conditions related to the Target Group would be met or achieved before the Company is obliged to pay certain amount of the Consideration. Under such a contingency approach, in the event that any of the T2 Payment Condition, the T3 Payment Conditions and T4 Payment Condition is/are not fulfilled within the prescribed time limit pursuant to the Agreement, the respective tranches of the Consideration will be waived. In an extreme case, the Consideration payable by the Company at Completion would only be HK$425 million (if only the Closing Conditions are satisfied), which equals only half of the maximum Consideration having taken into account that the registered capital of Target PRC No.1 would be only RMB100 million instead of RMB200 million if only the Closing Conditions are satisfied. Also, HK$225 million out of the HK$425 million would be satisfied by convertible bonds and promissory notes with maturity date of 5 years instead of cash.

The Directors consider that (i) allocating 50% of the maximum amount of the Consideration to the T2 Price, T3 Price and T4 Price and (ii) imposing various conditions precedent to be satisfied before triggering the Company's payment obligation under the above-mentioned contingency payment approach (instead of paying the full Consideration on the Completion Date) are in fact steps taken by the Company to reduce the risk associated with the Acquisition, which was the best term that the Company could get during its negotiations with the Vendor before signing the Agreement. Under this approach, the aggregate Consideration will be reduced should the performance of the Target Group fail to meet the turnover threshold of RMB15 million, while on the other hand, should the Target Group be able to meet such threshold, the said turnover and profits generated therefrom would help the Company to benefit from the fast-growing micro-finance business in the PRC and enhance the Company's profitability and growth in the future.

Further, the T2 Price, T3 Price and T4 Price will be settled by way of convertible bonds and promissory notes to be issued by the Company, which will take around 5 years to mature, while the T2 Price and T4 Price, if any, will only be required to be settled by the Company no earlier than October 2013 and April 2014 respectively even if the relevant conditions precedent will have been met by each of such dates.

The Directors, including the Independent Board Committee, are of the opinion that the terms of the Agreement are fair and reasonable and are in the interests of the Company and independent Shareholders as a whole. The Directors fully understand the risks associated with the Acquisition as disclosed in the risk factors section of the Circular and as one of the Company's measures to reduce the risk arising from the relatively short track record of the Target Group, by including the said turnover threshold and other conditions precedent, the final amount of aggregate Consideration will be determined based on the actual performance of the Target Group after the Completion.

Due diligence in relation to the valuation approach

The Directors have provided the Valuer with the relevant information required for its valuation and discussed with the Valuer as to the appropriate valuation approach to be adopted for the valuation of the Target Group. Based on discussions with the Valuer, the Directors understand that the Valuer has considered various valuation approaches and the applicability and appropriateness of each of the approaches before deciding on the valuation approach to be adopted for the business valuation of the Target Group.

As mentioned in the Valuation Report, the Market-based Approach is less appropriate as there are no public listed companies to derive price multiples or market transactions directly comparable to the Target Group due to the uniqueness of geographical location and stage of development of the relevant businesses, whereas the Asset-based Approach is not appropriate as it ignores the economic benefits generated by the business as a whole. In contrast, the Income-based Approach allows the Valuer to project the economic benefits of the Target Group's business by taking into account of the proposed expansion and growth potential of the Target Group, which provides a better understanding of the future development of the subject business of the Target Group. The risk of the underlying business will also be considered by using the discount rate to factor any uncertainties. The Valuer has therefore decided that the Income-based Approach is the most appropriate approach and hence relied solely on the Income-based Approach in determining its opinion of value.

Further, as stated in the Valuation Report, for the valuation of financial lending institutions, there are various common valuation methods under the Income-based Approach including the Dividend Discount Model, the Cashflows to Equity Model, and the Residual Income Model. In the course of the Valuer's valuation of the Target Group, the Valuer has adopted the Residual Income Mode as it considered the Dividend Discount Model to be not suitable (as the Target Group is not expected to pay out dividends to entities outside the Target Group in the near term) and the Cashflow to Equity Model is not suitable for valuing the Target Group (as the nature of the business causes fluctuations in the free cash flow which cannot be estimated reliably).

Moreover, the Directors understand from the Valuer that under the Residual Income Model, the equity value of a company is calculated by discounting the residual income to its present value. The residual income is the net income generated by a business entity in excess of the opportunity cost of capital of equity holders. The opportunity cost of capital is calculated from the discount rate which is based on the cost of equity as derived from the capital asset pricing model. Please refer to the Valuation Report for details as to how the discount rates were derived from, including taking into account parameters such as the risk free rate and certain risk premium. The Directors believe that the discount rates and parameters adopted in the Valuation Report are reasonable.

Before adopting the valuation stated in the Valuation Report, the Directors and/or the Company have performed the following work:

(i) carefully considered and assessed the experience and qualification of the Valuer by reviewing the professional qualification of the Valuer and its previous valuation experience in valuing similar businesses and believed that the Valuer had the relevant experience and qualifications to perform the valuation of the Target Group;

(ii) obtained and provided the Valuer with relevant and appropriate information, documents, financial statements, facts, legal opinions and projections;

(iii) had various discussions with the Valuer regarding the rationale and basis behind adopting the Income-based Approach and Residue Income Model as the valuation approach and method for assessing the value of the Target Group;

(iv) carefully and duly considered the advice of the Valuer and the contents of the Valuation Report, and

(v) discussed with the Company's financial advisers and other relevant professional parties as to the appropriateness of adopting the Income-based Approach as the valuation approach for the Target Group.

Based on the foregoing, the Directors concurred with the professional judgment of the Valuer in choosing the Income-based Approach as the valuation approach for the Target Group.

Due diligence in relation to the parameters adopted in the Valuation Report

Cost of equity

The cost of equity adopted in the Valuation Report, being approximately 13.29%, was prepared and determined by the Valuer. The Directors have reviewed the working papers provided by the Valuer in relation to the determination of the cost of equity and had various discussions with the Valuer as well as other professional parties in this connection.

In particular, the Directors understood from the Valuer that additional risk premium has been incorporated when determining the cost of equity (i.e. the discount rate) in view of the various risks associated with the Target Group, including but not limited to the fact that (i) the Target Group has only commenced business operation in December 2012 with very limited operating history, (ii) the Target Group may be subject to higher credit risk from customers, (iii) the personal/corporate guarantees provided and/or collaterals pledged (if any) may not be sufficient, (iv) the estimated parameters adopted in the Valuation Report may not be sustained in the longer term in the future, as well as (v) other risk factors as described in the paragraph headed "Risk factors" above. In particular, the Directors have had discussion with the Valuer and have been advised that the cost of equity was derived by using the Capital Asset Pricing Model ("CAPM"). As further advised by the Valuer, the CAPM model is one of the most common and widely accepted methods used in deriving the cost of equity. The Directors have obtained and reviewed the working papers of the Valuer in deriving the cost of equity, and the supporting for the inputs including risk free rate, equity beta, market risk premium, size premium, country risk premium, which were taken from widely recognized sources such as Bloomberg and Morningstar. Furthermore, the Directors have reviewed the comparable companies adopted in the calculation of cost of equity and noted that these companies selected by the Valuer are companies operating in the financing industry and are subject to similar business risk with the Target Group. In particular, the Directors noted that the risk free rate is based on the yield of US treasury government bond, which, as advised by the Valuer, is the most commonly accepted reference for risk free rate adopted in the calculation of the discount rate in most of the valuation. The equity beta is based on comparable companies listed in Hong Kong and overseas (including China Financial Services Holdings Limited, Public Finance Holdings Limited, etc., please refer to page IV-23 for the full list) which are sourced from Bloomberg. The Directors have reviewed the information extracted from the Bloomberg's database provided by the Valuer to verify the equity beta. For other risk premiums including the market risk premium, size premium, country risk premium and the specific risk premium, the Directors noted that such risk premiums are based on the Valuer's professional judgement and, as advised by the Valuer, are based on commonly accepted sources and derivation methods as in other valuation of similar nature. As further noted by the Directors, the specific risk premium is based on the Valuer's professional judgement and, as advised by the Valuer, adding a specific risk premium to the cost of equity is a common practice in other valuations. Specifically, the Directors noted that (i) the market risk premium is derived from the market rate of return minus risk free rate in accordance with the CAPM model, which is one of the most common and widely accepted models in this connection as advised by the Valuer; (ii) the Valuer had referred to the long-horizon expected equity risk premium (historical) sourced from "2013 Ibbotson SBBI Valuation Yearbook"; (iii) the size premium was added to the cost of equity to account for the higher risks of smaller company and was based on historical research data of micro-cap companies; (iv) the country risk premium was added to the cost of equity to account for the increased risk associated with operating in the PRC and was derived based on the data and methodology developed by a professor of finance at the New York University Stern School of Business who teaches valuation and corporate finance courses in a MBA program and is an author of several books on valuation and corporate finance; (v) the specific risk premium was added to account for the illiquidity of the interest in the Target Group and various risk factors associated with the Target Business including the startup risk and other risk factors as disclosed in the "Risk factors" section of this letter. The Directors have reviewed the data provided by the Valuer and verified the source of data in connection with the determination of each of the risk premium and was not aware of any matter that would cause them to question the reliability of the data. Based on the above and the result of the due diligence performed by the Directors, including reviewing the working papers provided by the Valuer in relation to the determination of the cost of equity and had various discussion with the Valuer and other professional parties in this connection, the Directors are of the view that the Valuer has included sufficient risk premium for the various risks of the Target Group and that the Directors are not aware of any matters that would cause them to question the fairness and reasonableness of the cost of equity determined by the Valuer.

Growth rate

The growth rate adopted in the Valuation Report, being 3% per annum, is prepared and determined by the Valuer based on the inflation rate in the PRC in the coming years as projected by the IMF.

The Directors consider that adopting the projected inflation rate in the PRC for the estimated long-term growth rate of the Target Group is reasonable because the growth rate of a business will tend to match the general inflation rate after an initial period of relatively faster growth. Although the Target Group's business is subject to the availability of funds for lending out to its customers, such factor is not directly relevant to the determination of the long-term growth rate of the Target Group because the potential growth rate of the Target Group, by relying on the availability of internally generated funds alone without taking into account of any additional shareholders' fund or external financing, can easily outpace 3% per annum having regard to the interest rate and consultancy fee rate that it typically charges to its customers which are much higher than 3% per annum. The Directors have reviewed the latest projection of the inflation rate in the PRC in the coming years as published on the website of the IMF. Based on the above, the Directors consider that IMF's projection of inflation rate is a reputable benchmark for comparison and hence 3% is a reasonable growth rate to be adopted for the valuation.

Lending interest rate and consultancy fee rate

The lending interest rate adopted in the Valuation Report, being 12% per annum, and the consultancy fee rate adopted in the Valuation Report, being 30% per annum, were determined based on the actual operating statistics of Target PRC No.1 and Target PRC No.2 for the three months ended 31 March 2013 (the "**Period**"), according to which the interest rate of the majority of the micro-financing transactions of Target PRC No.1 during the Period was 1% per month, and the aggregate sum of (i) the average interest rate charged by Target PRC No.1 and (ii) the consultancy fee rate charged by Target PRC No.2 during the period was approximately 3.5% per month. As such, the lending interest rate of 1% per month (or 12% per annum), together with the consultancy fee rate of 2.5% per month (or 30% per annum), were adopted for the valuation.

In connection with the above, the Directors have:

- obtained and reviewed copies of all loan contracts and consultancy service contracts entered into between the Target Group and its customers during the Period, including 46 loan contracts and 37 consultancy service contracts;

- reviewed the figures contained in the financial information of the Target Group for the three months ended 31 March 2013 (which was audited by HLB Hodgson Impey Cheng Limited ("**HLB**"), the reporting accountants) to check for the consistency of the financial information contained in the audited financial information and the contracts obtained, and noted that the figures are consistent;

- sought a legal opinion advising that under the relevant PRC laws and regulations, the permitted interest rate for micro-financing business shall not exceed 4 times of the level of the statutory rate published by the PBOC (which ranged from 5.35% to 6.10% per annum from the beginning of 2011 to the Latest Practicable Date, and 4 times of which would therefore range from 21.4% to 24.4% per annum), and thus the lending interest rate of 12% per annum is permitted under the relevant PRC laws and regulations;

- sought a legal opinion advising that the amount of consultancy fee that Target PRC No.2 may charge to its customers is not subject to any maximum limit, and that the charging of interest by Target PRC No.1 and of consultancy fee by Target PRC No.2 together are not prohibited in the PRC pursuant to the applicable PRC laws and regulations; and

- reviewed and analyzed the relevant industry data available from public sources including the media as well as announcements and annual reports of listed companies with similar business in the PRC, and noted that the lending interest rate of 12% per annum together with the consultancy fee rate of 30% per annum are comparable to the market rates available from the public sources including media reports and the listed companies' announcements and annual reports. For instance:

	Range of interest and service fee rate charged in respect of its loan receivables as disclosed in its annual reports	
Comparable company	**Latest financial year**	**Previous financial year**
China Financial Services Holdings Limited (stock code: 605)	1-3.5% per month	1-3.2% per month
Credit China Holdings Limited (stock code: 8207)	3-5% per month	3-5% per month

Based on the above, the Directors are satisfied with the results of the work done and the Directors consider that the lending interest rate of 12% per annum and the consultancy fee rate of 30% per annum adopted in the valuation were arrived at after due and careful enquiry.

Borrowing cost of funds

The borrowing cost of funds, being 6% per annum, is based on the approximate level of the statutory rate published by the PBOC. From the beginning of 2011 to the Latest Practicable Date, the statutory interest rates published by the PBOC for a six-month loan ranged from 5.35% to 6.10% per annum.

The Directors consider that adopting the statutory rate published by the PBOC is reasonable after certain Directors and officers of the Company, as representatives of the Company, have met with 吉林銀行吉林解放大路支行 (Jilin Bank Jilin Jiefangdalo Branch) ("**Jilin Bank**") and were told that such rate would be very likely applicable to Target PRC No.1. In addition, the Directors have compared the borrowing cost of other comparable companies and noted that the borrowing cost of funds of the below comparable companies were lower than 6% per annum:

	Borrowing cost of funds as disclosed in its annual reports	
Comparable company	**Latest financial year**	**Previous financial year**
Public Finance Holdings Limited (stock code: 626)	1.52% per annum	1.73% per annum
First Credit Finance Group Limited (stock code: 8215)	2.5-4.25% per annum	1.78-2.75% per annum

Revenue

The revenue of the Target Group as projected in the Valuation Report was calculated based on the aggregate amount of money of the Target Group available for lending out to customers, taking into account the length of time the money can be lent out every year, the lending interest rate, and the consultancy fee rate.

The aggregate amount of money of the Target Group available for lending out to customers is determined based on the following:

(i) the amount of paid-up capital of Target PRC No.1, being RMB50 million initially, with an additional RMB50 million expected to be paid in October 2013, another additional RMB50 million expected to be paid in June 2014, and a further RMB50 million expected to be paid in December 2014;

(ii) the amount of bank financing, being up to 50% of the net asset value of Target PRC No.1 from time to time, where the amount of bank financing is nil initially, and RMB75 million upon the capital injection expected to be made on 1 June 2014, and a further RMB25 million upon the injection expected to be made on 1 December 2014;

(iii) the amount of retained earnings of Target PRC No.1 after deducting all relevant finance costs, selling and administrative expenses, taxes, etc.; and

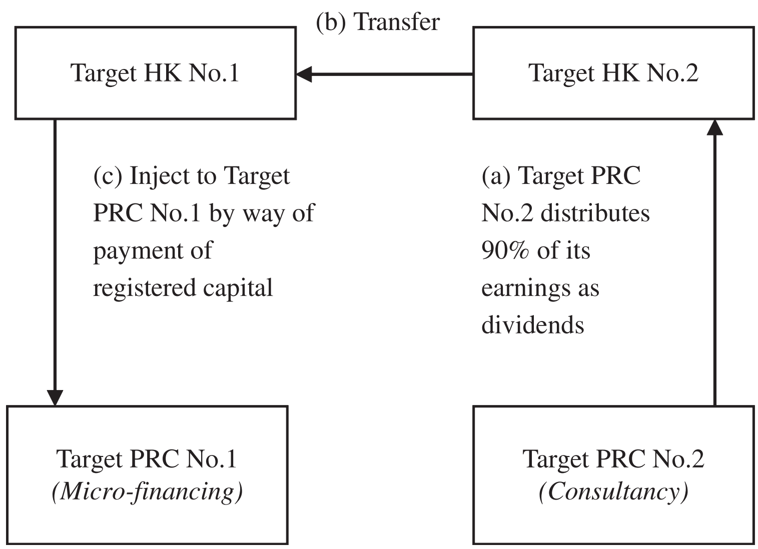
(iv) the amount of retained earnings of Target PRC No.2, which shall be transferred to Target PRC No.1 for Target PRC No.1's micro-financing activities in the following manner:

  (a) Target PRC No.2 will distribute 90% of its earnings to its shareholder, i.e. Target HK No.2, as at the end of each financial year by way of dividend, which will be subject to the PRC dividend withholding tax of 5%.

  (b) After the receipt of the said amount by Target HK No.2, such amount will then be transferred to Target HK No.1 in full.

(c) Target HK No.1 will then transfer such amount to Target PRC No.1 by way of making payments of Target PRC No.1's registered capital. If necessary (such as when the registered capital of Target PRC No.1 had already been fully paid up), Target HK No.1 will apply to increase in the registered capital of Target PRC No.1 before injecting the said amount to Target PRC No.1.

(d) The following diagram illustrates the abovementioned process:



The Directors have performed the following works in connection with the above as part of the due diligence of the Directors:

- In relation to the amount of paid-up capital of Target PRC No.1 as stated in point (i) above, the Directors have ensured that the initial RMB50 million has already been paid up by the Vendor by reviewing the capital verification report of Target PRC No.1. Pursuant to the Agreement, the payment of the remaining registered capital is the Group's responsibility after Completion.

- In relation to the amount of bank financing as stated in point (ii) above, the Directors have sought a legal opinion confirming that the amount of bank financing that Target PRC No.1 may obtain from banks is up to 50% of its net asset value pursuant to the relevant PRC laws and regulations. In addition, the Directors have obtained assurance from the Jilin Bank during the meeting between certain Directors and officers of the Company, as representatives of the Company, and the Jilin Bank that the Jilin Bank is willing to continuously support the business development of Target PRC No.1 before and after Completion with bank financing of up to 50% of Target PRC No.1's net asset value.

- In relation to the amount of retained earnings of Target PRC No.1 as stated in point (iii) above, the Directors have reviewed the calculation of the amount of retained earnings of Target PRC No.1, which is straight-forward based on the various parameters used in the valuation.

- In relation to the amount of retained earnings of Target PRC No.2 as stated in point (iv) above, the Directors have obtained a written confirmation from the relevant authority in Jilin City, i.e. Jilin City ETCB confirming that the increase in the registered capital of Target PRC No.1 is not subject to any upper limit. The Directors have also sought a PRC legal opinion advising that the increase in the registered capital of Target PRC No.1 is not subject to any upper limit. In addition, the Directors have reviewed the relevant PRC regulations which state that the dividend withholding tax rate applicable to Target PRC No.2 is 5%.

Regarding the length of time the money can be lent out every year, it was assumed in the valuation that capital available to Target PRC No.1 can, on average, be lent out for 11 out of 12 months every year.

In connection with the above, the Directors have reviewed the actual operating statistics of Target PRC No.1 for the Period, including the audited financial information of the Period as well as the unaudited financial information for the three months ended 30 June 2013 provided by the Vendor in relation to the actual amount of time that the available money of Target PRC No.1 has been lent out during the period, and noted that 11 out of 12 months, on pro-rata basis, approximates to the actual historical figures.

Based on the foregoing, the Directors are satisfied with the result of the above due diligence work done and consider that the revenue projection in the valuation report is arrived at after due and careful enquiry.

Default rate

The default rate adopted in the Valuation Report, being 4.11% of the total principal, is based on the U.S. corporate average cumulative one-year default rates for global speculative grade corporations published by the Standard & Poors in the 2012 Annual U.S. Corporate Default Study And Rating Transitions published on 20 March 2013 (the "S&P Default Rate").

The Directors consider that the S&P Default Rate reference is an appropriate source of information for the determination of the default rate as the S&P Default Rate concerns global (instead of only the United States) corporations of speculative grade. The Directors have visited the website of Standard & Poors to check out the latest published default rate.

Other than the S&P Default Rate, the Directors have noted from a research report published by Fitch Ratings in March 2013 that Fitch's global corporate speculative-grade default rate was 2.99%. The Directors also noted from a news report published in February 2013 that according to Moody's Investors Service, the high-yield default rate for Asia Pacific (ex-Japan) corporates would remain at a low level of about 2% in 2013.

In addition, the Directors have also noted from the actual operating statistics of the Target Group based on the audited financial information for the Period and the management accounts for the three months ended 30 June 2013 that the actual default rate of the Target Group is nil.

Furthermore, the Directors have made reference to the actual loan receivables impairment rate or the amount of provision for bad debts of other comparable companies listed on the Stock Exchange with similar businesses in the PRC and noted that the relevant provision or impairment rate were generally lower than the S&P Default Rate:

Comparable company	Ratio of the provision for bad or doubtful debts to the outstanding loan receivables as disclosed in its annual reports Latest financial year	 Previous financial year
China Financial Services Holdings Limited (stock code: 605)	0.18%	0.19%
Public Finance Holdings Limited (stock code: 626)	0.56%	0.71%
Credit China Holdings Limited (stock code: 8207)	0.00%	0.00%

Based on the foregoing, the Directors consider that the S&P Default Rate is a prudent and credible benchmark for arriving at the default rate to be used for making bad debt provisions, and that the 4.11% default rate adopted in the valuation is prudent and is arrived at after due and careful enquiry.

Business tax and additional levies

The business tax and additional levies of Target PRC No.2 as adopted in the Valuation Report were below the standard rates. Target PRC No.2 has obtained certain tax concessions/benefits from the local tax authority, including the Tax Benefits. Such concessions/benefits are subject to annual renewal.

As mentioned above, certain Directors and officers of the Company have personally met with the relevant PRC government officials in Jilin Province and have obtained their verbal confirmation that they would support the development of the business of the Target Group. In addition, the Directors have sought a legal opinion confirming that the Tax Benefits are valid and that there would not be any legal obstacles for Target PRC No. 2 to renew the Tax Benefits each year provided that Target PRC No.2 is able to meet the requirements in term of its business size, revenue and profit, which the Directors believe that Target PRC No.2 would be able to meet.

Selling and administrative expenses

The selling and administrative expenses adopted in the Valuation Report was 13% of revenue if revenue is below RMB15 million; and 8% of revenue if revenue is at or above RMB15 million. The Directors have reviewed the audited financial information of the Target Group and noted that the difference between the percentage of selling and administrative expenses to revenue as adopted in the Valuation Report's assumption and that as derived from the audited financial information for the three months ended 31 March 2013 was mainly due to the one-off legal costs in relation to the reduction of share capital of Target HK No.1 which were booked during the said period as well as certain exchange loss. The Directors noted that after excluding such items, the percentage of selling and administrative expenses to revenue as adopted in the valuation's assumption and that as derived from the audited financial information for the three months ended 31 March 2013 were not materially different from each other.

The Directors have also made reference to the actual rate of selling and administrative expenses to revenue of comparable companies and noted that they are comparable to the estimated selling and administrative expenses rate adopted for the Valuation Report:

	Ratio of the selling and administrative expenses to revenue as disclosed in its annual reports	
Comparable company	**Latest financial year**	**Previous financial year**
Public Finance Holdings Limited (stock code: 626)	4.10%	4.35%
AEON Credit Service (Asia) Company Limited (stock code: 900)	11.00%	10.72%

The percentage of selling and administrative expenses decreases when revenue increases because of economies of scale as the Target Group is not of a labour intensive nature and the increase in revenue and amount of lend-out loan principals will not lead to significantly increased selling expenses.

Due diligence in relation to the possible circumstances, events and factors that may lead to interruption of the Target Group's business

Possible circumstances, events and factors

After due and careful consideration, the Directors consider that the following are the possible circumstances, events and factors that may lead to the interruption of the Target Group's business:

(i) a series of major loan defaults suffered by the Target Group, resulting in its lack of sufficient working capital to continue its business;

(ii) the revocation of the Permits of the Target Group as a result of an unexpected change in government policy to ban wholly-foreign-owned micro-financing companies in Jilin City.

The Board's assessment of the likelihood of such circumstances, events and factors and the due diligence performed by the Directors in such aspects

In respect of circumstance (i) above, despite the actual default rate experienced by the Target Group since its commencement of business in December 2012 up to 30 June 2013 was nil, the Directors have performed the due diligence by marking reference to other sources such as the relevant average default rate published by rating agencies as well as the default rate of comparable companies. Please refer to the paragraph headed "Due diligence performed by the Directors – Due diligence in relation to the parameters adopted in the Valuation Report – Default rate" above for further details of the due diligence work performed by the Directors in this respect. Having taken into account the result of such due diligence work, the Directors are of the view that the likelihood of the occurrence of circumstance (i) is low.

In respect of circumstance (ii) above, certain Directors and senior officer of the Company have visited the local government authorities in Jilin City and obtained verbal confirmation of their supports to the Target Group before and after the Completion. The Directors have also confirmed from its due diligence work that Target PRC No.1 has already received the required Permits to engage in micro-financing business in Jilin City. The Directors understand from their discussions with the relevant PRC government officials in Jilin Province that as of the date of the Agreement, the Permit granted to Target PRC No.1 for conducting the micro-financing business in Jilin City was the first and the only micro-finance permit granted to a foreign invested enterprise (whether in the form of joint venture or wholly foreign-owned enterprise) in Jilin Province. Target PRC No.1 has further obtained a written confirmation dated 23 July 2013 issued by Jilin City ETCB confirming that Target PRC No.1 was the only wholly-foreign-owned or foreign invested micro-financing company in Jilin Province as of the date of the confirmation. The Directors acknowledge that there can be no assurance that the said written and verbal confirmation will not be revoked by the local government authority. The Directors consider that any official government policy or established business relationship may be subject to change and such risk is commonly faced by all businesses. Nevertheless, the Directors consider that the written and verbal confirmation obtained from the local government authority are the best information currently available that is relevant to the Directors' assessment of the business operations and prospect of the Target Group. Having taken into account the discussion and confirmation obtained from the local government authority and based on the best information currently available, the Directors are of the view that the likelihood of the occurrence of circumstance (ii) above is low.

The Company's proposed actions to mitigate or prevent such circumstances, events and factors

In respect of circumstance (i) above, the Company will ensure that the operating procedures of the Target Group (as detailed in the paragraph headed "Operating procedures" above) will continue to be properly implemented in order to minimize the defaults by the Target Group's customers. It is also the intention of the Company to maintain the current management of the Target Group.

In respect of circumstance (ii) above, the Company will try its best to communicate and maintain good relationship with local government authorities in Jilin City on a continuous basis so as to be alerted to any possible change in government policy.

Conclusion

Based on the above-mentioned due diligence performed by the Directors (including the due diligence in relation to the Target Group, the due diligence in relation to the Permits, the Consideration and the payment terms, the due diligence in relation to the valuation approach, as well as the due diligence in relation to the parameters adopted in the Valuation Report) and having considered the results of such due diligence work, in particular:

- the actual operating results of the Target Group based on the audited financial information of the Target Group for the three months ended 31 March 2013 as well as the unaudited management accounts for the six months ended 30 June 2013 were consistent with the

Directors' initial estimation, which reinforces the Directors' understanding of the operating environment in relation to the Target Business in Jilin City and as such, the Directors consider that the business plan and the relevant projections and assumptions are reasonable based on the best information currently available;

- Target PRC No.1 has obtained a written confirmation dated 23 July 2013 issued by Jilin City ETCB confirming that Target PRC No.1 was the only wholly-foreign-owned or foreign invested micro-financing company in Jilin Province as of the date of the confirmation, and such fact reinforces the Directors' understanding that it has been difficult for a foreign investor to obtain the necessary PRC government approval for setting up a wholly foreign-owned enterprise in the PRC to conduct micro-financing business. The Directors therefore believe that the Permits are valuable and the Group should seize the opportunity to acquire the Target Group so as to enable the Group to enjoy the full benefits of the Permits to carry out micro-financing business in Jilin City; and

- each of the parameters adopted in the Valuation Report is considered reasonable and were arrived at after due and careful enquiry,

the Directors are of the opinion that the key assumptions and parameters adopted in the Valuation Report is fair and reasonable and that the Acquisition is in the interest of the Company and the Shareholders as a whole.

REGULATORY OVERVIEW

Requirements on Permits

In order to engage in micro-financing business, all Permits must be obtained. The basic requirements for obtaining the Permits primarily include having a minimum level of registered capital and having staff with relevant knowledge and industry experience. Nonetheless, the relevant government authorities have the absolute discretion to approve or reject an application for the Permits.

Restrictions on pricing

According to the Interim Measures for micro-financing companies in the Jilin Province (吉林省小額貸款公司試點暫行管理辦法), the interest rate of a micro-financing loan must not exceed 4 times the basic lending interest rate of PBOC (which is currently at approximately above 6% per annum), and the lower limit shall not be less than 0.9 times the basic lending rate of PBOC. The actual interest rate is determined by market supply and demand subject to the aforesaid limit. In general, the interest rate of a micro-financing loan is higher than that of a loan granted by commercial banks.

Restrictions on source of funding

In the PRC, banks and micro-financing companies are both allowed to engage in the business of lending money. However, micro-financing companies are classified as non-bank financial institutions in the PRC. The primary difference between banks and micro-financing companies is that banks are allowed to engage in deposits taking activities but micro-financing companies are not allowed to do so. For a micro-financing company, the permitted sources of funds for use in its business include its paid-up capital, bank borrowings from up to two banks and its retained earnings.

Under the relevant PRC regulations, micro-financing companies are allowed to obtain bank borrowings from up to two banks and of a maximum amount of up to 50% of the net asset value of the micro-financing company. Accordingly, assuming that the application for the increase in the registered capital of Target PRC No.1 from RMB100 million to RMB200 million will be approved, Target PRC No.1 is allowed to obtain bank borrowings of up to RMB100 million if the net asset value of Target PRC No. 1 is equal to its registered capital, or an amount higher than RMB100 million if the net asset value of Target PRC No. 1 further increases due to increase in retained earnings or otherwise.

Assuming that the application for the increase of registered capital of Target PRC No.1 from RMB100 million to RMB200 million will be approved, Target PRC No.1 will have cash amounting to RMB200 million upon the full payment of the registered capital. As such, and based on the preliminary discussion between Target PRC No.1 and one bank in Jilin City (i.e. the Jilin Bank), the Board believes that there would not be any major obstacles for Target PRC No.1 to obtain bank borrowings of RMB100 million. The Board considers that there would not be any major obstacles for Target PRC No.1 to obtain bank borrowings of RMB100 million after the increase in the registered capital of Target PRC No.1 to RMB200 million because the Directors have obtained assurance from the Jilin Bank during the meeting between certain Directors and officers of the Company, as representatives of the Company, and the Jilin Bank that the Jilin Bank is willing to continuously support the business development of Target PRC No.1 before and after Completion with bank financing of up to 50% of Target PRC No.1's net asset value. To the best knowledge of the Director, as at the Latest Practicable Date, the Jilin Bank has not withdrawn the dated representation.

The Board understands that as at the Latest Practicable Date, the Target Group has not yet started the formal application process for obtaining the bank borrowings from the Jilin Bank. The Board further understands that as at the Latest Practicable Date, the Target Group has not yet obtained any bank borrowings given that the current registered capital of Target PRC No.1 is only RMB100 million. It is intended that the Target Group will aim at obtaining the first round of bank borrowings in the amount of RMB75 million after the paid-up registered capital of Target PRC No.1 reaching RMB150 million in about June 2014.

If the Target Group is not able to obtain bank borrowings as planned, the Group will not be in a position to provide, from its internal resources, loans to the Target Group for the Target Group's use in its micro-financing activities due to the restrictions on the source of funding as more particularly described under the paragraph headed "Restrictions on source of funding" above. The attention of the Shareholders are drawn to the risk factor headed "There are risks associated with the availability of funds to sustain the operation and growth of the Target Group" for the risks in connection therewith.

Geographical restriction on business activities

Micro-financing companies in Jilin City are only allowed to lend to borrowers from Jilin City, while banks in Jilin City can lend to borrowers from Jilin City as well as other cities or provinces. Target PRC No.1 will (i) require its corporate customers to provide their business registration documents showing that they are established and registered in Jilin City; and (ii) require its personal customers to provide their identity cards and residence account books (戶口本) showing that they are residents of Jilin City.

In the PRC, there is geographical restriction on the business activities of micro-financing companies. Therefore, micro-financing companies established in other cities or provinces cannot lend to borrowers from Jilin City if they are only allowed to do business within the city or province in which they are registered. Banks, on the other hand, have no such restrictions and can lend to borrowers from Jilin City as well as other cities or provinces. Banks are allowed to engage in micro-financing activities.

Wholly-foreign-owned micro-financing companies

The Board is not aware of any public record on the number of foreign-owned micro-financing companies in Jilin City or other parts of the PRC. The Company was advised by the relevant government authority in Jilin City that Target PRC No.1 is the only wholly-foreign-owned or foreign invested micro-financing company in Jilin Province. Target PRC No.1 has obtained a written confirmation dated 23 July 2013 issued by Jilin City ETCB confirming that Target PRC No.1 was the only foreign invested micro-financing Company in Jilin Province (whether in the form of Sino-foreign joint venture or wholly foreign-owned enterprise) as of the date of confirmation.

Based on the Board's understanding according to certain news articles published by PRC media sources such as 新華網 (Xinhua Net) and 中國新聞網 (China News Net) *(note1)*, there are other wholly-foreign-owned micro-financing companies in other provinces in the PRC. However, the Board is not aware of any public records on the number of wholly-foreign-owned micro-financing companies in other provinces in the PRC.

With respect to the legal restrictions against setting up wholly-foreign-owned micro-financing companies, the Board noted from the "關於進一步明確小額貸款公司籌建、開業、股權變更等有關事項的補充通知" (Supplementary Notice on Further Clarification of Matters Relating to the Establishment, Commencement of Business, and Equity Changes of Micro-financing Companies) published by遼寧省人民政府金融工作辦公室 (Financial Affairs Office of People's Government of Liaoning Province) *(note 2)* that in Liaoning Province, there were additional requirements imposed on foreign investors intending to establish micro-financing companies, including having a total assets of no less than RMB2 billion and having 5 years or more experience in the lending industry. In other parts of the PRC (including Jilin Province), the Board is not aware of any additional requirements or legal restrictions against the setting up of wholly-foreign-owned micro-financing companies.

Notes:

1. http://big5.xinhuanet.com/gate/big5/news.xinhuanet.com/fortune/2013-05/10/c_115708934.htm

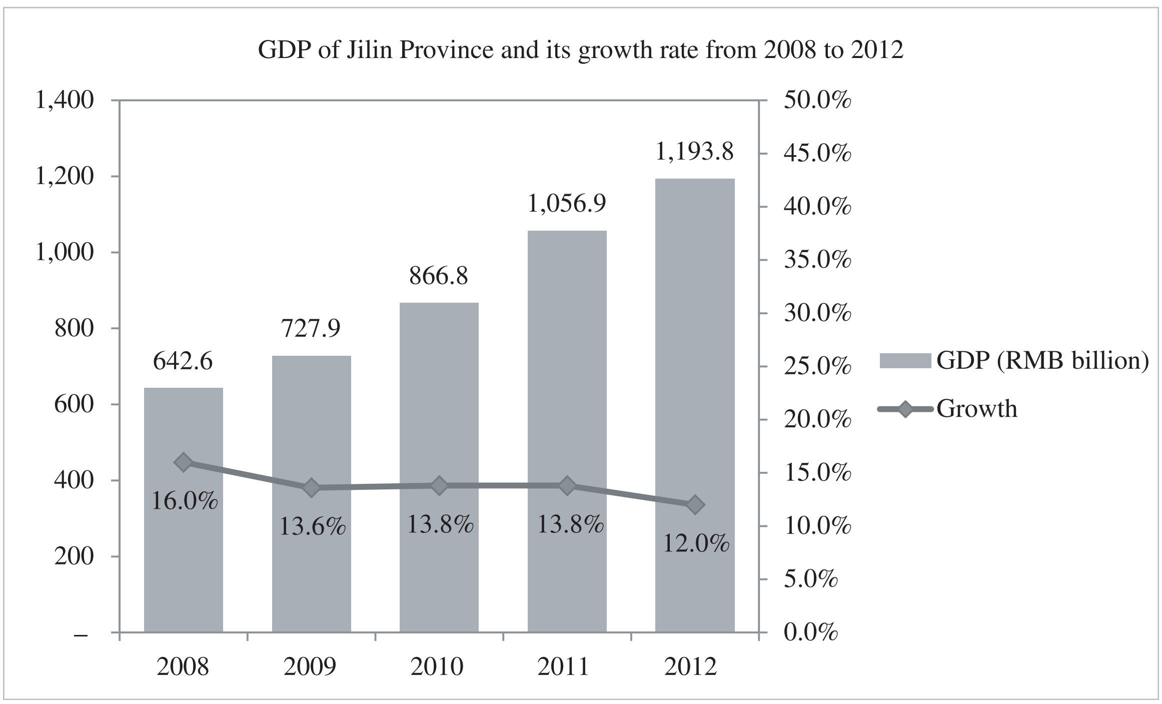
   http://big5.chinanews.com:89/fortune/2011/07-25/3206242.shtml

2. http://www.lnjrw.gov.cn/financal/jrb/xl.aspx?ID=eab0f5bf1fb74215ae7d0478ffc16994&Code=014004003

INDUSTRY OVERVIEW

Economic development of Jilin Province

The Target Group's business is mainly based in Jilin City, the PRC. According to the People's Government of Jilin Province, the GDP of Jilin had increased by approximately 12% to approximately RMB1.19 trillion in 2012. At the same time, the GDP per capita of residents was increased by approximately 11.9%, to approximately RMB43,412. Furthermore, the total investment in fixed assets had increased by approximately 30.5% to approximately RMB971 billion. The following diagram illustrates the GDP of Jilin Province from 2008 to 2012:



Micro-financing industry in the PRC

Micro-financing businesses generally involve the granting of short term loans to small and micro businesses and individual entrepreneurs which lack of access to banking and related services mainly due to the high transaction costs associated with serving these client categories. Micro-financing is a supplement to traditional banking services for those who do not have access to banking services especially at the times with restrictive monetary policy. In general, when banks curtail lending and tend to grant loans only to large and established corporations with good reputation and credit records, small and micro enterprises are hard to obtain loans and will turn to pursue short-term financing from micro-financing companies.

When compared to banks, micro-financing companies offer more flexibility to borrowers by accepting various types of assets as collateral such as real estate, commodities, moveable assets, inventories and accounts receivable. However, banks are allowed to engage in deposits taking activities but micro-financing companies are not allowed to do so.

According to an industry research report commissioned by the Group, as at 30 June 2013, there were 7,086 micro-financing companies in the PRC. In the first half of 2013, they employed approximately 86,610 employees. As at 30 June 2013, the total outstanding loan balance amounted to approximately RMB704.3 billion. The emergence of micro-financing industry had, to some extent, alleviated the financing problem of small and micro enterprises.

Micro-financing industry in Jilin Province

Overview

Based on the statistics released by the PBOC, at the end of June 2013, there are in total 319 companies engaged in small and micro financing in Jilin Province and approximately 2,867 workers employed for this market. The total invested capital is approximately RMB9.125 billion, of which approximately 75% are loans currently outstanding, amounting to approximately RMB6.84 billion. The invested capital as well as the outstanding loans extended to small borrowers has increased continuously since 2010. The following table illustrates the invested capital and outstanding loans at the end of each quarter in Jilin Province since 31 December 2010:

RMB billion	**2010 4th quarter**	**2011 1st quarter**	**2011 2nd quarter**	**2011 3rd quarter**	**2011 4th quarter**
Invested capital	2.32	3.05	3.44	3.79	4.05
Loans outstanding	1.73	2.17	2.63	2.85	3.05
		2012 1st quarter	**2012 2nd quarter**	**2012 3rd quarter**	**2012 4th quarter**
Invested capital		4.66	5.44	5.99	6.98
Loans outstanding		3.47	4.10	4.63	5.59

Source: PBOC

As illustrated in the above table, the amount of loans outstanding exhibited an increasing trend. However, the PBOC website provides no information as to whether the amount of loans outstanding includes loans in default. As such, the Board cannot ascertain whether the increase in aggregate outstanding loan balances are related to or include loans in default.

Government policy

On 31 July 2012, the People's Government of Jilin Province issued the Guiding Opinions on Encouraging the Development of Financial Services to Small and Micro Enterprises (吉林省人民政府關於進一步強化金融服務小型微型企業發展的指導意見). The guidance stated clearly several targets and plans which could help in the development of small and micro businesses under the PRC State Council's regime. The guidance also mentioned development plans relating to the micro-financing industry. A summary of the related issues are set out as below:

(i) Further supports on small and micro businesses to obtain financing

The government aims to increase the total loan amount of micro-financing in Jilin Province. With the government support on micro-financing industry, the industry will grow in a diverse environment. Also, in order to meet the demand from small and micro enterprises, development of tailor-made and innovative products and services is encouraged.

(ii) Enhancing the ability of micro-financing companies in supporting small and micro enterprises

The government aims to improve the legal environment of the micro-financing companies to ensure the healthy development of the industry. While working on the macro-planning of the industry, the government encourages high-quality enterprises and trade associations to set up micro-financing department and explore business opportunities with small and micro enterprises that are in need of financing.

(iii) Improving credit system

The government aims to improve the credit system in the micro-financing industry by including the credit information of small and micro enterprises in the provincial credit information exchange platform. With access to the credit information of these small and micro enterprises, the loan approval process will be more efficient and the credit resources of these companies can be fully utilised.

(iv) Registration of pledge

By reviewing the current pledge registration system in provincial, municipal and county levels, the government will improve the pledge registration mechanism by raising its efficiency. This will include centralizing and simplifying the process of pledge registration. For example, the pledge registration for land and that of real estate can be combined in the future.

Entry barriers

The establishment of a micro-financing company or its branch is subject to the approval from both provincial and county level supervisory authority.

According to the Interim Measures for micro-financing companies in Jilin Province (吉林省小額貸款公司試點暫行管理辦法), a micro-financing company:

a. must have a minimum registered capital of RMB10 million;

b. must have a minimum net asset value of RMB5 million, asset to loan ratio less than 70%, profit making in 2 consecutive years if it is a local enterprise;

c. must have a minimum net asset value of RMB10 million, asset to loan ratio less than 70% if it is a foreign-owned enterprise; and

d. must have senior management with at least 2 years of banking related experiences or at least 5 years of finance related work experiences.

Market environment and competition

The Target Group competes with other micro-financing companies in Jilin City. According to a statistics report published by the Bank of Jilin, as at 30 September 2012, there were 45 micro-financing companies in Jilin City. In addition, the Target Group also competes with other short-term financing providers in Jilin City such as banks, entrusted loan providers, pawn loan providers and finance lease companies.

Future development

Micro-financing is playing an important role in short-term financing by meeting financing demands of small and micro enterprises and individual entrepreneurs. Micro-financing industry facilitates economic circulation and healthy development of enterprises. It is a supplement to mainstream financing channels. With the gradual implementation of the 12th Five-Year Period Plan, the demand for investment in fixed asset and equipment will continue to grow as the policies regarding urbanization, industrialization, upgrading of traditional industries, reform of healthcare and educational system etc. are introduced. This will bring opportunities for the development of the micro-financing industry. As such, micro-financing companies are expected to play a more active role in the PRC.

REASONS FOR THE ACQUISITION

The principal activities of the Group are investment holding and investment in energy and natural resources (including precious metals) related projects in the PRC and loan financing activities.

As disclosed in the annual report of the Company for the year ended 31 March 2012, the Group has been looking into developing financial related business. The Group has obtained a money lenders license in Hong Kong in September 2012 and has commenced money lending business in Hong Kong. The Board considers that the Acquisition provides an opportunity for the Group to tap into the money lending industry in the PRC. The Board also considers that the Acquisition is consistent with the Group's business developments, can generate diversified income for the Group, and can enhance the Shareholders' value.

The Group currently does not have any business operation in Jilin City.

The Board considers that it is in the interest of the Company and the Shareholders as a whole for the Group to acquire the Target Group from the Vendor instead of setting up the Target Business by itself because (i) it will take a substantial amount of time and effort for the Company to obtain all the required Permits before it can successfully set up the Target Business by itself having considered that as advised by the Vendor, (a) the Vendor has taken more than 10 months for obtaining all necessary Permits for the Target Group to engage in the Target Business and (b) the Vendor has taken a substantial amount of effort in getting the approvals for obtaining the Permits from the relevant government authorities as the relevant government authorities have the absolute discretion to approve or reject an application for the Permits; (ii) there is no guarantee that the Company will be able to obtain all such necessary Permits by itself even after spending a substantial amount of time and effort as the relevant government authorities have the absolute discretion to approve or reject an application for the Permits; (iii) the Target Group has obtained all the required Permits to engage in the Target Business; (iv) the Target Group has completed all preparation work including leasing office and hiring staff; and (v) the Target Group may take over the business carried on by the Target Group as the Vendor has already funded the payment of the registered capital of the PRC Subsidiaries as required under the Funding Obligation.

When the opportunity of acquiring the Target Group was brought to the attention of the Board, the Board considers that it is in the interest of the Company and the Shareholders as a whole for the Group to acquire the Target Group from the Vendor instead of setting up the Target Business by itself for reasons stated in the preceding paragraph and has therefore not taken any active actions in setting up the Target Business by itself and has not taken any active actions in checking whether it is in a position to set up the Target Business by itself.

The Vendor started applying for the Permits in about May 2011. Before the Company has decided to acquire the Target Group and enter into the Agreement on 27 September 2012, the Vendor had already obtained the most critical Permits required for the Target Business and for the establishment of Target PRC No.1, namely:

- on 17 July 2011, the "公司名稱預先核准通知書" (Advanced Approval Notice on Company Name) issued by 吉林市工商行政管理局 (Jilin City Administration for Commerce and Industry);

- on 15 February 2012, the "關於同意籌建吉林市瑞信小額貸款有限公司的批覆" (Approval regarding the consent of the establishment of Target PRC No.1) issued by 吉林省金融工作辦公室 (Financial Affairs Office of Jilin Province);

- on 22 August 2012, the "關於吉林市瑞信小額貸款有限公司開業的批覆" (Approval regarding the commencement of business of Target PRC No.1) issued by吉林省金融工作辦公室 (Financial Affairs Office of Jilin Province);

- on 18 September 2012, the "關於設立外資企業吉林市瑞信小額貸款有限公司的批覆" (Approval regarding the establishment of foreign invested enterprise Target PRC No.1) issued by Jilin Province ETCB; and

- on 18 September 2012, the "中華人民共和國台港澳僑投資企業批准證書" (Certificate of Approval for Establishment of Enterprises with Investment of Taiwan, Hong Kong, Macau and Overseas Chinese in the PRC) issued by 吉林省人民政府 (the People's Government of Jilin Province).

In order to apply for the Permits to engage in micro-financing business in Jilin City in the form of a wholly-foreign-owned enterprise, the foreign investor should follow the following main procedures:

(i) the applicant shall initiate the application by submitting the application materials, including but not limited to application letter, feasibility study report, shareholders' information, articles of association, etc to the relevant local government authority;

(ii) the local government authority will conduct a preliminary assessment of the application materials, after which the provincial government authority (i.e. the Financial Affairs Office of Jilin Province) will conduct a review the application materials;

(iii) the Financial Affairs Office of Jilin Province will decide whether to approve the application for establishment;

(iv) upon obtaining the approval, the foreign investor can then apply for the commencement of business by submitting further application materials (including the approval obtained in (iii) above, application letter for the commencement of business, etc.); and

(v) the Financial Affairs Office of Jilin Province will decide whether to approve the application for commencement of business.

According to the legal opinion of the Company's PRC legal adviser, the criteria for applying to engage in micro-financing business in Jilin City include:

(i) The name of the micro-financing company should consist of the name of the city, the company's chosen name, the nature of the industry (i.e. micro-financing), and the form of the enterprise (i.e. limited liability company or other form of company). For instance, the full name of Target PRC No.1 is 吉林市瑞信小額貸款有限公司 (Jilin Ruixin Microfinance Co., Ltd.), which is a wholly-foreign-owned enterprise in the form of a limited liability company.

(ii) There is an article of association that complies with the PRC laws and regulations.

(iii) The number of shareholders should comply with the requirements under the relevant PRC laws and regulations. For instance, for a limited liability company, there should be at most 50 shareholders.

(iv) The registered capital of micro-financing company must be paid up with lawful source of fund.

(v) There are requirements on the minimum registered capital of a micro-financing company. For instance, the registered capital of a micro-financing company that is a limited liability company should not be less than RMB10 million.

(vi) The company should have an office premises located in Jilin City, organizational structure, and personnel with relevant knowledge or experience.

It should be noted that although the abovementioned criteria do not seem to be stringent, micro-financing is an industry that the PRC government has only tentatively started to open up to foreign investors recently. To the best knowledge of the Directors, only a few cities and provinces (such as Jilin City and Jilin Province) in the PRC have promulgated and implemented interim measures for the micro-financing industry therein and in certain provinces (such as Zhejiang Province), foreign investors are still being expressly declined access to the micro-financing industry there. Even for those cities and provinces where foreign investment in micro-financing industry has been permitted by law, the relevant approval authorities have the absolute discretion to decide whether or not to grant the permits required for a foreign invested enterprise to engage in the micro-financing business.

Before the Company entered into the Agreement, the Company had not tried to obtain the Permits by itself because the Board considers that it is in the interest of the Company and the Shareholders as a whole for the Group to acquire the Target Group from the Vendor instead of setting up the Target Business by itself having regard to the potential difficulty and the possible substantial amount of time and effort for the Company to obtain all the required Permits and the fact that there is no guarantee that the Company will be able to obtain all such necessary Permits by itself even after spending a substantial amount of time and effort as the relevant government authorities have the absolute discretion to approve or reject an application for the Permits, while the Target Group has obtained the most critical required Permits to engage in the Target Business.

Before entering into the Agreement, the Directors have ensured that the Target Group has obtained the approval from the relevant government authorities to engage in micro-financing business in Jilin City as a wholly-foreign-owned enterprise as well as the preliminary valuation from the Valuer, which are the most critical matters as contemplated by the Directors based on their understanding of the PRC micro-financing industry in determining whether to enter into the Agreement and in negotiating the terms with the Vendor. The Directors have decided that other due diligence works shall be performed after the entering into of the Agreement and the Completion shall be subject to and conditional upon the satisfactory result of such due diligence. For further details of the due diligence performed by the Directors, please refer to the paragraph headed "Due diligence performed by the Directors" above.

Before entering into the Agreement, based on the Directors' personal knowledge and experience, the Director understood that it was difficult for a foreign investor, including the Group, to obtain the necessary PRC government approval for setting up a wholly foreign-owned enterprise in the PRC to conduct micro-financing business. During the course of due diligence after entering into the Agreement, Target PRC No.1 has obtained a written confirmation dated 23 July 2013 issued by Jilin City ETCB confirming that Target PRC No.1 was the only foreign invested micro-financing company in Jilin Province as of the date of the confirmation, and such fact reinforces the Directors' aforementioned understanding.

The money lending industry in Jilin City, the PRC has been growing in the past few years. According to the 吉林市國民經濟和社會發展統計公報 (Jilin City Economic and Social Development Statistical Bulletin) published on the official website of 吉林市人民政府 (the People's Government of Jilin City), the aggregate outstanding loan balances in Jilin City for each of the years of 2009, 2010 and 2011 were RMB64.1 billion, RMB72.7 billion and RMB84.1 billion respectively, representing an increase of approximately 13.4% from 2009 to 2010, and an increase of approximately 15.7% from 2010 to 2011.

Although the above statistics are not directly related to the micro-financing industry but rather to the overall banking and money lending market in Jilin City, the PRC, the Board is of the view that such statistics reflect the fact that the demand for financing in Jilin City, the PRC has been growing in the past few years in general.

The micro-financing industry in Jilin Province in general has been growing during 2012. According to the 吉林省金融運行報告 (Jilin Province Finance Operation Report) published by 吉林省人民政府 (The People's Government of Jilin Province*), as at the end of September 2012, the aggregate amount of outstanding loan receivables in respect of micro-financing provided by micro-financing companies in Jilin Province was approximately RMB5.2 billion, representing an increase of approximately RMB2.0 billion from the beginning of 2012.

While the Board is not aware of any publicly available industry statistics relating directly to the micro-financing industry in Jilin City, having regard to the above statistics relating to the micro-financing industry of Jilin Province as well as those relating to the overall banking and money lending market in Jilin City, the Board is of the view that the Target Business of the PRC Subsidiaries, which operates in Jilin City, a major city in Jilin Province, will be able to tap into and benefit from the general growing trend of the micro-financing industry of Jilin Province.

According to the Statistics and Analysis Department of the PBOC, as at the end of June 2013, there were a total of 7,086 micro-financing companies in the PRC, with aggregate outstanding loan balances of approximately RMB704.3 billion, representing an increase of approximately RMB112.2 billion from the beginning of 2013.

According to the Statistics and Analysis Department of the PBOC, as at the end of the first half of 2013, there were a total of 319 micro-financing companies in Jilin Province, representing an increase of 54 micro-financing companies from the beginning of 2013.

According to a statistics report published by the Bank of Jilin, as at 30 September 2012, there were 45 micro-financing companies in Jilin City, with aggregate outstanding loan balances of approximately RMB1.26 billion.

According to a research report published by "慧典市場研究報告網" (Hui Dian Market Research Report*), there were approximately 200,900 bank branches in the PRC as at the end of 2011, representing an increase of 7,023 bank branches from the beginning of 2011.

Under the relevant PRC regulations, the maximum interest rate that can be charged by a micro-financing company is 4 times the basic lending interest rate published by the PBOC (which is currently at approximately above 6% per annum). Therefore, based on the interest rate of 24% (about 4 times of the basic lending interest rate published by the PBOC) and the aggregate outstanding loan balances of approximately RMB1.26 billion, the entire annual interest income derived from all loan balances in Jilin City market would be approximately RMB302 million.

In addition, while the amount of outstanding loan balances was approximately RMB1.26 billion as at 30 September 2012, it does not necessarily mean that the aggregate demand for micro-financing was only RMB1.26 billion because RMB1.26 billion represented only the amount of money that micro-financing companies in Jilin City has lent and remained outstanding as at that particular point of time, and such amount was limited by the amount of registered capital and available resources of such micro-financing companies as the permitted sources of funds for use in a micro-financing company's business include (as disclosed on page 23 of the Announcement) only its paid-up registered capital, its bank borrowings (which is also subject to a maximum amount of up to 50% of the net asset value) and its retained earnings.

Furthermore, the demand for micro-financing in Jilin Province has been growing as evidenced by the increase in the outstanding loan receivables in respect of micro-financing provided by micro-financing companies in Jilin Province. The demand for general bank loans and other financing in Jilin City has also been growing as evidenced by the increase in the aggregate outstanding loan balances in Jilin City. Based on the above, it is reasonable to conclude that the micro-financing market in Jilin City in general is growing.

Having considered that (i) the maximum interest rate that can be charged by a micro-financing company is approximately 24% per annum based on the current basic lending interest rate published by the PBOC; (ii) the registered capital of Target PRC No.1 (assuming the application for the increase in registered capital is approved) will be RMB200 million, which will be used for the money lending activities of Target PRC No.1; (iii) it is reasonable to conclude that the micro-financing market in Jilin City is growing in general; (iv) the Target Group will also be engaged in the consulting business which will generate consultation fee income for the Target Group in addition to the interest income generated from its micro-financing business, the Board considers that the Consideration of a maximum of HK$850 million is fair and reasonable.

Having considered that:

(a) although the Consideration is a maximum of HK$850 million while the original purchase cost of the Target Group to the Vendor would be approximately RMB51 million, the Board considers that the Consideration is fair and reasonable having taken into account the Valuation Report provided by the Valuer;

(b) the key entry barrier to the micro-financing industry in the PRC is the obtaining of the Permits (the granting of which is at the absolute discretion of the relevant PRC government authorities) and the PRC Subsidiaries have obtained all required Permits to engage in the Target Business;

(c) although the Target Group has limited track record, the PRC Subsidiaries have obtained all necessary Permits which allow the PRC Subsidiaries to commence the Target Business immediately;

(d) judging from the statistics showing the growing trend of the micro-financing industry in Jilin Province as well as the overall banking and money lending market in Jilin City, the Board considers that it is reasonable to conclude that the micro-financing industry in Jilin City, a major city in Jilin Province, should also have been exhibiting a growing trend in the past few years;

(e) the Board considers that the assumptions and basis under the preliminary valuation and the valuation provided by the Valuer are fair and reasonable as those assumptions and basis were based on the business plan of the Target Group;

(f) the Target Group has hired a number of experienced personnel to take up the senior management position of the PRC Subsidiaries and to report to the Board for the management of the daily operation of the Target Business and the Board has the experience of managing the Group's existing money lending business in Hong Kong;

(g) while there were 45 micro-financing companies in Jilin City as at 30 September 2012, the Board understands that the micro-financing industry in Jilin Province has been growing in the past few years and the Acquisition allows the Group to tap into the micro-financing industry in Jilin City;

(h) although there are a number of risk factors associated with the Acquisition and the Target Group's business as disclosed in the paragraph headed "Risk factors" above, the Directors consider that during the negotiation with the Vendor prior to entering into the Agreement, the Company had, as one of the Company's measures to reduce the risk arising from the relatively short track record of the Target Group, required certain turnover threshold and other conditions precedent to be achieved as stated under the Closing Conditions, T2 Payment Condition, T3 Payment Conditions and T4 Payment Condition before going ahead with the Acquisition and/or releasing payment(s) of Consideration to the Vendor such that the final amount of aggregate Consideration will be determined based on the actual performance of the Target Group after the Completion. Furthermore, while the Directors cannot assure that the risk factors as disclosed in the paragraph headed "Risk factors" above will not happen in future, the Directors will, in order to minimise any such risks, ensure that adequate resources are available to manage the risks and the management of the Target Group will regularly review these risks and report to Board if there is any likelihood of the happening of the risks. Please refer to the paragraph headed "The Company's assessment of the likelihood of the above risks and plan to manage the above risks" above for further details in this regard;

(i) although the valuation of the Target Group may not be accurate and may overstate the value of the Target Group as there is no assurance that the estimated parameters and assumptions adopted in the Valuation Report can be sustained and continue to be valid in the future, the Directors, after their due diligence, consider that the estimated parameters and assumptions adopted in the Valuation Report are based on the best available information. Please refer to the paragraph headed "Due diligence performed by the Directors" above for further details of the due diligence works performed. The Directors noted that the actual operating statistics of the Target Group for the three months ended 31 March 2013 were consistent with the Valuers' preliminary estimation of the estimated parameters and assumptions, which has proven that such estimations of the parameters and assumptions were reasonable. As such, the Directors consider that there was no reason to cause the Directors to doubt the fairness and reasonableness of the preliminary estimations of the estimated parameters and assumptions adopted in the valuation based on the best available information after the due diligence performed by the Directors; and

(j) although the Company had not tried to obtain the Permits by itself before entering into the Agreement, taking into account the difficulty for a foreign investor to obtain the necessary PRC government approval for setting up a wholly foreign-owned enterprise in the PRC to conduct micro-financing business, the Board considers that it is in the interest of the Company and the Shareholders as a whole for the Group to acquire the Target Group from the Vendor instead of setting up the Target Business by itself, having regard to the potential difficulty and the possible substantial amount of time and effort for the Company to obtain all the required Permits and the fact that there is no guarantee that the Company will be able to obtain all such necessary Permits by itself even after spending a substantial amount of time and effort as the relevant government authorities have the absolute discretion to approve or reject an application for the Permits, while the Target Group has obtained the most critical Permits required to engage in the Target Business,

the Directors (including the independent non-executive Directors having taken into account the advice of the Independent Financial Adviser) consider that the Acquisition is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

MANAGEMENT DISCUSSION AND ANALYSIS ON THE TARGET GROUP

Overview

The principal business of the Target Group is the Target Business, i.e., the provision of micro-financing and the provision of investment and management consultation services.

Financial performance

Revenue

The Target Group did not generate any revenue for each of the two years ended 31 December 2010 and 2011. For the year ended 31 December 2012, the Target Group's revenue of approximately HK$557,000 was mainly attributable to the commencement of the Target Business. For the three months ended 31 March 2013, the Target Group recorded revenue of approximately HK$5,368,000.

The net loss for each of the three years ended 31 December 2010, 2011 and 2012 was approximately HK$12,000, HK$95,000 and HK$433,000, respectively, which are entirely attributable to general and administration expenses incurred during the years. For the three months ended 31 March 2013, the net profit of the Target Group was approximately HK$3,802,000 due to the commencement of the Target Business since December 2012.

Liquidity and financial resources

As at 31 December 2010, the audited total assets and total liabilities of the Target Group were nil and HK$12,000 respectively. It had current liabilities of HK$12,000 which comprised an amount due to a shareholder.

As at 31 December 2011, the audited total assets and total liabilities of the Target Group were HK$299,911,000 and HK$18,000 respectively. It had a current asset of HK$299,911,000 which comprised an amount due from a shareholder.

As at 31 December 2012 and 31 March 2013, the audited total assets of the Target Group were HK$300,243,000 and 305,267,000 respectively. As at 31 December 2012 and 31 March 2013, the total liabilities of the Target Group were HK$1,036,000 and HK$181,810,000 respectively. The increase in current liabilities as at 31 March 2013 was mainly attributable to the increase in an amount of HK$180,000,000 due to a related company.

As at 31 December 2010, 31 December 2011, 31 December 2012 and 31 March 2013, the gearing ratio (net debt to total assets) of Target Group was nil, nil and nil because the Target Group did not have any borrowings.

Capital commitments

As at 31 December 2010, 31 December 2011, 31 December 2012 and 31 March 2013, the Target Group had the following capital commitments.

	As at 31 December			As at 31 March
	2010	**2011**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Capital commitments to the registered capital of a PRC subsidiary	–	–	60,686	61,117

The capital commitment is attributable to the RMB50 million registered capital to be injected into Target PRC No.1 which will be borne by the Group after Completion.

Charge on group assets

As at 31 December 2010, 31 December 2011, 31 December 2012 and 31 March 2013, the Target Group did not have any charges on assets.

Contingent liabilities

As at 31 December 2010, 31 December 2011, 31 December 2012 and 31 March 2013, the Target Group did not have any contingent liabilities.

Significant investments, material acquisition and disposals

Save for the Reorganisation, the Target Group did not have any significant investments, material acquisition or disposals for each of the three years ended 31 December 2010, 31 December 2011, 31 December 2012 and the three months ended 31 March 2013 respectively.

Employee information

As at 31 December 2010, 31 December 2011, 31 December 2012 and 31 March 2013, the Target Group employed a total number of nil, nil, 5 and 11 employees. The staff costs were nil, nil, HK$187,000 and HK$367,000 for each of the three years ended 31 December 2010, 31 December 2011, 31 December 2012 and the three months ended 31 March 2013 respectively.

Business review and prospects

Given that the remaining RMB50 million of registered capital will (assuming and subject to Completion) be paid by the Group after Completion and within one year of the establishment of Target PRC No. 1, the Target Group will continue to expand its loan portfolio in the coming years. Looking forward, in view of the continued growth of the PRC economy, the Target Business is expected to generate organic growth on par with growth in the micro-financing industry in Jilin City and the aforesaid capital injection.

Source of funding

The source of fund for the Target Group for use in its micro-financing business will be the paid-up capital of the Target Group, the retained earnings of the Target Group and the expected bank borrowings to be obtained by the Target Group. As at the Latest Practicable Date, the paid-up capital of Target PRC No.1 is RMB50 million (which was entirely funded by the Vendor and represents 50% of the registered capital of Target PRC No.1) while another RMB50 million (i.e. the remaining 50% of the registered capital of Target PRC No.1) is required to be paid up within one year of the establishment of Target PRC No.1 and is expected to be funded by the Group from the Group's internal resources after Completion. The paid-up capital of Target PRC No.2 as at the Latest Practicable Date is US$100,000 (which means that the entire registered capital of Target PRC No.2 is fully paid up). It is the current intention of the Board to apply for the increase of the registered capital of Target PRC No.1 from RMB100 million to RMB200 million and such increase is expected to be funded by the Group's internal resources. Assuming such increase of registered capital of Target PRC No.1 is approved, it is expected that Target PRC No.1 will be able to obtain bank borrowing amounting to RMB100 million. As such, Target PRC No.1 will have an aggregate of RMB300 million (RMB200 million of paid-up capital and RMB100 million of bank borrowings) for use in its Target Business upon completion of paid-up capital of RMB200 million. It is the current intention of the Board to inject such increase of registered capital in two tranches being RMB50 million in each of June, 2014 and December, 2014.

Underlying factors affecting the performance of the Target Business

The Directors consider that the performance of the Target Business is affected by the change of the interest rate charged, the amount of consultancy fee charged, the economic environment of Jilin City, the bank loans available to Target PRC No.1, tax benefits/concessions available, the repayment capability of the debtors and the quality of the collateral and so on.

Future plans for capital and other investment in the Target Group

Save for the payment of the registered capital and the increase in the registered capital of Target PRC No.1, there is no plan for any material capital or other investment in the Target Group.

FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

The principal activities of the Group are investment holding and investment in energy and natural resources (including precious metals) related projects in the PRC and loan financing activities. The Board considers that the Acquisition provides an opportunity for the Group to tap into the money lending industry in the PRC. The Board also considers that the Acquisition is consistent with the Group's business developments, can generate diversified income for the Group, and can enhance the Shareholders' value.

It is the current intention of the Company to continue to maintain the current management of the Target Group to carry on the business. The Company also intends to appoint appropriate candidates with experience in the PRC loan financing to the management of the Target Group in future. The Directors will closely evaluate the performance of the Target Group after the Acquisition and will conduct further study on detailed business plans taking into account the economic condition in Jilin City, the PRC.

FINANCIAL EFFECTS OF THE ACQUISITION

Upon Completion, the Target Group will become subsidiaries of the Company and will be accounted for in the consolidated financial statements of the Group.

Assets and liabilities

According to the annual report of the Company for the year ended 31 March 2013, the audit consolidated total assets and liabilities of the Group as at 31 March 2013 were approximately HK$2,060,810,000 and HK$72,608,000 respectively. Based on the unaudited pro forma financial information of the Enlarged Group, assuming Completion had taken place on 31 March 2013, the unaudited pro forma consolidated total assets, liability and equity of the Enlarged Group would be approximately HK$2,470,413,000, HK$427,556,000 and HK$2,042,857,000 respectively.

Gearing ratio

As at 31 March 2013, the gearing ratio of the Group, which was calculated based on net debt divided by the total equity, was nil.

Assuming that Completion had taken place on 31 March 2013, it is expected that the gearing ratio of the Enlarged Group would become approximately 8.3% based on the amounts extracted from the unaudited pro forma financial information of the Enlarged Group.

Earnings

The Group recorded an audited consolidated loss of approximately HK$77,590,000 for the year ended 31 March 2013.

As set out in Appendix III to this circular, assuming that Completion had taken place on 31 March 2013, the unaudited pro forma consolidated loss of the Enlarged Group for the year ended 31 March 2013 would be approximately HK$100,783,000.

In light of the potential future prospects of the Target Group, it is expected that consolidating the financial results of the Target Group into the Group will have a favourable long term effect on the Enlarged Group's earnings upon Completion.

INTENTION OF THE GROUP'S EXISTING BUSINESS

There is no agreement, arrangement, understanding, intention or negotiation (concluded or otherwise) about any disposal or termination or scaling-down of its existing business. The Group intends to develop both of its existing business and the Target Business after Completion.

PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL

As of the Latest Practicable Date, the authorised share capital of the Company is HK$200,000,000 divided into 2,000,000,000 Shares of HK$0.10 each, of which 775,787,497 Shares were in issue, fully paid or credited as fully paid.

In order to facilitate the possible conversion of the Convertible Bonds and to provide for future expansion in the share capital of the Company, the Directors propose that the authorised share capital of the Company be increased from HK$200,000,000 (divided into 2,000,000,000 Shares of HK$0.10 each) to HK$400,000,000 (divided into 4,000,000,000 Shares of HK$0.10 each).

The proposed increase in authorised share capital of the Company is conditional upon the passing of an ordinary resolution by the Shareholders at the EGM.

LISTING RULES IMPLICATIONS

The Acquisition

The Vendor is a connected person of the Company by virtue of him being an executive Director and a substantial Shareholder holding approximately 20.58% of the entire issued share capital of the Company as at the Latest Practicable Date. As such, the Acquisition constitutes a connected transaction on the part of the Company under Chapter 14A of the Listing Rules. The Acquisition also constitutes a very substantial acquisition on the part of the Company under Chapter 14 of the Listing Rules. Accordingly, the Agreement and the transactions contemplated thereunder are subject to the approval of the Independent Shareholders at the EGM. In accordance with the Listing Rules, the Vendor and his respective associates will abstain from voting on the resolution approving the Agreement and the transactions contemplated thereunder at the EGM.

The Vendor, who is an executive Director having a material interest in the Acquisition, has abstained from voting on the board resolutions approving the Agreement and the transactions contemplated thereunder.

The SSDL Acquisition

Details of the SSDL Acquisition were set out in the announcement of the Company dated 30 December 2011. As disclosed, Sino Prosper State Gold HK Limited, a wholly-owned subsidiary of the Company, and Mr. Leung entered into an agreement on 19 December 2011 pursuant to which Sino Prosper

State Gold HK Limited has conditionally agreed to acquire and Mr. Leung has conditionally agreed to dispose of the entire issued share capital of SSDL and a sale loan at a total consideration of RMB550 million. As at the Latest Practicable Date, completion of the SSDL Acquisition has not yet taken place.

SHAREHOLDING STRUCTURE OF THE COMPANY

The shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after the exercise of the Convertible Bonds (up to the conversion limit of below 30% and in full) but before the exercise the SSDL CB; (iii) immediately after the exercise of the Convertible Bonds and the SSDL CB (up to the respective conversion limit and in full) are as follows:

Shareholders	As at the Latest Practicable Date		Immediately after the exercise of the Convertible Bonds up to the conversion limit but before the exercise of the SSDL CB		Immediately after the exercise of the Convertible Bonds in full but before the exercise of the SSDL CB *(Note)*		Immediately after the exercise of the Convertible Bonds and the SSDL CB up to the respective conversion limit		Immediately after the exercise of the Convertible Bonds and the SSDL CB in full *(Note)*	
	Number of Shares	*%*	*Number of Shares*	*%*	*Number of Shares*	*%*	*Number of Shares*	*%*	*Number of Shares*	*%*
The Vendor										
– Existing Shares	158,863,000	20.5	158,863,000	18.1	158,863,000	8.0	158,863,000	18.1	158,863,000	4.1
– Shares to be issued after the exercise of the Convertible Bonds and the SSDL CB	–	–	104,275,979	11.8	1,216,216,216	61.1	104,275,979	11.8	3,097,616,216	80.0
Sub-total	158,863,000	20.5	263,138,979	29.9	1,375,079,216	69.1	263,138,979	29.9	3,256,479,216	84.1
Public Shareholders	616,924,497	79.5	616,924,497	70.1	616,924,497	30.9	616,924,497	70.1	616,924,497	15.9
Total	775,787,497	100.0	880,063,476	100.0	1,992,003,713	100.0	880,063,476	100.0	3,873,403,713	100.0

Note:

The shareholding structure is shown for illustration purpose only. Pursuant to the terms of the Convertible Bonds, no conversion right attached to the Convertible Bonds shall be exercised to the extent that following such exercise, a holder of the Convertible Bonds and parties acting in concert with it taken together will, directly or indirectly, control or be interested in 30% or more of the entire issued share capital of the Company (or such lower percentage as may from time to time be specified in the Takeovers Code). In addition, the terms of the Convertible Bonds stipulate that no conversion right attached to the Convertible Bonds shall be exercised if immediately after such conversion, the public float of the Shares falls below the minimum public float requirements stipulated under Rule 8.08 of the Listing Rules and as required by the Stock Exchange. Similar conversion limit is contained in the clauses of the SSDL CB, whose terms require that the a holder of the SSDL CB and parties acting in concert with it shall not hold more than 29% of the issued share capital of the Company as a result of conversion of the SSDL CB.

EGM

The EGM will be convened for the purpose of considering and, if thought fit, approving (i) the Agreement and the transactions contemplated thereunder, including the Acquisition, the issue of the Convertible Bonds, the Promissory Notes and the allotment and issue of the Conversion Shares; and (ii) the proposed increase in authorised share capital of the Company.

Mr. Leung will abstain from voting in relation to the Agreement and the transactions contemplated thereunder, including the Acquisition, the issue of the Convertible Bonds, the Promissory Notes and the allotment and issue of the Conversion Shares. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, no Shareholder has an interest in the increase in the authorised share capital of the Company and accordingly, no Shareholder is required to abstain from voting on the relevant resolution to be proposed at the EGM to approve such matters.

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, there is (i) no voting trust or other agreement or arrangement or understanding entered into by or binding upon the Shareholders; and (ii) no obligation or entitlement of any Shareholder as at the Latest Practicable Date, whereby they have or may have temporarily or permanently passed control over the exercise of the voting right in respect of their shares in the Company to a third party, either generally or on a case-by-case basis.

A notice convening the EGM is set out on pages EGM-1 to EGM-3 of this circular. A proxy form containing the proposed resolutions is enclosed with this circular. Whether or not Shareholders propose to attend the EGM, Shareholders are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar in Hong Kong, Tricor Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as practicable but in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude Shareholders from attending and voting in person at the EGM or any adjournment thereof (as the case may be) should they so wish.

RECOMMENDATION

The Independent Board Committee comprising all of the three independent non-executive Directors, namely, Mr. Niu Zhihui, Mr. Cai Wei Lun and Mr. Zhang Qingkui, has been established to advise the Independent Shareholders as to whether the terms and conditions of the Agreement and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole, and to advise the Independent Shareholders on how to vote, taking into account the recommendations of the Independent Financial Adviser. None of the members of the Independent Board Committee has any direct or indirect interest in the Acquisition.

With the approval of the Independent Board Committee, the Company has appointed Nuada as the Independent Financial Adviser to make recommendations to the Independent Board Committee and the Independent Shareholders as to whether the terms and conditions of the Acquisition are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole, and to advise the Independent Shareholders on how to vote. Your attention is drawn to the advice of the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders set out in its letter on pages 105 to 136 of this circular.

For the reasons as set out in the paragraph headed "Reasons for the Acquisition" above, the Board considers that the Acquisition and the Agreement are on normal commercial terms, fair and reasonable and that the entering into of the Acquisition and the Agreement are in the interests of the Company and Shareholders as a whole.

For the reasons of retaining cash for the Group's future business operation and development, the Board considers that the issue of Convertible Bonds and the Promissory Notes is fair and reasonable to the Shareholders and the Company as a whole on the basis that the Convertible Bonds and the Promissory Notes can satisfy part of the Consideration under the Agreement.

Accordingly, the Board recommends the Shareholders to vote in favour of (i) the Agreement and the transactions contemplated thereunder, including the allotment and the issue of the Convertible Bonds, the Promissory Notes and the allotment and issue of the Conversion Shares; and (ii) the proposed increase in authorised share capital of the Company.

You are advised to read carefully the letters from the Independent Board Committee and the Independent Financial Adviser contained in this circular before deciding whether or not to vote in favour of the ordinary resolutions approving the Acquisition at the EGM.

As Completion is subject to the fulfillment of a number of conditions precedent and may or may not proceed, Shareholders and potential investors should exercise caution when dealing in the Shares.

Yours faithfully,
By Order of the Board
Sino Prosper State Gold Resources Holdings Limited
Ng Kwok Chu, Winfield
Executive Director

SINO PROSPER STATE GOLD RESOURCES HOLDINGS LIMITED
中盈國金資源控股有限公司

(incorporated in the Cayman Islands with limited liability)
(Stock Code: 766)

11 September 2013

To the Independent Shareholders

Dear Sir/Madam,

(1) VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL IN, AND SHAREHOLDER'S LOANS TO TREASURE JOIN LIMITED INVOLVING THE ISSUE OF PROMISSORY NOTES AND CONVERTIBLE BONDS; (2) PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL AND (3) NOTICE OF EXTRAORDINARY GENERAL MEETING

We refer to the circular of the Company dated 11 September 2013 (the "Circular") to the Shareholders, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

We have been appointed by the Board as members to form the Independent Board Committee and to advise you whether the terms of the Agreement are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole and how to vote on resolution regarding the Agreement and the transactions contemplated thereunder.

Nuada has been appointed to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Agreement are fair and reasonable so far as the Independent Shareholders are concerned, whether such terms are in the interests of the Company and the Independent Shareholders as a whole and how to vote on resolution regarding the Agreement and the transactions contemplated thereunder. Details of its advice, together with the principal factors taken into consideration in arriving at such advice, is set out on pages 105 to 136 of the Circular.

Your attention is also drawn to the letter from the Board set out on pages 9 to 103 of the Circular and the additional information set out in the appendices of the Circular.

Having considered the terms of the Agreement and the advice from Nuada, we are of the opinion that the terms of the Agreement are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Agreement and the transactions contemplated thereunder.

Yours faithfully,
Independent Board Committee of
Sino Prosper State Gold Resources Holdings Limited

Mr. Niu Zhihui	**Mr. Cai Wei Lun**	**Mr. Zhang Qingkui**
Independent non-executive Director	*Independent non-executive Director*	*Independent non-executive Director*

The following is the full text of the letter of advice to the Independent Board Committee and Independent Shareholders from the Independent Financial Adviser dated 11 September 2013 prepared for incorporation in this circular.

Nuada Limited
Corporate Finance Advisory

19th Floor, BLINK, 111 Bonham Strand,
Sheung Wan, Hong Kong
香港上環文咸東街111號BLINK19樓

11 September 2013

To the Independent Board Committee and
the Independent Shareholders of
Sino Prosper State Gold Resources Holdings Limited

Dear Sirs,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL IN TREASURE JOIN LIMITED INVOLVING THE ISSUE OF PROMISSORY NOTES AND CONVERTIBLE BONDS

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition and the terms and condition of the Agreement, details of which are set out in the section headed "Letter from the Board" (the "**Letter**") contained in the circular dated 11 September 2013 (the "**Circular**") to the Shareholders, of which this letter forms part. Capitalised terms used in this letter have the same meanings as defined in the Circular unless the context otherwise requires.

On 21 December 2012, the Board announced that on 27 September 2012 (after trading hours), the Purchaser, being a wholly-owned subsidiary of the Company, and the Vendor entered into the Agreement (as supplemented by the 1st Supplemental Agreement dated 19 November 2012 and the 2nd Supplemental Agreement dated 19 December 2012), pursuant to which the Purchaser has agreed to acquire, and the Vendor has agreed to sell, or procure the sale of, the Sale Shares and the Sale Debts subject to the terms of the Agreement.

The Consideration shall be a maximum of HK$850 million, subject to the Closing Conditions, the T2 Payment Condition, the T3 Payment Conditions and the T4 Payment Condition being fulfilled or waived (to the extent waivable). Please refer to the Letter for the detail of the payment schedule and condition of payment.

The Vendor is a connected person of the Company by virtue of him being an executive Director and a substantial Shareholder holding approximately 27.54% of the entire issued share capital of the Company as at the date of the Announcement and approximately 20.58% as at the Latest Practicable Date. As such, the Acquisition constitutes a connected transaction on the part of the Company under Chapter 14A of the Listing

Rules. The Acquisition also constitutes a very substantial acquisition on the part of the Company under Chapter 14 of the Listing Rules. Accordingly, the Agreement and the transactions contemplated thereunder are subject to the approval of the Independent Shareholders at the EGM. In accordance with the Listing Rules, the Vendor and his respective associates will abstain from voting on the resolution(s) to approve the Agreement and the transactions contemplated thereunder.

An Independent Board Committee of the Company comprising all of the three independent non-executive Directors, namely, Mr. Niu Zhihui, Mr. Cai Wei Lun and Mr. Zhang Qingkui, has been established to advise the Independent Shareholders in connection with the Agreement and the transactions contemplated thereunder.

BASIS OF OUR OPINION

In formulating our opinion and recommendation, we have considered and relied on, among other things, the information, opinions and representations contained or referred to in the Circular and the information, opinions and representations provided to us by the management of the Company and the Directors. We have assumed that all information and representations contained or referred to in the Circular and all information and representations which have been provided by the management of the Company and the Directors, for which they are solely and wholly responsible, were true, accurate and complete at the time when they were made and continue to be so as at the date of the EGM.

Accordingly, we have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and representations contained in the Circular, or the reasonableness of the opinions expressed by the management of the Company and the Directors provided to us. The Directors collectively and individually accept full responsibility for the accuracy of the information in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts the omission of which would make any statement in the Circular misleading. Furthermore, we relied on the Company that it has provided us with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have relied on such information and opinions but have not, however, conducted any independent in-depth investigation into the business, financial conditions and affairs or the future prospects of the Group.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation in relation to the Acquisition and the terms and condition of the Agreement and the transaction contemplated thereunder, we have considered the following principal factors and reasons.

1. Background information of the Group

The principal activities of the Group are investment holding. The Group, through its subsidiaries, engaged in investment in energy and natural resources (including precious metals) related projects in the PRC and money lending business in Hong Kong.

The table below summarised the segment results of the Group for the two years ended 31 March 2012 and 31 March 2013 as extracted from the Company's annual report for the year ended 31 March 2013 (the "**Annual Report**") respectively:

	For the year ended 31 March	
	2013	**2012**
Turnover *(HK$'000)*		
Revenue		
– gold concentrates and amalgam	15,966	8,261
– silver concentrates	248	434
– gold	36,930	50,287
Interest income from loan financing activities	1,339	–
Total	54,483	47,692
Segment profit/(loss)		
Investment in energy and natural resources related projects	(20,612)	(16,252)
Money lending	1,201	–

As stated in the Annual Report, apart from the investment in the existing energy and natural resources related project in the PRC, the Group has been looking into developing financial related business. According to the management of the Company, the Group was granted a money lenders license in Hong Kong (the "**HK money lending business**") in September 2012 and the relevant operation has already commenced since then and the result was demonstrated in the Annual Report.

According to the Annual Report, the revenue contributed from the HK money lending business for the six months period ended 31 March 2013 was not less than HK$1.3 million whereas the segment profit is approximately HK$1.2 million.

2. Background information of the Target Group

Please refer to the Letter for the detail information of the Target Group. The principal business of the Target Group is the Target Business, i.e., the provision of micro-financing and the provision of investment and management consultation services. Target PRC No.1 is principally engaged in the provision of micro-financing while Target PRC No.2 is principally engaged in the provision of consultation services.

According to the PRC legal opinion provided by the Company's PRC legal adviser and the management of the Company, as at the Latest Practicable Date, the Reorganisation of the Target Group was completed and the PRC Subsidiaries was beneficially owned by Target BVI.

Details of the background information, major restrictions and regulatory requirements for the business operation of each member of the Target Group have been set out in the Letter.

As at the Latest Practicable Date, the registered capital of Target PRC No.1 is RMB100 million while the registered capital of Target PRC No.2 is US$100,000. In respect of the current registered capital of RMB100 million of Target PRC No.1, it is required under the Permits that 50% of such registered capital must be paid up on or before 10 January 2013, while the remaining 50% must be paid up within one year after the establishment of Target PRC No.1. As at the Latest Practicable Date, among the current registered capital of RMB100 million of Target PRC No.1, RMB50 million has already been paid up (which was entirely funded by the Vendor), while the remaining RMB50 million has not been paid (which, after Completion, will be paid by the Group).

The following table sets out the expected timetable for the payment of, and the application for increase in, the registered capital of Target PRC No.1:

Timing	**Action/event**	**Registered capital of Target PRC No.1 after completion of the relevant expected action/event** *RMB million*	**Paid-up registered capital of Target PRC No.1 after completion of the relevant expected action/event** *RMB million*
Latest Practicable Date		100	50
October 2013	Payment of the remaining RMB50 million of the registered capital of Target PRC No.1 before the prescribed deadline (one year from its establishment in October 2012)	100	100
November 2013 to no later than June 2014	Application for the increase in the registered capital of Target PRC No.1 from RMB100 million to RMB200 million	200	100
No later than June 2014	Payment of RMB50 million for the registered capital of Target PRC No.1	200	150
December 2014	Payment of RMB50 million for the registered capital of Target PRC No.1	200	200

3. Financial performance of the Target Group

Set out below is the key audited consolidated financial information of the Target Group for each of the three years ended 31 December 2010, 2011 and 2012 and the three months ended 31 March 2013, as extracted from the accountants' report of the Target Group as set out in Appendix II to the Circular.

	Year ended 31 December			Three months ended 31 March	
	2010	**2011**	**2012**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Revenue	–	–	557	–	5,368
(Loss)/profit before tax	(12)	(95)	(400)	(3)	4,211
(Loss)/profit for the year/period	(12)	(95)	(433)	(3)	3,802

4. Reasons for the Acquisition

Background of micro-financing business in the PRC

As stated in Annual Report, the Group commenced its short term loan finance service by way of the provision of financing in Hong Kong in September 2012. The Directors consider that the Acquisition will provide an opportunity for the Group to expand it micro-financing business in the PRC as it is expected to have an increasing demand for loans from small private enterprises and individual in the PRC.

Based on the information on the National Bureau of Statistics of China, the GDP of China increased from approximately RMB8,191 billion in 1999 to approximately RMB47,212 billion in 2011, representing an increase of approximately 4.8 times. One of the factors contributed to the growth of GDP in the PRC is the increase in domestic consumption. According to the China Financial Stability Report 2012 published by the PBOC, the financial liabilities/assets ratio of the household sector in the PRC was between 15 percent and 24 percent during the period from 2004-2010. Also the financial liabilities/assets ratio is relatively low compared with other developed countries, such as the United State (28.1%), the United Kingdom (35.4%) and Germany (33.3%). Based on the above, we are of the view and concur with the view of the Directors that there is still room for the PRC debt market to further expand and it is expected that the business of the Target Group has the potential to grow.

In line with the economic growth in the PRC, the private enterprises sector in the PRC has expanded rapidly in recent year and the demand for funding by small and medium enterprises is on an increasing trend. According to the data from the "Jilin Statistical Yearbook 2012" published by China Statistic Press, the total industry output value of private enterprises in Jilin increased from approximately RMB6.4 billion in 2010 to approximately RMB101.4 billion in 2011 and with reference to the statistical report on uses of loans of financial institution 2011 issued by PBOC on 24 January 2013, loans to small and micro enterprise ("**SMIE**") in the PRC grow faster than loan to larger enterprises. The outstanding loans to SMIE increased by approximately 16.6% to approximately RMB1,158 billion, surpassing the growth of those to large enterprises by approximately 8.0% from 2011 to 2012, and represented approximately 28.6% to the amount of the loan value to enterprise. According to the statistics regarding the industry overview of micro-financing company in the PRC published by PBOC, the number of micro-financing company in the PRC increased from 2,614 as at 31 December 2010 to 6,555 as at 31 March 2013, whereas the number of micro-financing company in Jilin Province increased from 106 to 298 in the aforesaid period. The dollar value of the loan amount lent out by the micro-financing company in the PRC increased from approximately RMB197.5 billion as at 31 December 2010 to approximately RMB6,357.27 as at 31 March 2013, whereas the same figure in Jilin Province increased from approximately RMB1.7 billion to RMB 6.2 billion for the same period.

With (i) the rapid expansion of the private enterprises section in Jilin; (ii) the upward trend of the loans to SMIE in the PRC; (iii) increase in the number of micro-financing company; and (iv) increase in the dollar value of loan amount lent out by the micro-financing company, we are of the view and concur with the view of the Directors that there will be upside potential in the demand for the financing services of the Target Group.

With reference to the《關於小額貸款公司試點的指導意見》(Guidance in relation to micro-financing companies*) issued by the PBOC in May 2008;《關於開展小額貸款公司試點工作的通知》(Notice in relation to interim work on developing micro-financing companies*)《吉林省小額貸款公司監督管理細則》(Details of monitoring and managing Jilin Province micro-financing companies*) and《吉林省小額貸款公司試點暫行管理辦法》(Interim Measures for micro-financing companies in the Jilin Province) (the "Interim Measures") issued by the government of Jilin Province in October 2008, December 2009 and September 2011 respectively, which have spelled out explicitly that the Chinese government aimed to improve the financial market and economy in rural area by developing the micro-financing company. The Interim Measures are applicable for the whole Jilin Province.

In view of the above, we are of the view and concur with the view of the Directors that the Acquisition which would provide the Group with a business opportunity to expand into the PRC and is in line with the Group's business development strategy.

Potential earning power of the Target Group

As set out in the Letter, pursuant to the Interim Measures, the interest rate of the micro-financing loan must not exceed 4 times the basic lending interest rate of PBOC (which is currently at approximately 6% per annum), the lower limit shall not be less than 0.9 times the basic lending rate of PBOC. We are advised by the Company that the administration fee charged by the members of the Target Group is determined by arm's length negotiation with the customers as there is no limit on the consultation fee charged by the Target Group under the PRC laws and regulations. We have been provided with certain loan agreement(s) entered into among the members of the Target Group and their respective customers and noted that the interest rates charged by the members of the Target Group are approximately 4 times of the PBOC lending rates, depending on the loan amount and terms of loan. The Company confirmed that the aforesaid agreements are standard forms which the members of the Target Group adopt in providing financing services to their respective customers.

As stated in the Letter, certain Directors and senior officers of the Company have obtained the verbal confirmation from the Jilin Bank followed by written support from the Jilin Bank that they will provide the relevant bank financing to Target PRC No.1. The Target Group will utilize these external funding through lending by way of small loans at the rate of approximately four times of the PBOC rate. As such, the Directors consider the Target Group could earn a high profit margin (being the difference between the borrowing rates and lending rates and the consultation fee) through providing the financial services and believe that the Group would benefit from it after the Acquisition.

As stated in the section headed "Risk Factors" in the Letter, there are several risks which will affect the earning power of the Target Group, such as the Target Group competes with other micro-financing companies in Jilin City, the Target Group has limited operating history, the Company lacks experiences in operating business in Jilin City, the increase in registered capital of Target PRC No.1 and the default risk. However, as stated above, since the financial liabilities/assets ratio is relatively low compared with other developed countries, we consider that, even though there is competition, there is a growth potential in the micro-financing market. Based on the historical record of the comparable companies stated in the Letter and the future growth potential of the micro-financing industry, under the current legal regulations and situations, we do not anticipate that there will be any substantial deviation in the lending interest rate and consultancy fee rate. Also, the Company has taken and will take steps to mitigate the above risks, such as hiring competent personnel to manage the Target Group, require guarantees or collateral from the borrowers, inclusion of the default risk in the valuation of the Target Group and internal control review of the Target Group.

In light of the above, we are of the view and concur with the view of the Directors that the Acquisition provides an opportunity to the Company to tap into the business of high profit margin which will benefit the Company and the Shareholders as a whole.

Target PRC No.1 and Target PRC No.2 had not been established at the time of the Agreement (September 2012) and the business operation of the Target Group has only commenced in December 2012, representing a very limited operating history.

The Directors acknowledged that Target PRC No.1 and Target PRC No.2 had not been established at the time of the Agreement (September 2012). In addition, the Target Group has only commenced its business operation since December 2012. Due to this limited operating history, it may be difficult to evaluate the Target Group's business prospects and future financial performance. There is no assurance that the Target Group can maintain its profitability in the future. The historical results of the Target Group may not be reflective of the results of its operations in the future.

Nevertheless, the Directors consider that it is in the interest of the Company and the Shareholders as a whole for the Group to acquire the Target Group from the Vendor after balancing the relevant factors including the risk associated with setting up the Target Business by itself.

Although the establishments of the PRC Subsidiaries have not yet been completed at the time of the entering into of the Agreement on 27 September 2012, the most critical Permit required for the Target Business and for the establishment of Target PRC No.1 (namely, the written approval issued by 吉林省金融工作辦公室 (Financial Affairs Office of Jilin Province) approving Target PRC No.1 to engage in the micro-financing business) has already been obtained. Accordingly, the PRC Subsidiaries were established in October 2012, shortly after the signing of the Agreement. In addition, the Target Business has already commenced in December 2012.

In addition, under the Agreement, one of the conditions precedent to Completion is that all Reorganisation steps must be duly completed, including the establishment of the PRC Subsidiaries, to obtain all requisite Permits, and the commencement of the Target Business. As mentioned above these conditions have been fulfilled, as the PRC Subsidiaries have been duly established and the most essential and critical Permits (namely, the aforementioned written approval issued by 吉林省金融工作辦公室 (Financial Affairs Office of Jilin Province) approving Target PRC No.1 to engage in the micro-financing business, and the written approval issued by Jilin Province ETCB approving the establishment of Target PRC No.1 as a 中華人民共和國台港澳僑投資企業 (enterprise with investment of Taiwan, Hong Kong, Macao and overseas Chinese in the PRC) and stating, among other things, that the registered capital of Target PRC No.1 is RMB100 million) have been obtained before the Company entered into the Agreement. Further, before the Company entered into the Agreement, the Board was aware that the Target Group might be able to obtain certain tax incentives from the local tax authority (and the approvals from the local government authorities were eventually obtained after the date of the Agreement granting the Tax Benefits to Target PRC No.2).

In addition, the Board considers that it is in the interest of the Company and the Shareholders as a whole for the Group to acquire the Target Group from the Vendor instead of setting up the Target Business by itself for the following reasons: to the best knowledge of the Directors after enquiry, (i) the Vendor has taken more than 10 months for obtaining all necessary Permits for commencement of the Target Business, and (ii) in general it is difficult for a foreign-owned enterprise to obtain from the relevant PRC governmental authorities the Permits to engage in the micro-financing business. If the Company had decided to set up the Target Business itself, it is anticipated that substantial amount of time and efforts would be required in order to apply for all the required Permits for commencement of the Target Business. Furthermore, there is no guarantee that the Company will be able to obtain all such necessary Permits by itself even after spending a substantial amount of time and effort. As the Target Group already obtained most of the essential Permits to establish the PRC Subsidiaries and to engage in the Target Business, the Board then considered and still considers that the acquisition of the Target Group from the Vendor (vis-a-vis setting up the Target Business by itself) minimized any risk of the Group being unable to obtain any Permits by itself and ensured that the Target Business would be able to operate as soon as practicable, and therefore is in the best interest of the Group and the Shareholders.

In view of the above, we concur with the view of the Directors that the decision to acquire the Target Group when Target PRC No.1 and Target PRC No.2 had not been established at the time of the Agreement was fair and reasonable.

We have discussed with the Directors for the reason that the Group does not intend to set up the financing business itself but acquired the Target Group from the Vendor, the Directors are of the view that it is uncertain whether the Group can obtain approval from the relevant authorities for the establishment of company engaged in the business of Target PRC no.1, details of which has been set out in the Letter. The establishment of micro-financing company is subject to regulatory requirements under the Interim Measures, which was stated in the Letter.

As stated in the Letter, in order to apply for the Permits to engage in micro-financing business in Jilin City in the form of a wholly-foreign-owned enterprise, the foreign investor should follow the following main procedures:

(i) the applicant shall initiate the application by submitting the application materials, which include but not limited to application letter, feasibility study report, shareholders' information, articles of association, etc to the relevant local government authority;

(ii) the local government authority will conduct a preliminary assessment of the application materials, after which the provincial government authority (i.e. the Financial Affairs Office of Jilin Province) will conduct a review the application materials;

(iii) the Financial Affairs Office of Jilin Province will decide whether to approve the application for establishment;

(iv) upon obtaining the approval, the foreign investor can then apply for the commencement of business by submitting further application materials (including the approval obtained in (iii) above, application letter for the commencement of business, etc.); and

(v) the Financial Affairs Office of Jilin Province will decide whether to approve the application for commencement of business.

Before the Company entered into the Agreement, the Company had not tried to obtain the Permits by itself because the Board considers that it is in the interest of the Company and the Shareholders as a whole for the Group to acquire the Target Group from the Vendor instead of setting up the Target Business by itself having regard to the potential difficulty and the possible substantial amount of time and effort for the Company to obtain all the required Permits and the fact that there is no guarantee that the Company will be able to obtain all such necessary Permits by itself even after spending a substantial amount of time and effort as the relevant government authorities have the absolute discretion to approve or reject an application for the Permits, while the Target Group has obtained the most critical required Permits to engage in the Target Business.

We have reviewed the independent analysis provided by the Company's PRC legal adviser regarding the practical difficulty for foreign investors to obtain the required approval and permit for setting up micro-financing business in the PRC. We noted that the PRC legal adviser has provided its analysis based on its interpretation of the PRC laws as well as its relevant experiences. We noted that the PRC legal adviser has advised the following:

- Micro-financing is an industry that the PRC government has only started to open up tentatively. Although the official criteria for setting up a micro-financing company in the Jilin City or in the PRC do not seem to be stringent, in practice, it has been difficult for a foreign-invested enterprise (especially a wholly foreign-owned enterprise) to obtain the necessary approvals and permit for setting up a micro-financing business in Jilin City or other parts of the PRC because of the following reasons:

(i) The PRC government is tightening its foreign exchange control and hence it is also tightening the approval of investment holding or financial related companies (such as a micro-financing companies) to be set up by foreign investors. Therefore, when considering a foreign investor's application for setting up a micro-financing company (the "**Foreign Investor's Application**"), the local finance office (which is in charge of approving the Foreign Investor's Application) often could not obtain the necessary support from other relevant departments such as the local foreign exchange administrative bureau. Without such support, the local finance office would not approve the Foreign Investor's Application.

(ii) Under the PRC government's tentative measures to allow foreign investors to invest in PRC's micro-financing business, there is usually prescribed quota allocated to each designated region as to the number of micro-financing business permits that the region is permitted to grant. Since the PRC government tried to encourage domestic private capital to be invested in certain business sectors such as micro-financial services (including micro-financing business and agricultural co-operatives), the local government authority would prefer to allocate the quota to domestic PRC private investors or non-state-owned companies instead of foreign investors.

(iii) The PRC government is trying to steer foreign investment to invest in high-end manufacturing and modern services sectors and would rather leave the non-industrial sectors (such as micro-financing) to be invested by domestic private capital or non-state-owned companies.

- We further note that according to the PRC legal adviser, the Zhejiang Province has clearly stated that foreign investors are not permitted to invest in micro-financing business in that province.

Furthermore, we have reviewed the written confirmation dated 23 July 2013 issued by Jilin City ETCB confirming that Target PRC No.1 was the only wholly-foreign-owned micro-financing company in Jilin Province as of the date of confirmation. Such fact, together with the above analysis provided by the PRC legal adviser, is consistent with and supports the Directors' view that it has been difficult for a foreign investor to obtain the necessary PRC government approval for setting up a wholly foreign-owned enterprise in the PRC to conduct micro-financing business.

According to the website of Jilin Province, there were 298 micro-financing companies in Jilin Province as at 31 March 2013. The Directors consider that they may not be able to obtain approval for the establishment of micro-financing company as they have to undergo examination and authorization from the relevant government authorities if the Group sets up such businesses itself rather than acquiring the Target Group. The Acquisition therefore provides the Company with a shortcut to establish the businesses of micro-financing in the PRC. In addition, the Directors consider that the Group may have to bear start-up risk if setting up the businesses of the Target Group itself, the existing structure of the Target Group avails the Company with a platform for a more comprehensive financing business, including among others, the business of consultancy services, while the start-up risk is mitigated. Furthermore, the Directors believe that through leveraging the Target group's expertise in the PRC, the Acquisition would allow the Group to expand its business segment to the provision of Target Business in the PRC with promising prospect. We concur with the Directors' view that the Acquisition provides the Company with an immediate access to the business of provision of Target Business in the PRC with an existing platform of the Target Group.

Based on the foregoing, we concur with the Directors' view that it has been difficult for a foreign investor to obtain the necessary PRC government approval for setting up a wholly foreign-owned enterprise in the PRC to conduct micro-financing business. Based on the foregoing and having considered in particular that there is no guarantee that the relevant permits can be obtained despite the potential substantial amount of resources, time and effort to be incurred by the Group if the Group is to set up the Target Business by itself while the Target Group has already obtained all necessary Permits and has, up to the Latest Practicable Date, already developed a profitable track record for at least the three months ended 31 March 2013 based on the audited figures as disclosed in Appendix II to the Circular, we consider that it is fair and reasonable and in the interests of the Company and the Shareholders to acquire the Target Group instead of setting up itself.

Background of the senior management

As stated in the Letter, Mr. Teng, the chief executive officer of Target PRC No.1 who has approximately 18 years of experience working for banks in PRC. The Directors believe that the extensive working experience of Mr. Teng in credit business in banks in the PRC can enhance the business development of the Target PRC No. 1. Other senior management members of the Target Group include Mr. Li and Ms. Wang.

Mr. Li is the chief operating officer of Target PRC No. 1. Mr. Li obtained a bachelor's degree in financial management from the Dongbei University of Finance and Economics. Mr. Li has a qualification as a senior accountant in the PRC and he is responsible for the risk control of the micro-financing business of Target PRC No.1. Although Mr. Li has no direct experience in the micro-financing industry in Jilin Province, we note that Mr. Li has extensive experience in auditing, accounting and risk control in the PRC. As such, we consider that Mr. Li's experience is relevant to the Target Business and can contribute to the risk management of the micro-financing business of the Target Group.

Ms. Wang is the chief executive officer of Target PRC No.2. Ms. Wang is responsible for the overall strategic management and business development of Target PRC No. 2. Although Ms. Wang has no direct experience in the micro-financing industry in Jilin Province, we note that Ms. Wang has about 19 years of experience in the financing business for small and medium enterprises. As such, we consider that Ms. Wang's experience is relevant to the Target Business and can contribute to the business development and expansion of customers' base of the Target Group.

The Vendor has injected RMB50 million as registered capital of Target PRC No.1 whereas the Company is responsible for further injection of RMB150 million after Completion.

As at the Latest Practicable Date, the Vendor has already performed the Funding Obligation, i.e., the Vendor has already funded and paid the first RMB50 million for the registered capital of Target PRC No.1 and the entire US$100,000 for the registered capital of Target PRC No.2. After Completion, pursuant to the Agreement, the Group will be required to make payment for the remaining RMB50 million of the registered capital of Target PRC No.1 for its use in the Target Business. The Group will also apply for the increase in the registered capital of Target PRC No.1 from RMB100 million to RMB200 million and the Group will also make payment for the additional RMB100 million of registered capital of Target PRC No.1. The Board intends to fund such payments (in aggregate RMB150 million) from the Group's internal resources.

After the Completion, the Vendor has no obligation for injecting any further amount as registered capital of Target PRC No.1. Any further increment in the registered capital of Target PRC No.1 shall be responsible by the Company after the Completion.

The Board would like to emphasize that the RMB50 million injected by the Vendor and the RMB150 million to be injected by the Company will, after injection, become part of the asset of the Target Group, and therefore will, subject to Completion, also become part of the asset of the Group. In this connection, the RMB150 million that is required to be injected by the Group shall not be simply regarded as "given away" as part of the cost of Acquisition for the Company.

The Board further considers that even if such RMB150 million is to be regarded as part of the cost of Acquisition for the Company, the Company's total cost of Acquisition would be the sum of RMB150 million (or approximately HK$187.5 million) and the Consideration of a maximum of HK$850 million, i.e. approximately HK$1,037.5 million. According to the Valuation Report, the market value of the entire equity interest in the Target Group as at 30 June 2013 is RMB1,101.8 million, equivalent to approximately HK$1,377.4 million. Such deficit between the market value and the Consideration can be regarded as discount of nearly 11% to the market value of the Target Group.

Having considered the above and in particular that the Company's total cost of Acquisition would represent a discount to the valuation of the Target Group as stated in the Valuation Report, we concur with the Directors' view that it is fair and reasonable for the Company to further inject RMB150 million to Target PRC No.1 after Completion.

The Board has no experience in operating the Target Business in the PRC and does not have any experience at all in investing and/or operating any business in Jilin City.

The proposed Acquisition involves the acquisition of the Target Group which is principally engaged in the Target Business in the PRC and whose principal place of business is in Jilin City. The Board has no experience in operating the Target Business in the PRC and does not have any experience at all in investing and/or operating any business in Jilin City.

The acquisition of such a new business in an unfamiliar location may pose significant challenges to the Group, including but not limited to challenges in administrative, financial and operational aspects. As the Board does not have any experience in carrying out the Target Business in Jilin City, it may be difficult to ascertain the time it takes to recover the Company's investment and/or whether profits can be generated from the Target Business, let alone the amount. If the business of the Target Business does not develop or progress as planned, the Company may not be able to recover the funds and resources it has spent, and this may subsequently adversely and materially affect the Company's financial position.

Nevertheless, the Directors consider that the Board's former experience in operating similar businesses is not a prerequisite for the Acquisition or any acquisition by any company. In addition, subject to Completion, the Board intends to maintain the current management of the Target Group to manage the Target Business. The Target Group has already hired a number of experienced personnel to take up the senior management position of the PRC Subsidiaries and to report to the Board for the management of the daily operation of the Target Business. The Board considers that the senior management personnel hired by the Target Group possess sufficient experiences, industry knowledge, and management skills to manage the Target Business in Jilin City. In particular, Mr. Teng Lin, the chief executive officer of Target PRC No.1, has approximately 18 years of experience working for banks in the PRC, and Ms. Wang Yan Bo, the chief operating officer of Target PRC No.2, has about 19 years of experience in financing business for small and medium enterprises.

In addition, although the Directors do not have the experience in operating the Target Business in Jilin City, the Directors consider that they have a sufficient understanding of the PRC market and the micro-financing industry in the PRC. The Board further considers that the Company's existing senior management has relevant experience in managing the existing Hong Kong money lending business of the Group. In particular, Mr. Ng Kwok Chu, Winfield, one of the executive Directors, has more than 26 years' experience in the consumer and commercial finance industry in Hong Kong, while Mr. Sung Kin Man, an executive Director, has been working in the industry of finance and international capital market in Hong Kong and other Asian regions since 1994. Furthermore, the Board is of the view that the Target Group's operations in Jilin City will benefit from the supports of the local bank and the local government in Jilin City.

Based on the foregoing, we concur with the view of the Directors that although the Group has no existing business in Jilin City, through the combined experience of the personnel hired by the PRC Subsidiaries, the finance and money lending business managing experience of some of the executive Directors, in addition to the Group's solid management experience in the PRC, the Group has the ability to operate the Target Business effectively.

5. Internal control system and credit control policy of the Target Group

In order to minimize the credit and operational risks associated with the financing services provided by the Target Group, the internal control system and credit control policy have been adopted by the Target Group.

We have discussed with the management of the Company the rationale of relevant key internal control measures and procedures. We are advised that the Target Group has adopted the internal control measures and procedures with an aim to minimize the risks associated with the financing business. The management of the Company confirmed that the internal control system and credit control policy of Target Group are complied with the Interim Measures. In addition, the Target Group is subject to annual review by the relevant government authority. Generally, the effectiveness of an internal control system has to be tested over time and may be assessed by indicator such as payment defaults or bad debt amounts. Given the limited track record of the Target Group, we are unable to opine on the effectiveness of the internal control systems of the Target Group. However, we are advised by the management of the Company that, up to the Latest Practicable Date, all loans lent out during the period from the commencement of business in December 2012 up to 31 March 2013 had been repaid except for one loan involving a loan amount of RMB 6 million which is due on 21 September 2013. Taking into account the factors discussed and that the regulator will regularly review the internal control system, we consider that the Target Group has sufficient internal control measures in place in compliance with the relevant rules and regulations to monitor the financial health position and assess the risk profile of its financing business.

6. Consideration and funding for the Acquisition

Basis for the Consideration

As stated in the Letter, the Consideration for the Acquisition is HK$850 million and was determined by the Vendor and the Purchaser on the basis of normal commercial terms and arm's length negotiations by reference to, inter alia: (i) the opportunity for the Group to gain further access to the financial market in the PRC and to broaden the income base of the Group; (ii) the Target PRC No.1 having obtained the Permits for carrying out the business of the provision of micro-financing such that Target PRC No.1 is allowed to tap into the money lending industry in Jilin, the PRC and to earn interest income from its money lending activities; and (iii) a preliminary valuation provided by the Valuer, which is subject to, among other things, the formal Valuation Report. The Valuation Report is set out in Appendix IV to the Circular.

The maximum Consideration of HK$850 million represents a substantial premium to the original investment cost of the Vendor.

The Consideration shall be at maximum of HK$850 million, subject to the Closing Conditions, the T2 Payment Condition, the T3 Payment Conditions and the T4 Payment Condition being fulfilled or waived (to the extent waivable). Taking into account the original investment cost paid by the Vendor, amounted only RMB50 million for Target PRC No.1 and US$100,000 for Target PRC No.2 respectively, the maximum Consideration of HK$850 million represents a substantial premium to the Vendor's original investment cost.

Nevertheless, the Consideration shall be HK$850 million only if all of the Closing Conditions, the T2 Payment Condition, the T3 Payment Conditions and the T4 Payment Condition are fulfilled or waived (to the extent waivable). If the Closing Conditions are not fulfilled or waived (to the extent waivable), Completion will not take place and the no Consideration will be payable, while the Company will be entitled to the refund of the deposit. If only the T2 Payment Condition is not fulfilled, the T2 Price (which is in the sum of HK$170 million) will not become payable and the

Consideration shall be HK$680 million. If only the T3 Payment Conditions are not fulfilled, the T3 Price (which is in the sum of HK$170 million) will not become payable and the Consideration shall be HK$680 million. If only the T4 Payment Condition is not fulfilled, the T4 Price (which is in the sum of HK$85 million) will not become payable and the Consideration shall be HK$765 million. If a combination of the T2 Payment Condition, the T3 Payment Conditions and/or the T4 Payment Condition is not fulfilled, the corresponding T2 Price, T3 Price and/or T4 Price will not become payable and the Consideration shall become an amount equivalent to HK$850 million minus the sum of the corresponding amount of the T2 Price, T3 Price and/or T4 Price. In an extreme case where only the Closing Conditions are satisfied, the Consideration payable by the Company under the Agreement would only amount to HK$425 million.

In addition, the Board considers that in any normal arm's length commercial transaction, the consideration would be determined based primarily on the market value of the asset subject to the transaction, rather than the original costs of the vendor of the asset. The Board considers that the Consideration is fair and reasonable having taken into account the Valuation Report provided by the Valuer. The Directors consider each of the T2 Price, T3 Price and T4 Price is commercially justified.

We consider that it is more appropriate to assess the fairness and reasonableness of the Consideration based on the Valuation Report.

We have reviewed and discussed with the Valuer, the methodology and bases and assumption regarding the Valuation Report and are of the view that they are reasonably prepared. Further details can be found in the section headed "**Valuation**" below. Compared to the aggregate value of the Target Group which is of approximately RMB1,101,800,000 (equivalent to approximately HK$1,377.4 million) accordingly to the Valuation Report, the Consideration represent approximately 32.3% discount to the aggregate value of the Target PRC No.1 and Target PRC No. 2. We are of the view that the Consideration is fair to the Group as it represent approximately 32.3% discount to the aggregate value of the Target PRC No.1 and Target PRC No. 2 as stated in the Valuation Report.

As stated in the Letter, as at the Latest Practicable Date, the paid up capital of PRC Target No.1 is RMB50 million and according to the Valuation Report, the valuation of PRC Target no. 1 is based on the paid up capital of RMB300 million (in which RMB200 million is internal funding and RMB100 million is bank borrowing), therefore, we consider that the shortfall of RMB150 million, which is the remaining amount of RMB50 million and an additional RMB100 million after the increase in the registered capital of Target PRC No.1 from RMB100 million to RMB200 million to be injected by the Company (i.e. RMB200 million minus RMB50 million, the registered capital of Target PRC No.1 injected by the Vendor) is also part of the consideration for the Acquisition. As such, total consideration, being the sum of the Consideration and the shortfall of RMB150 million, would be approximately HK$1,037.5 million and representing approximately 24.68% discount to the fair value of the Target Group.

The Directors consider that each of the T1 Price, T2 Price, T3 Price and T4 Price is commercially justified and is in the interest of the Company and the Shareholders because:

T1 Price

If only the Closing Conditions are satisfied, only the T1 Price would be payable by the Company to the Vendor. The T1 Price amounts to only HK$425 million, which equals only half of the maximum Consideration and is considered commercially justified having taken into account the fact that the registered capital of Target PRC No.1 would be only RMB100 million instead of RMB200 million if only the Closing Conditions are satisfied.

T3 Price

If only the T3 Payment Conditions are not fulfilled (and thereby the registered capital of Target PRC No.1 will be RMB100 million rather than RMB200 million), the Valuer has advised that the valuation of the Target Group (assuming that everything else remains unchanged) would be reduced to RMB605.62 million, or approximately HK$765 million (rather than the original HK$1,101.8 million). In such circumstances, the total consideration payable to the Vendor will be HK$680 million (being the sum of the T1, T2 and T4 Price). Out of the current registered capital of RMB100 million for Target PRC No. 1, RMB50 million has already been contributed by the Vendor and the Group shall be responsible for the payment of the remaining RMB50 million subject to Completion. The Directors consider that even if such RMB50 million is to be regarded as part of the Company's cost of the proposed Acquisition, the Company's total cost of the proposed Acquisition under such circumstances would be the sum of HK$680 million (the Consideration payable) and the RMB50 million (payment of the remaining registered capital), which would add up to approximately HK$742.5 million and would still be lower than the valuation of approximately HK$765 million under such circumstances. As such, the Directors consider that the payment terms are commercially justified and in the interest of the Company and the Shareholders as a whole.

In respect of the aforementioned reduction of valuation to HK$765 million, such valuation of the Target Group is made on the basis that the T3 Payment Conditions are not fulfilled such that the registered capital of Target PRC No.1 shall be RMB100 million rather than RMB200 million, while all other assumptions and parameters adopted are the same as those adopted for the valuation of RMB1,101.8 million as stated in the Valuation Report.

For the avoidance of doubt, the valuation of HK$765 million includes the assumption of bank financing of RMB50 million on top of Target PRC No.1's registered capital of RMB100 million. The basis of adopting such assumption is that even if Target PRC No.1 is unable to increase its registered capital from RMB100 million to RMB200 million, Target PRC No.1 shall still be permitted under the relevant laws, and shall still be supported by the Jilin Bank to obtain bank financing of up to 50% of its net asset value. Such assumption is consistent with the assumptions adopted for the valuation of RMB1,101.8 million as stated in the Valuation Report which includes the assumption of bank financing of RMB100 million on top of the registered capital of RMB200 million.

T2 Price and T4 Price

The Directors acknowledge that there is a substantial difference between the amounts of T2 Price and T4 Price on one hand and the amounts of the respective turnover thresholds required under the T2 Payment Condition and the T4 Payment Condition on the other hand. The Directors are of the view that the T2 Price and the T4 Price are not meant to be dollar-to-dollar payments to the Vendor when the Target Group generates a certain amount of revenue. The T2 Price and the T4 Price were, as contemplated by the Directors upon the determination of the Consideration, a mechanism to release a portion of the Consideration to the Vendor if the Target Group has been proven to possess the particular level of revenue-generating ability. The Directors have therefore, under the T2 Payment Condition and the T4 Payment Condition, set out the respective turnover threshold of the Target Group during each of the six-month periods of the T2 Period and T4 Period (or the 12-month period if considering the T2 Period and the T4 Period together). Such turnover thresholds of the Target Group imposed by the Directors under the T2 Payment Condition and the T4 Payment Condition were consistent with the basis and parameters adopted in the Valuation Report and, therefore, the Directors consider that if the Target Group is able to achieve such turnover thresholds specified under the T2 Payment Condition and the T4 Payment Condition, it would mean that the business value of the Target Group would be in line with the valuation as stated in the Valuation Report and as such, it would be justifiable to release a portion of the Consideration to the Vendor.

Having considered the above and in particular that (i) only the T1 Price will become payable if only the Closing Conditions are satisfied; (ii) if the T3 Payment Conditions are not satisfied, the valuation of the Target Group would be reduced to approximately RMB765 million assuming that everything else remains unchanged while the sum of T1, T2 and T4 Price is lower than such valuation; and (iii) the T2 Price and T4 Price are meant to be a mechanism to release a portion of the Consideration to the Vendor if the Target Group has been proven to possess the particular level of revenue-generating ability, we concur with the Directors that each of the T1 Price, T2 Price, T3 Price and T4 Price is fair and reasonable.

Funding for the Acquisition

According to the Directors, as at the Latest Practicable Date, HK$200 million of the Consideration has been paid to the Vendor as the Deposit. Please refer to the Letter for detailed information.

In order to assess the cost of the funding for the Acquisition, we would assess (i) the Deposit; (ii) the terms of the Promissory Notes; and (iii) the terms of the Convertible Bond.

Deposit

As stated in the Letter, we understand that the Company already made a Deposit of HK$200 million to the Vendor by way of cashier order upon signing of the Agreement. The Deposit is fully refundable and part of the Consideration (if the Acquisition is completed). The Deposit is determined after arm's length negotiations between the Company and the Vendor. Given that (i) the Deposit has been paid by the Company to the Vendor upon entering into the Agreement, which is suck cost to the

Acquisition and irrelevant to the decision making of the Acquisition; (ii) the reasons for the Acquisition is fair and reasonable; and (iii) the total consideration, being the sum of the Consideration and the shortfall of RMB150 million, would be approximately HK$1,037.5 million and representing approximately 17.96% discount to the fair value of the Target Group, we consider that the Deposit and the opportunity cost raised from it to the Company will not have significant impact to the decision making of the Shareholders in relation to the Acquisition. We would also like to draw the attention of the Shareholders that the Deposit incurs the opportunity cost of the Company (e.g. the interest revenue generated by the Deposit). Based on the normal bank saving rate of the Company of approximately 1 to 3%, the Deposit could provide a maximum of approximately HK$6 million interest income to the Company. Assuming the Deposit was paid on 27 September 2012 (date of the Agreement) and the Completion is to take place on or before 30 September 2013, which is approximately 11 months, the maximum interest income generated by the Deposit would be approximately HK$5.5 million, which is only approximately 0.6% of the total Consideration. As such, we consider the Deposit is not a significant factor to determine whether the Company should process the Acquisition.

Promissory Notes

Please refer to the section headed "Principal terms of the Promissory Notes" in the Letter for the detailed information of the terms of Promissory Notes.

The issue of the Promissory Notes by the Company is used for the satisfaction of part of the Consideration and the reasons for the entering into the Agreement are described in the section headed "Reason for the Acquisition" above.

Based on the above, we are of the view that while the Company has apparent reasons for the issue of the Promissory Notes and since the Acquisition is in line with the objective of the Company, the issue of the Promissory Notes is in the interests of the Company and the Shareholders as a whole.

As stated in the Letter, the Promissory Notes would carry an interest rate of 1.5% per annum. In order to provide assessment on the fairness of the interest rate of the Promissory Notes, we compare that to the prime lending rate in Hong Kong. According to the information obtained from the website of Hong Kong Monetary Authority, the prime lending rate in Hong Kong is 5% as at the date of the Agreement. Therefore, we are of the view and concur with the view of the Directors that the issue of the Promissory Notes is in the interest of the Group and the Shareholders as a whole and the interest rate is fair and reasonable.

Convertible Bonds

Please refer to the section headed "Principal terms of the Convertible Bonds" in the Letter for the detail information of the terms of the Convertible Bonds.

The issue of the Convertible Bonds by the Company is used for satisfaction of part of the Consideration and the reasons for the entering into the Agreement are described in the section headed "Reason for the Acquisition" above.

Based on the above, we are of the view that while the Company has apparent reasons for the issue of the Convertible Bonds and since the Acquisition is in line with the objective of the Company, the issue of the Convertible Bonds is in the interests of the Company and the Shareholders as a whole.

The Convertible Bonds will not carry any interest. The conversion price of the Convertible Bonds is HK$0.37 per Conversion Shares (the "**Conversion Price**") which represents:

(i) a premium of approximately 7.25% over the closing price of HK$0.345 per Share as quoted on the Stock Exchange on the Last Trading Day ("**Last Trading Day Price**");

(ii) a premium of approximately 1.37% over the average of the closing prices of the Shares for the last five consecutive trading days up to and including the Last Trading Day, being HK$0.365 per Share ("**Last Five Trading Day Price**"); and

(iii) a premium of approximately 5.71% over the average of the closing prices of the Shares for the last ten consecutive trading days up to and including the Last Trading Day, being HK$0.350 per Share ("**Last Ten Trading Day Price**").

As the Conversion Price represent a premium of approximately 7.25% over the Last Trading Day Price; a premium of approximately 1.37% over the Last Five Trading Day Price and a premium of approximately 5.71% over the Last Ten Trading Day Price, we are of the view and concur with the view of the Directors that the Conversion Price is fair and reasonable.

7. Alternatives to the issue of the Promissory Notes and the Convertible Bonds

The issue of the Promissory Notes and the Convertible Bonds is chosen as the method for funding of part of the Acquisition. Comparing with other fund raising methods, such as issue of Share, open offer and rights issue or borrowing from commercial banks, the Directors believe that the issue of the Promissory Notes and the Convertible Bonds is the best alternative for the following reasons: (i) the average daily trading volume of the Shares for a three months period from 27 September 2012 (being the last trading date of the Share immediately before the publish of the Announcement) is approximately 5.87 million Shares with the exclusion of suspended days, representing approximately 0.76% of the entire issued Share capital of the Company as at the date of the Announcement. As the trading volume of the Shares was thin and the dollar value of the Convertible Bonds and Promissory Notes is large, i.e. up to HK$650 million, there is uncertainty that the Company would be able to engage suitable securities firms as underwriters to fully underwrite an open offer, a rights issue or issue of new Shares with dollar amount equal to that of the Promissory Notes and Convertible Bonds; and (ii) the interest rate from bank loan is higher than that of the Promissory Notes (please refer to the sub-section headed "Promissory Notes" above).

Having considered the thin trading volume of the Shares, the Conversion Price is justifiable as stated in the sub-section headed "Funding for the Acquisition" above, we are of the view and concur with the view of the Directors that the issue of the Convertible Bonds is the best fund-raising alternative available to the Group.

8. Valuation

The Company has engaged the Valuer, a specialist valuation firm providing valuation and advisory services, as the independent valuer for the valuation on the fair value of the Target Group. The Valuation Report is attached as Appendix IV to the Circular. We have discussed with the Valuer in relation to their experiences and understood that they have participated in valuing loan financing business for various listed companies in Hong Kong, we, therefore consider that they are qualified to provide a reliable valuation of the Target Group. We also discussed with the Valuer in relation to their terms of engagement and reviewed their engagement letter, in particular, their scope of work, and considered that their scope of work is appropriate to the opinion required to be given and there is no limitation on the scope of work which might adversely impact on the degree of assurance given by them in their report.

In assessing the fairness and reasonableness of the valuation, we have reviewed the basis and methodology underlying the Valuation Report.

Basis and methodology for the valuation

In undertaking the valuation of the Property, the Valuer have regarded the requirement contained in "The HKIS Valuation Standards (2012 Edition)" published by the Hong Kong Institute of Surveyors and the "Business Valuation Standards (First Printed)" published by the Hong Kong Business Valuation Forum (the "**Standard**"). It is stated in the Valuation Report that the Valuer had considered three generally accepted valuation approaches, i.e. the cost approach, market approach and income approach and decided to adopt the income approach. According to the valuation report and our discussion with the Valuer, we concur with the Valuer that the income-based approach would be appropriate and reasonable in the valuation of the market value of the Target Group given that (i) there are no public listed companies to derive price multiples and market transactions directly comparable to the Target Group due to the uniqueness of operation location, stage of development of the relevant businesses and special tax benefits employed by the Target Group; (ii) the market approach can result in inconsistent estimates of value where key variables such as risk and growth potential are ignored; (iii) for a going concern, the asset approach is not appropriate as it ignores the economic benefits generate by the business as a whole; and (iv) the income based approach allows projecting the economic benefits of the business by taking into account of the proposed growth of the subject business. In the course of the valuation of the value of the Target Group, the Valuer has adopted the residual income model in deriving their opinion of the value of the Target Group.

Valuation and assumptions

We have discussed with the Valuer regarding the factors taken into account in estimating the profit forecast of the Target Group and the determination of the discount rate adopted under the residual income model adopted in the Valuation and concur with the Valuer that such forecast of the future profit has been properly compiled in accordance with the assumptions made by the Board which have been made with due care and consideration and made on an objective and a reasonable basis. We have been advised that the profit forecast of the Target Group were calculated on the basis of, among other things, (i) estimation of related interest income, borrowing costs, expenses and capital injections which are provided by the Board, with reference to market trends and conditions where the Target Group in operations; (ii) provision for bad debts based on the default rate of global speculative grade corporate bonds by making reference to the imputable credit rating agency and the listed Companies which engages in the similar business operation of the Target Group; (iii) projection of the other expenses particularly, the business tax benefits applicable to the Target PRC No.2 which are valid and there would be no legal obstacle for the Target PRC No.2 to new the aforesaid tax benefits; and (iv) the Tax Benefits.

We have expressed our concern on the sustainability of the Tax Benefits to the Valuer and have been advised that the Tax Benefits are not the government policy to the micro financing business in the PRC but only the tax benefits granted by the local PRC government authority to the Target PRC No.2 and are subject to annual renewal. Although there is no legal obstacle to renew the relevant benefits as stated in the PRC legal opinion, the Shareholders should note that such tax benefits are critical assumption in the Valuation and the Valuation will change significantly without such tax benefits. As advised by the Valuer, the Valuation will decrease more than 50% of existing value if the tax benefits assumption does not hold.

We also understand from the Valuer that the discount rate applied to the residual income model is based on the cost of equity which is developed through the application of the capital asset pricing model ("CAPM"). The cost of equity of approximately 13.29%, representing the required rate of return of the Acquisition, is estimated by using the CAPM taking into account the market risk premium, risk free interest rate, market return of the US, country risk premium in a developing country, size premium (according to the Ibbotson SBBI Valuation Yearbook 2013 and the size of the business enterprise) and the specific risk premium for the new start up business and the illiquidity of the equity interest which is based on the professional judgment of the Valuer. Shareholders should note that the cost of equity is one of the key underlying variables in the Valuation, one percentage change in the cost of equity will lead to more than RMB 100 million changes in market value of the Target Group. Shareholders could refer to the section headed "Sensitivity Analysis" in the Valuation Report for more information about the consequence of the Valuation for the changes of the underlying variables.

Based on our review of the Valuation Report and discussion with the Valuer regarding, among other things, (i) the scope of work and assumptions of the valuations; (ii) the valuation basis, including the profit forecast of the Target Group, the applied methodologies, in particular the discount rate adopted under the residual income model; and (iii) the due diligence works performed by the Valuer in preparing the Valuation Report, we consider that the bases, assumptions and methodologies adopted by Valuer in the Valuation Report are appropriate and have been made with due care and consideration and on a reasonable basis.

Cost of equity

The cost of equity adopted in the Valuation Report, being approximately 13.29%, was prepared and determined by the Valuer. We have various discussions with the Valuer in this connection.

We understood from the Valuer that additional risk premium has been incorporated when determining the cost of equity (i.e. the discount rate) in view of the various risks associated with the Target Group, including but not limited to the fact that (i) the Target Group has only commenced business operation in December 2012 with very limited operating history, (ii) the Target Group may be subject to higher credit risk from customers, (iii) the personal/corporate guarantees provided and/or collaterals pledged (if any) may not be sufficient, (iv) the estimated parameters adopted in the Valuation Report may not be sustained in the longer term in the future, as well as (v) other risk factors as described in the paragraph headed "Risk factors" in the Letter. The cost of equity was derived by using the CAPM. As further advised by the Valuer, the CAPM is one of the most common and widely accepted methods used in deriving the cost of equity. The risk free rate, equity beta, market risk premium, size premium, country risk premium were taken from widely recognized sources such as Bloomberg and Morningstar. Furthermore, the comparable companies adopted in the calculation of cost of equity are companies operating in the financing industry and are subject to similar business risk with the Target Group. The risk free rate is based on the yield of US treasury government bond, which, as advised by the Valuer, is the most commonly accepted reference for risk free rate adopted in the calculation of the discount rate in most of the valuation. The equity beta is based on comparable companies listed in Hong Kong and overseas which are sourced from Bloomberg. We have reviewed the information extracted from the Bloomberg's database provided by the Valuer to verify the equity beta. For other risk premiums including the market risk premium, size premium, country risk premium and the specific risk premium, they are based on the Valuer's professional judgement and, as advised by the Valuer, are based on commonly accepted sources and derivation methods as in other valuation of similar nature. The specific risk premium is based on the Valuer's professional judgement and, as advised by the Valuer, adding a specific risk premium to the cost of equity is a common practice in other valuations.

Growth rate

The growth rate adopted in the Valuation Report, being 3% per annum, is prepared and determined by the Valuer based on the inflation rate in the PRC in the coming years as projected by the International Monetary Fund ("**IMF**").

Adopting the projected inflation rate in the PRC for the estimated long-term growth rate of the Target Group is reasonable because the growth rate of a business will tend to match the general inflation rate after an initial period of relatively faster growth. Although the Target Group's business is subject to the availability of funds for lending out to its customers, such factor is not directly relevant to the determination of the long-term growth rate of the Target Group because the potential growth rate of the Target Group, by relying on the availability of internally generated funds alone without taking into account of any additional shareholders' fund or external financing, can easily outpace 3% per annum having regard to the interest rate and consultancy fee rate that it typically charges to its customers which are much higher than 3% per annum. The Directors have reviewed the latest projection of the inflation rate in the PRC in the coming years as published on the website of the IMF. Based on the above, the Directors consider that IMF's projection of inflation rate is a reputable benchmark for comparison and hence 3% is a reasonable growth rate to be adopted for the valuation.

Lending interest rate and consultancy fee rate

The lending interest rate adopted in the Valuation Report, being 12% per annum, and the consultancy fee rate adopted in the Valuation Report, being 30% per annum, were determined based on the actual operating statistics of Target PRC No.1 and Target PRC No.2 for the three months ended 31 March 2013 (the "**Period**"), according to which the interest rate of the majority of the micro-financing transactions of Target PRC No.1 during the Period was 1% per month, and the aggregate sum of (i) the average interest rate charged by Target PRC No.1 and (ii) the consultancy fee rate charged by Target PRC No.2 during the period was approximately 3.5% per month. As such, the lending interest rate of 1% per month (or 12% per annum), together with the consultancy fee rate of 2.5% per month (or 30% per annum), were adopted for the valuation.

In connection with the above, as stated in the Letter, the Directors have:

- obtained and reviewed copies of all loan contracts and consultancy service contracts entered into between the Target Group and its customers during the Period, including 46 loan contracts and 37 consultancy service contracts;

- reviewed the figures contained in the financial statements of the Target Group for the three months ended 31 March 2013 (which was audited by HLB Hodgson Impey Cheng Limited ("**HLB**"), the reporting accountants) to check for the consistency of the financial information contained in the audited financial statements and the contracts obtained, and noted that the figures are consistent;

- sought a legal opinion advising that under the relevant PRC laws and regulations, the permitted interest rate for micro-financing business shall not exceed 4 times of the level of the statutory rate published by the PBOC (which ranged from 5.35% to 6.10% per annum from the beginning of 2011 to the Latest Practicable Date, and 4 times of which would therefore range from 21.4% to 24.4% per annum), and thus the lending interest rate of 12% per annum is permitted under the relevant PRC laws and regulations;

- sought a legal opinion advising that the amount of consultancy fee that Target PRC No.2 may charge to its customers is not subject to any maximum limit, and that the charging of interest by Target PRC No.1 and of consultancy fee by Target PRC No.2 together are not prohibited in the PRC pursuant to the applicable PRC laws and regulations; and

- reviewed and analyzed the relevant industry data available from public sources including the media as well as announcements and annual reports of listed companies with similar business in the PRC, and noted that the lending interest rate of 12% per annum together with the consultancy fee rate of 30% per annum are comparable to the market rates available from the public sources including media reports and the listed companies' announcements and annual reports. For instance:

Comparable company	Range of interest and service fee rate charged in respect of its loan receivables as disclosed in its annual reports Latest financial year	Previous financial year
China Financial Services Holdings Limited (stock code: 605)	1-3.5% per month	1-3.2% per month
Credit China Holdings Limited (stock code: 8207)	3-5% per month	3-5% per month

The Directors consider that the lending interest rate of 12% per annum and the consultancy fee rate of 30% per annum adopted in the valuation were arrived at after due and careful enquiry.

Borrowing cost of funds

The borrowing cost of funds, being 6% per annum, is based on the approximate level of the statutory rate published by the PBOC. From the beginning of 2011 to the Latest Practicable Date, the statutory interest rates published by the PBOC for a six-month loan ranged from 5.35% to 6.10% per annum.

The Directors consider that adopting the statutory rate published by the PBOC is reasonable after certain Directors and officers of the Company, as representatives of the Company, have met with 吉林銀行吉林解放大路支行 (Jilin Bank Jilin Jiefangdalu Branch) ("**Jilin Bank**") and were told that such rate would be very likely applicable to Target PRC No.1. In addition, the Directors have compared the borrowing cost of other comparable companies and noted that the borrowing cost of funds of the below comparable companies were lower than 6% per annum:

	Borrowing cost of funds as disclosed in its annual reports	
Comparable company	**Latest financial year**	**Previous financial year**
Public Finance Holdings Limited (stock code: 626)	1.52% per annum	1.73% per annum
First Credit Finance Group Limited (stock code: 8215)	2.5-4.25% per annum	1.78-2.75% per annum

Revenue

The revenue of the Target Group as projected in the Valuation Report was calculated based on the aggregate amount of money of the Target Group available for lending out to customers, taking into account the length of time the money can be lent out every year, the lending interest rate, and the consultancy fee rate.

The aggregate amount of money of the Target Group available for lending out to customers is determined based on the following:

(i) the amount of paid-up capital of Target PRC No.1, being RMB50 million initially, with an additional RMB50 million expected to be paid on 1 October 2013, another additional RMB50 million expected to be paid on 1 June 2014, and a further RMB50 million expected to be paid on 1 December 2014;

(ii) the amount of bank financing, being up to 50% of the net asset value of Target PRC No.1 from time to time, where the amount of bank financing is nil initially, and RMB75 million upon the capital injection expected to be made on 1 June 2014, and a further RMB25 million upon the injection expected to be made on 1 December 2014;

(iii) the amount of retained earnings of Target PRC No.1 after deducting all relevant finance costs, selling and administrative expenses, taxes, etc.; and

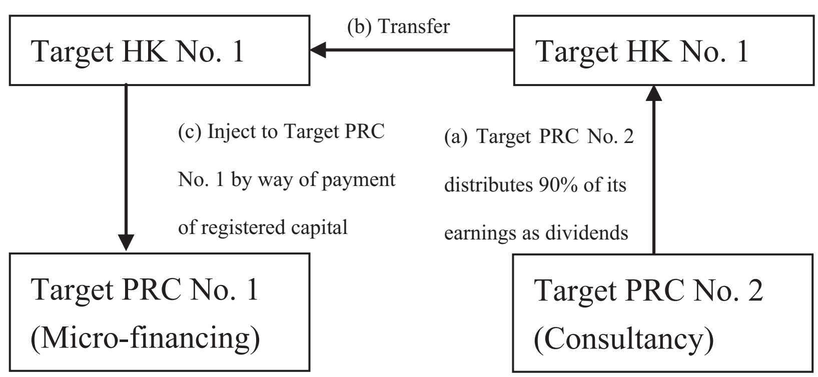
(iv) the amount of retained earnings of Target PRC No.2, which shall be transferred to Target PRC No.1 for Target PRC No.1's micro-financing activities in the following manner:

(a) Target PRC No.2 will distribute 90% of its earnings to its shareholder, i.e. Target HK No.2, as at the end of each financial year by way of dividend, which will be subject to the PRC dividend withholding tax of 5%.

(b) After the receipt of the said amount by Target HK No.2, such amount will then be transferred to Target HK No.1 in full.

(c) Target HK No.1 will then transfer such amount to Target PRC No.1 by way of making payments of Target PRC No.1's registered capital. If necessary (such as when the registered capital of Target PRC No.1 had already been fully paid up), Target HK No.1 will apply to increase in the registered capital of Target PRC No.1 before injecting the said amount to Target PRC No.1.

(d) The following diagram illustrates the abovementioned process:



The Directors have performed the following works in connection with the above as part of the due diligence of the Directors:

- In relation to the amount of paid-up capital of Target PRC No.1 as stated in point (i) above, the Directors have ensured that the initial RMB50 million has already been paid up by the Vendor by reviewing the capital verification report of Target PRC No.1. Pursuant to the Agreement, the payment of the remaining registered capital is the Group's responsibility after Completion.

- In relation to the amount of bank financing as stated in point (ii) above, the Directors have sought a legal opinion confirming that the amount of bank financing that Target PRC No.1 may obtain from banks is up to 50% of its net asset value pursuant to the relevant PRC laws and regulations. In addition, the Directors have obtained assurance from the Jilin Bank during the meeting between certain Directors and officers of the

Company, as representatives of the Company, and the Jilin Bank that the Jilin Bank is willing to continuously support the business development of Target PRC No.1 before and after Completion with bank financing of up to 50% of Target PRC No.1's net asset value.

- In relation to the amount of retained earnings of Target PRC No.1 as stated in point (iii) above, the Directors have reviewed the calculation of the amount of retained earnings of Target PRC No.1, which is straight-forward based on the various parameters used in the valuation.

- In relation to the amount of retained earnings of Target PRC No.2 as stated in point (iv) above, the Directors have obtained a written confirmation from the relevant authority in Jilin City, i.e. Jilin City ETCB confirming that the increase in the registered capital of Target PRC No.1 is not subject to any upper limit. The Directors have also sought a PRC legal opinion advising that the increase in the registered capital of Target PRC No.1 is not subject to any upper limit. In addition, the Directors have reviewed the relevant PRC regulations which state that the dividend withholding tax rate applicable to Target PRC No.2 is 5%.

Regarding the length of time the money can be lent out every year, it was assumed in the valuation that capital available to Target PRC No.1 can, on average, be lent out for 11 out of 12 months every year.

In connection with the above, the Directors have reviewed the actual operating statistics of Target PRC No.1 for the Period, including the audited financial information of the Period as well as the unaudited financial information for the three months ended 30 June 2013 provided by the Vendor in relation to the actual amount of time that the available money of Target PRC No.1 has been lent out during the period, and noted that 11 out of 12 months, on pro-rata basis, approximates to the actual historical figures.

Based on the foregoing, the Directors are satisfied with the result of the above due diligence work done and consider that the revenue projection in the valuation report is arrived at after due and careful enquiry.

Default rate

The default rate adopted in the Valuation Report, being 4.11% of the total principal, is based on the U.S. corporate average cumulative one-year default rates for global speculative grade corporations published by the Standard & Poors in the 2012 Annual U.S. Corporate Default Study And Rating Transitions published on 20 March 2013 (the "S&P Default Rate").

The Directors consider that the S&P Default Rate reference is an appropriate source of information for the determination of the default rate as the S&P Default Rate concerns global (instead of only the United States) corporations of speculative grade. The Directors have visited the website of Standard & Poors to check out the latest published default rate.

Other than the S&P Default Rate, the Directors have noted from a research report published by Fitch Ratings in March 2013 that Fitch's global corporate speculative-grade default rate was 2.99%. The Directors also noted from a news report published in February 2013 that according to Moody's Investors Service, the high-yield default rate for Asia Pacific (ex-Japan) corporates would remain at a low level of about 2% in 2013.

In addition, the Directors have also noted from the actual operating statistics of the Target Group based on the audited financial information for the Period and the management accounts for the three months ended 30 June 2013 that the actual default rate of the Target Group is nil.

Furthermore, the Directors have made reference to the actual loan receivables impairment rate or the amount of provision for bad debts of other comparable companies listed on the Stock Exchange with similar businesses in the PRC and noted that the relevant provision or impairment rate were generally lower than the S&P Default Rate:

	Ratio of the provision for bad or doubtful debts to the outstanding loan receivables as disclosed in its annual reports	
Comparable company	**Latest financial year**	**Previous financial year**
China Financial Services Holdings Limited (stock code: 605)	0.18%	0.19%
Public Finance Holdings Limited (stock code: 626)	0.56%	0.71%
Credit China Holdings Limited (stock code: 8207)	0.00%	0.00%

Based on the foregoing, the Directors consider that the S&P Default Rate is a prudent and credible benchmark for arriving at the default rate to be used for making bad debt provisions, and that the 4.11% default rate adopted in the valuation is prudent and is arrived at after due and careful enquiry.

Business tax and additional levies

The business tax and additional levies of Target PRC No.2 as adopted in the Valuation Report were below the standard rates. Target PRC No.2 has obtained certain tax concessions/benefits from the local tax authority, including the Tax Benefits. Such concessions/benefits are subject to annual renewal.

As mentioned in the Letter, certain Directors and officers of the Company have personally met with the relevant PRC government officials in Jilin Province and have obtained their verbal confirmation that they would support the development of the business of the Target Group. In addition, the Directors have sought a legal opinion confirming that the Tax Benefits are valid and that there would not be any legal obstacles for Target PRC No. 2 to renew the Tax Benefits each year provided that Target PRC No.2 is able to meet the requirements in term of its business size, revenue and profit, which the Directors believe that Target PRC No.2 would be able to meet.

Selling and administrative expenses

The selling and administrative expenses adopted in the Valuation Report was 13% of revenue if revenue is below RMB15 million; and 8% of revenue if revenue is at or above RMB15 million. As stated in the Letter, the Directors have reviewed the audited financial information of the Target Group and noted that the difference between the percentage of selling and administrative expenses to revenue as adopted in the Valuation Report's assumption and that as derived from the audited financial information for the three months ended 31 March 2013 was mainly due to the one-off legal costs in relation to the reduction of share capital of Target HK No.1 which were booked during the said period as well as certain exchange loss. The Directors noted that after excluding such items, the percentage of selling and administrative expenses to revenue as adopted in the valuation's assumption and that as derived from the audited financial information for the three months ended 31 March 2013 were not materially different from each other.

The Directors have also made reference to the actual rate of selling and administrative expenses to revenue of comparable companies and noted that they are comparable to the estimated selling and administrative expenses rate adopted for the Valuation Report:

	Ratio of the selling and administrative expenses to revenue as disclosed in its annual reports	
Comparable company	**Latest financial year**	**Previous financial year**
Public Finance Holdings Limited (stock code: 626)	4.10%	4.35%
AEON Credit Service (Asia) Company Limited (stock code: 900)	11.00%	10.72%

The percentage of selling and administrative expenses decreases when revenue increases because of economies of scale as the Target Group is not of a labour intensive nature and the increase in revenue and amount of lend-out loan principals will not lead to significantly increased selling expenses.

Based on all of the above, we concur with the view of the Directors that each of the key parameters adopted in the Valuation Report is fair and reasonable.

9. Dilution Effect

As stated in the Letter, after the full conversion of the Convertible Bonds, the shareholdings of the existing public Shareholders will decrease from 79.5% to 30.9%.

Taking into consideration that: 1) the Consideration represents a discount to the Valuation; 2) as mentioned above, the issue of the Convertible Bond is in the interests of the Company and the Shareholders as a whole; 3) the conversion price per Conversion Share, represents a premium to the Last Trading Day Price, which is fair and reasonable; and 4) the Company can entered into the micro-finance industry in the PRC which has been difficult for a foreign investor to obtain the necessary PRC government approval for setting up a wholly foreign-owned enterprise in the PRC to conduct micro-financing business, we consider the dilution effect fair and reasonable.

10. Risk Factors

Please refer to the section headed "Risk Factors" in the Letter for the risks in relation to the Acquisition.

As stated in the Letter, we understand that the Directors have considered that (i) the maximum interest rate that can be charged by a micro-financing company is approximately 24% per annum based on the current basic lending interest rate published by the PBOC; (ii) the registered capital of Target PRC No.1 (assuming the application for the increase in registered capital is approved) will be RMB200 million, which will be used for the money lending activities of Target PRC No.1; (iii) it is reasonable to conclude that the micro-financing market in Jilin City is growing in general; (iv) the Target Group will also be engaged in the consulting business which will generate consultation fee income for the Target Group in addition to the interest income generated from its micro-financing business, the Board considers that the Consideration of a maximum of HK$850 million is fair and reasonable.

Besides, we noted the Directors have considered the followings:

(a) although the Consideration is a maximum of HK$850 million while the original purchase cost of the Target Group to the Vendor would be approximately RMB51 million, the Board considers that the Consideration is fair and reasonable having taken into account the Valuation Report provided by the Valuer;

(b) the key entry barrier to the micro-financing industry in the PRC is the obtaining of the Permits (the granting of which is at the absolute discretion of the relevant PRC government authorities) and the PRC Subsidiaries have obtained all required Permits to engage in the Target Business;

(c) although the Target Group has limited track record, the PRC Subsidiaries have obtained all necessary Permits which allow the PRC Subsidiaries to commence the Target Business immediately;

(d) judging from the statistics showing the growing trend of the micro-financing industry in Jilin Province as well as the overall banking and money lending market in Jilin City, the Board considers that it is reasonable to conclude that the micro-financing industry in Jilin City, a major city in Jilin Province, should also have been exhibiting a growing trend in the past few years;

(e) the Board considers that the assumptions and basis under the preliminary valuation and the valuation provided by the Valuer are fair and reasonable as those assumptions and basis were based on the business plan of the Target Group;

(f) the Target Group has hired a number of experienced personnel to take up the senior management position of the PRC Subsidiaries and to report to the Board for the management of the daily operation of the Target Business and the Board has the experience of managing the Group's existing money lending business in Hong Kong;

(g) while there were 45 micro-financing companies in Jilin City as at 30 September 2012, the Board understands that the micro-financing industry in Jilin Province has been growing in the past few years and the Acquisition allows the Group to tap into the micro-financing industry in Jilin City;

(h) although there are a number of risk factors associated with the Acquisition and the Target Group's business as disclosed in the paragraph headed "Risk factors" above, the Directors consider that during the negotiation with the Vendor prior to entering into the Agreement, the Company had, as one of the Company's measures to reduce the risk arising from the relatively short track record of the Target Group, required certain turnover threshold and other conditions precedent to be achieved as stated under the Closing Conditions, T2 Payment Condition, T3 Payment Conditions and T4 Payment Condition before going ahead with the Acquisition and/or releasing payment(s) of Consideration to the Vendor such that the final amount of aggregate Consideration will be determined based on the actual performance of the Target Group after the Completion. Furthermore, while the Directors cannot assure that the risk factors as disclosed in the paragraph headed "Risk factors" above will not happen in future, the Directors will, in order to minimise any such risks, ensure that adequate resources are available to manage the risks and the management of the Target Group will regularly review these risks and report to Board if there is any likelihood of the happening of the risks. Please refer to the paragraph headed "The Company's assessment of the likelihood of the above risks and plan to manage the above risks" above for further details in this regard;

(i) although the valuation of the Target Group may not be accurate and may overstate the value of the Target Group as there is no assurance that the estimated parameters and assumptions adopted in the Valuation Report can be sustained and continue to be valid in the future, the Directors, after their due diligence, consider that the estimated parameters and assumptions adopted in the Valuation Report are based on the best available information. Please refer to the paragraph headed "Due diligence performed by the Directors" above for further details of the due diligence works performed. The Directors noted that the actual operating statistics of the Target Group for the three months ended 31 March 2013 were consistent with the Valuers' preliminary estimation of the estimated parameters and assumptions, which has proven that such estimations of the parameters and assumptions were reasonable. As such, the Directors consider that there was no reason to cause the Directors to doubt the fairness and reasonableness of the preliminary estimations of the estimated parameters and assumptions adopted in the valuation based on the best available information after the due diligence performed by the Directors; and

(j) although the Company had not tried to obtain the Permits by itself before entering into the Agreement, taking into account the difficulty for a foreign investor to obtain the necessary PRC government approval for setting up a wholly foreign-owned enterprise in the PRC to conduct micro-financing business, the Board considers that it is in the interest of the Company and the Shareholders as a whole for the Group to acquire the Target Group from the Vendor instead of setting up the Target Business by itself, having regard to the potential difficulty and the possible substantial amount of time and effort for the Company to obtain all the required Permits and the fact that there is no guarantee that the Company will be able to obtain all such necessary Permits by itself even after spending a substantial amount of time and effort as the relevant government authorities have the absolute discretion to approve or reject an application for the Permits, while the Target Group has obtained the most critical Permits required to engage in the Target Business.

We, having considered the above, concur with the Directors that the Acquisition is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

11. Financial effects of the Acquisition on the Group

Appendix III to the Circular sets out various analyses on the potential financial effects of the Acquisition on the Group as if the Acquisition had been completed at the commencement of the period being reported on (i.e. 1 April 2012), where were prepared based on the audited financial information of the Group as at 31 March 2013 and the accountant's report of the Target Group as at 31 December 2012. It should be noted that the figures and financial impact shown in this section are for illustrative purpose only.

(a) Assets and liabilities

According to the Annual Report, the audit consolidated total assets and liabilities of the Group as at 31 March 2013 were approximately HK$2,060,810,000 and HK$72,608,000 respectively. Based on the unaudited pro forma financial information of the Enlarged Group, assuming Completion had taken place on 31 March 2013, the unaudited pro forma consolidated total assets, liability and equity of the Enlarged Group would be approximately HK$2,470,415,000, HK$777,890,000 and HK$2,042,857,000 respectively.

(b) Earnings

The Group recorded an audited consolidated loss of approximately HK$77,590,000 for the year ended 31 March 2013. As set out in Appendix III to the Circular, assuming the Completion had taken place on 31 March 2013, the unaudited pro forma consolidated loss of the Enlarged Group for the year ended 31 March 2013 would be approximately HK$96,548,000.

(c) Gearing ratio

As at 31 March 2013, the gearing ratio of the Group, which was calculated based on net debt divided by the total equity, was nil. Assuming the Completion had taken place on 31 March 2013, it is expected that, based on the amounts extracted from the unaudited pro forma financial information of the Enlarged Group, the gearing ratio of the Enlarged Group would become approximately 8.3%.

(d) Dilution on the shareholding rights of the Independent Shareholders

Shareholders should note that as a result of the Acquisition and the issue of the Convertible Shares, the shareholdings of public Shareholders will be diluted from approximately 79.5% to approximately 70.1% (immediately after the exercise of the Convertible Bonds up to the conversion limit but before the exercise of the SSDL CB) and to approximately 30.9% (immediately after the exercise of the Convertible Bonds in full but before the exercise of the SSDL CB) as stated in the section headed “Shareholding Structure of the Company” in the Letter) inevitably. Taking into account that the terms of the issue of the Conversion Shares are in our opinion fair and reasonable as stated in the section headed “Reason for the Acquisition” and “Consideration and funding for the Acquisition”, we consider that the aforementioned level of dilution to the shareholding interests as a result of the Acquisition and the issue of the Convertible Shares are acceptable as far as the Independent Shareholders are concerned.

RECOMMENDATION

Having considered the above principal factors, in particular, (i) background information of the Group; (ii) background information of the Target Group; (iii) financial information of the Target Group; (iv) reasons for the Acquisition; (v) internal control system and credit control policy of the Target Group; (vi) Consideration and funding for the Acquisition; (vii) alternative to the issue of the Promissory Notes and the Convertible Bonds; (viii) Valuation; and (xi) financial effects of the Acquisition on the Group, we are of the opinion that the terms of the Acquisition are on normal commercial terms, in the ordinary and usual course of business of the Company and fair and reasonable and in the interests of the Company and Shareholders as a whole and we would advise (i) the Independent Board Committee to recommend to the Independent Shareholders; and (ii) the Independent Shareholders, to vote in favour of the resolutions to be proposed at the EGM to approve the Agreement and the transaction contemplated thereunder.

Yours faithfully,
For and on behalf of
Nuada Limited

Kevin Chan
Director

Kevin Wong
Vice President

FINANCIAL INFORMATION OF THE GROUP

The Company is required to set out in this circular the information for the last three financial years with respect to the profits and losses, financial record and position, set out as a comparative table and the latest published audited balance sheet together with the notes on the annual accounts for the last financial year for the Group.

The audited consolidated financial statements of the Group for the years ended 31 March 2011, 2012 and 2013, together with the accompanying notes to the financial statements, can be found on pages 36 to 122 of the annual report of the Company for the year ended 31 March 2011, pages 39 to 118 of the annual report of the Company for the year ended 31 March 2012, and pages 28 to 110 of the annual report of the Company for the year ended 31 March 2013, respectively. The said reports are available on the website of the Stock Exchange as follows:

http://www.hkexnews.hk/listedco/listconews/SEHK/2011/0728/LTN20110728375.pdf

http://www.hkexnews.hk/listedco/listconews/SEHK/2012/0726/LTN20120726151.pdf

http://www.hkexnews.hk/listedco/listconews/SEHK/2013/0527/LTN20130527343.pdf

MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP

Liquidity, financial resources and capital structure

The Group generally finances its operations with internally generated cash flows and capital fund raising activities.

As at 31 March 2011, the Group had cash and bank balances of approximately HK$311,810,000 (as at 31 March 2010: approximately HK$216,030,000). As at 31 March 2011, the Group had outstanding borrowings of approximately HK$Nil (as at 31 March 2010: approximately HK$152,442,000). As at 31 March 2011, net current assets totalled approximately HK$299,195,000 (as at 31 March 2010: approximately HK$200,247,000) and the current ratio was maintained at a level of approximately 11.6 (as at 31 March 2010: approximately 8.7).

For the year ended 31 March 2011, (i) 1,209,781,813 ordinary shares were issued upon the conversion of convertible bonds at the conversion price of HK$0.075 per share, giving rise to an aggregate net proceeds of approximately HK$90.7 million. As a result of such conversion, the Company's liability was reduced as it need not repay to the holder of the convertible bonds in respect of the principal amount in the sum of HK$90.7 million payable thereunder; and (ii) 2,888,000,000 ordinary shares were issued by way of placing of new shares pursuant to a placing agreement dated 12 March 2010 (as amended by a supplemental placing agreement dated 23 March 2010) entered into between the Company and a placing agent, whereby the placing agent has agreed to place on a best effort basis, up to 3,600 million ordinary shares. Completion of the Placing took place on 7 May 2010, pursuant to which the Company allotted and issued 2,888,000,000 new shares to not less than six placees at the final issue price of HK$0.19 per share, giving rise to an aggregate proceeds of approximately HK$548.7 million. The net proceeds (after the deduction of the placing commission and other relevant expenses) amounted to approximately HK$529.0 million.

As at 31 March 2012, the Group had cash and bank balances of approximately HK$477,218,000 (as at 31 March 2011: approximately HK$311,810,000). As at 31 March 2012, the Group had outstanding borrowings of Nil (as at 31 March 2011: Nil), the net current assets totaled approximately HK$620,727,000 (as at 31 March 2011: approximately HK$299,195,000) and the current ratio was maintained at a level of approximately 19.4 (as at 31 March 2011: approximately 11.6).

An exercise of placing and subscription of shares in the Company was conducted in April and May 2011. Please refer to the Company's announcements dated 27 April 2011, 3 May 2011 and 9 May 2011 for further details. Under the exercise, on 9 May 2011, an aggregate of 1,100,000,000 new shares of HK$0.01 each in the capital of the Company were issued at HK$0.38 per subscription share, giving rise to an aggregate proceeds of approximately HK$418 million. The net proceeds (after the deduction of the placing commission and other relevant expenses) amounted to approximately HK$400 million. As at 31 March 2012, approximately HK$197.24 million of the net proceeds were mainly used for the following purposes: (i) approximately HK$147,240,000 (equivalent to approximately RMB120,000,000) as a fully refundable deposit and part of the consideration for the proposed acquisition of the Gold Mine and (ii) approximately HK$50,000,000 as general working capital. The remaining balance of the net proceeds of approximately HK$202.76 million is currently planned to be used for the general working capital of the Group and for future investment opportunities as and when they arise.

As at 31 March 2013, the Group had bank balances and cash of approximately HK$186,499,000 (as at 31 March 2012: approximately HK$477,218,000). As at 31 March 2013, the Group had outstanding borrowings of Nil (as at 31 March 2012: Nil). As at 31 March 2013, net current assets totalled approximately HK$532,995,000 (as at 31 March 2012: approximately HK$620,727,000) and the current ratio was at a level of approximately 15.4 (as at 31 March 2012: approximately 19.4).

On 7 March 2012, the Company entered into a placing agreement with a placing agent (as amended by a supplemental placing agreement dated 8 March 2012) in relation to a placing of up to 152,000,000 warrants to not less than six places at a placing price of HK$0.01 per warrant. Upon exercising the subscription rights attaching to the Warrants, the Company shall allot and issue new shares at a subscription price of HK$0.72 (subject to adjustment) per new share. The completion of the 2012 Placing Agreement took place on 11 April 2012 in accordance with the terms and conditions of the 2012 Placing Agreement (as amended by a supplemental placing agreement dated 8 March 2012) and 152,000,000 warrants were issued to not less than six placees. The net proceeds (without taking into account of the exercise of subscription rights attaching to the Warrants), after taking into account the expenses in relation to the placing, amounted to approximately HK$1,420,000. Such proceeds are proposed for funding the general working capital of the Group and any investment opportunities of the Group in the future.

Business prospects

The Group is proactively identifying related projects or opportunities in relation to finance, natural gas and precious metals with investment potential in the PRC while consolidating its existing businesses.

Meanwhile, the finance business in Hong Kong commenced in the second half of 2012 maintained good momentum, bringing impressive income to the Group. As a result, the Group will allocate more resources to all the businesses mentioned above with greater prospects.

Comments on segment information

For the two years ended 31 March 2011 and 2012, all of the Group's revenue was attributable to its operation in investment in energy and natural resources (including precious metals) related projects in the PRC.

For the year ended 31 March 2011, the Group recorded total turnover of approximately HK$47,692,000 which comprises a turnover of (i) approximately HK$1,855,000 from the sales of fuel oil and chemicals (year ended 31 March 2010: approximately HK$23,705,000), (ii) approximately HK$43,457,000 from the sales of gold (year ended 31 March 2010: HK$18,119,000); and (iii) approximately HK$2,380,000 from the sales of gold concentrate (year ended 31 March 2010: HK$Nil). Total Group turnover increased by approximately 14% as compared to last year. Such increase was mainly attributable to the increase of revenue from the sales of gold and the generation of revenue from the sales of gold concentrates. The effect of such increases of revenue was reduced by the decrease of revenue from the sale of fuel oil and chemicals.

For the year ended 31 March 2012, the Group recorded total turnover of approximately HK$50,287,000 (year ended 31 March 2011: approximately HK$47,692,000) which mainly comprises a turnover of (i) approximately HK$41,592,000 from the sales of gold (year ended 31 March 2011: approximately HK$43,457,000), (ii) approximately HK$8,261,000 from the sales of gold concentrates and amalgam (year ended 31 March 2011: approximately HK$2,380,000) and (iii) approximately HK$434,000 from the sales of silver concentrates (year ended 31 March 2011: Nil). For the year ended 31 March 2012, the Group did not record any turnover from the sales of fuel oil and chemicals (year ended 31 March 2011: approximately HK$1,855,000). Total Group's turnover increased by approximately 5% as compared to last year. Such increase was mainly attributable to the increase in sales of gold concentrates and amalgam.

For the year ended 31 March 2013, the Group were involved in (i) investment holding, investment in energy and natural resources (including precious metals) related projects in the PRC; and (ii) loan financing activities.

For the year ended 31 March 2013, the Group recorded total turnover of approximately HK$54,483,000 (year ended 31 March 2012: HK$50,287,000) which mainly comprises a turnover of (i) approximately HK$36,930,000 from the sales of gold (year ended 31 March 2012: HK$41,592,000); (ii) approximately HK$15,966,000 from the sales of gold concentrates and amalgam (year ended 31 March 2012: HK$8,261,000); and (iii) approximately HK$1,339,000 (year ended 31 March 2012: Nil) representing interest income from loan financing activities. Total Group's turnover increased by approximately 8% as compared to last year. Such increase was mainly attributable to the increase in sales of gold concentrates and amalgam and generation of interest income from loan financing activities which was partially offsetted by the decrease in sales of gold.

Employees and remuneration policies

As at 31 March 2011, 2012 and 2013, the Group employed 327, 336 and 219 fulltime employees in the PRC and Hong Kong, respectively.

The Group remunerated its employees based on their performance, qualifications, work experience and prevailing market salaries. Performance related bonuses are granted on a discretionary basis. Other employee benefits include mandatory provident fund, insurance and medical coverage, training programs and share option scheme.

Future plans for material investments

After Completion, the Group will make payment for the remaining RMB50 million of the registered capital of Target PRC No.1 for its use in its Target Business. The Group will also apply for the increase in the registered capital of Target PRC No.1 from RMB100 million to RMB200 million and the Group will also make payment for the additional RMB100 million of registered capital of Target PRC No.1. The Board intends to fund such payments (in aggregate RMB150 million) from the Group's internal resources.

Gearing ratio

The Group's gearing ratio calculated as a ratio of net debt to total equity. As at 31 March 2011, 2012 and 2013, the Group's gearing ratio was nil, nil and nil, respectively.

Exposure to foreign exchange fluctuations

The Group's exposure to currency exchange rates is minimal as the Group usually holds most of their financial assets/liabilities in their own functional currencies. Transactional currency exposures arise from revenue or cost of sales by operating units in currencies other than the unit's functional currency. Substantially all of the Group's revenue and cost of sales are denominated in the functional currency of the operating units generating the revenue, and substantially all of the cost of sales are denominated in the operating unit's functional currency. Accordingly, the Directors consider that the Group is not exposed to significant foreign currency risk.

The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Contingent liabilities

At as 31 March 2011, 2012 and 2013, the Group did not have any significant contingent liability.

INDEBTEDNESS STATEMENT OF THE ENLARGED GROUP

Borrowings

As at the close of business on 31 July 2013, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had no outstanding borrowings.

Contingent liabilities

As at 31 July 2013, the Group had no significant contingent liabilities.

Capital and other commitments

As at 31 July 2013, the Group had no material capital commitments.

Disclaimers

Save as disclosed above, as at the close of business on 31 July 2013, the Group did not have any debt securities issued and outstanding or authorised or otherwise created but unissued, or term loans, other borrowings or indebtedness in the nature of borrowings including bank overdrafts, liabilities under acceptance (other than normal trade bills) or acceptance credits, hire purchase commitments, or mortgages, charges, guarantees or other material contingent liabilities.

WORKING CAPITAL STATEMENT

The Directors are of the opinion that, after taking into account the financial resources and banking facilities available to the Group and its internal generated funds, the Group has sufficient working capital to satisfy its requirements for at least 12 months from the date of publication of this circular in the absence of unforeseen circumstances.

MATERIAL ADVERSE CHANGES

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 March 2013, the date to which the latest published audited financial statements of the Group were made up.

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the reporting accountants, HLB Hodgson Impey Cheng Limited, Certified Public Accountants, Hong Kong.

國衛會計師事務所有限公司
Hodgson Impey Cheng Limited

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

11 September 2013

Sino Prosper State Gold Resources Holdings Limited
Unit A03, 11th Floor
Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
HONG KONG

Dear Sirs,

We set out below our report on the financial information of Treasure Join Limited (the "Target BVI") and its subsidiaries (hereinafter collectively referred to as the "Target Group") comprising the consolidated statements of financial position of the Target Group as at 31 December 2010, 2011 and 2012 and 31 March 2013, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows of the Target Group for each of the three years ended 31 December 2010, 2011 and 2012 and the three months ended 31 March 2013 (the "Relevant Periods") together with the explanatory notes thereto (the "Financial Information"), for inclusion in the circular dated 11 September 2013 (the "Circular") issued by Sino Prosper State Gold Resources Holdings Limited (the "Company") in connection with the proposed acquisition (the "Proposed Acquisition") by Favour South Limited, a company incorporated in the British Virgin Islands (the "BVI") and a wholly-owned subsidiary of the Company, of the entire issued share capital in the Target BVI.

The Target BVI was incorporated in the BVI on 20 June 2012 as a limited liability company which is wholly-owned by Mr. Leung Ngai Man ("Mr. Leung"), a substantial shareholder, the chairman and an executive director of the Company. Pursuant to a group reorganization (the "Reorganization") as mentioned in the section headed "Letter from the Board – Information on the Target Group" in the Circular, the Target BVI has become the holding company of the companies now comprising the Target Group. The principal activity of the Target BVI is investment holding. The addresses of the registered office and principal place of business of the Target BVI are 3rd Floor, J&C Building, P.O. Box 933, Road Town, Tortola, VG1110, BVI and Room 1606, 16th Floor, Emperor Group Centre, No. 288 Hennessy Road, Wanchai, Hong Kong, respectively. The Target BVI has not carried on any business since the date of its incorporation saves for the aforementioned Reorganization.

As at the date of this report, the Target BVI has direct or indirect interests in the following subsidiaries, all of which are private companies with limited liability. The particulars of these subsidiaries are set out below:

Name of company	Place and date of incorporation/ establishment	Particulars of issued and fully paid share capital/ registered capital	Equity interest attributable to equity shareholder of the Target BVI		Principal activities
			Direct	Indirect	
Menston Investment Limited (the "Target HK No.1")	Hong Kong 22 December 2010	Hong Kong dollars ("HK$") 120,000,000	100%	–	Investment holding
Dragon Growth Investment Limited (the "Target HK No.2")	Hong Kong 16 April 2010	HK$1	100%	–	Investment holding
吉林市瑞信小額貸款有限公司 (transliterated as Jinlin Ruixin Microfinance Co., Ltd) (the "Target PRC No.1")*	The People's Republic of China (the "PRC") 18 October 2012	Renminbi ("RMB") 50,547,369	–	100%	Provision of micro-financing in Jilin City, the PRC
吉林豐瑞投資管理咨詢有限公司 (transliterated as Jinlin Fengrui Investment Management Consulting Co., Ltd) (the "Target PRC No.2")*	PRC 30 October 2012	United States Dollar ("US$") 100,000	–	100%	Provision of consultation services

* *These companies are wholly-foreign-owned enterprise established in the PRC.*

As at the date of this report, no statutory financial statements have been prepared for the Target BVI since its date of incorporation, as it is not subject to statutory audit requirements under the relevant rules and regulations in its jurisdiction of incorporation.

The financial statements of the Target HK No.1 for the period from its date of incorporation to 31 December 2011 were audited by Kenny Chan & Co., certified public accountants, Hong Kong.

The financial statements of the Target PRC No.1 and the Target PRC No.2 for the period from their respective dates of establishments to 31 December 2012 were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises established in the PRC. The financial statements of the Target PRC No.1 and the Target PRC No.2 for the period from their respective dates of establishments to 31 December 2012 were audited by 吉林華泰會計師事務所有限公司, certified public accountants registered in the PRC.

All companies now comprising the Target Group have adopted 31 December as their financial year end date.

For the purpose of this report, the director of the Target BVI has prepared consolidated financial statements of the Target Group for the Relevant Periods in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (the "Underlying Financial Statements"). We have, for the purpose of this report, carried out appropriate audit procedures in respect of the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

We have examined the Underlying Financial Statements and have carried out such additional procedures as we considered necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The Financial Information of the Target Group for the Relevant Periods as set out in this report has been prepared from the Underlying Financial Statements, on the basis set out in Note 2 of Section I below. No adjustments were considered necessary to adjust the Underlying Financial Statements in preparing our report for inclusion in the Circular.

The Underlying Financial Statements are the responsibility of the director of the Target BVI who approved their issue. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, on the basis of preparation set out in Note 2 of Section I below, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Target Group as at 31 December 2010, 2011 and 2012 and 31 March 2013 and of the consolidated results and consolidated cash flows of the Target Group for the Relevant Periods.

The comparative consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Target Group for the three months ended 31 March 2012, together with the notes thereon (the "31 March 2012 Financial Information") have been extracted from the Target Group's unaudited consolidated financial information for the same period which were prepared by the director of Target BVI solely for the purpose of this report. We have reviewed the 31 March 2012 Financial Information in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. Our review of the 31 March 2012 Financial Information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we could become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the 31 March 2012 Financial Information. Based on our review, nothing has come to our attention that causes us to believe that the 31 March 2012 Financial Information is not prepared, in all material respects, in accordance with the accounting policies consistent with those used in the preparation of the Financial Information which conform with HKFRSs.

I. FINANCIAL INFORMATION

Consolidated statements of comprehensive income

		Year ended 31 December			Three months ended 31 March	
		2010	2011	2012	2012	2013
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(Unaudited)	
Revenue	*9*	–	–	557	–	5,368
Other income	*10*	–	–	3	–	44
General and administrative expenses		(12)	(95)	(960)	(3)	(1,201)
(Loss)/profit before tax		(12)	(95)	(400)	(3)	4,211
Income tax expense	*11*	–	–	(33)	–	(409)
(Loss)/profit for the year/ period	*12*	(12)	(95)	(433)	(3)	3,802
Other comprehensive (expense)/income						
Items that may be reclassified subsequently to profit or loss:						
Exchange differences arising on translation of foreign operations		–	–	(253)	–	448
Other comprehensive (expense)/income for the year/period		–	–	(253)	–	448
Total comprehensive (expense)/income for the year/period		(12)	(95)	(686)	(3)	4,250

Consolidated statements of financial position

		As at 31 December			As at 31 March
		2010	2011	2012	2013
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets					
Property, plant and equipment	*15*	–	–	269	252
Current assets					
Loans receivables	*16*	–	–	32,516	62,139
Prepayments and other receivables	*17*	–	–	41	5,250
Amount due from a shareholder	*18*	–	299,911	236,599	236,289
Bank balances and cash	*19*	–	–	30,818	1,337
		–	299,911	299,974	305,015
Current liabilities					
Other payables and accruals	*20*	–	18	1,003	1,417
Amount due to a shareholder	*21*	12	–	–	–
Amount due to a related company	*21*	–	–	–	180,000
Tax payable		–	–	12	175
		12	18	1,015	181,592
Net current (liabilities)/assets		(12)	299,893	298,959	123,423
Total assets less current liabilities		(12)	299,893	299,228	123,675
Non-current liabilities					
Deferred tax liabilities	*22*	–	–	21	218
Net (liabilities)/assets		(12)	299,893	299,207	123,457
Equity attributable to owner of the Target BVI					
Share capital	*23*	–	300,000	300,000	120,000
Reserves		(12)	(107)	(793)	3,457
Total equity		(12)	299,893	299,207	123,457

Consolidated statements of changes in equity

	Attributable to owner of the Target BVI			
	Share capital *HK$'000*	**Foreign currency translation reserve** *HK$'000*	**(Accumulated losses)/ retained earnings** *HK$'000*	**Total** *HK$'000*
At 1 January 2010	–	–	–	–
Loss for the year	–	–	(12)	(12)
Other comprehensive income for the year	–	–	–	–
Total comprehensive expense for the year	–	–	(12)	(12)
At 31 December 2010	–	–	(12)	(12)
Loss for the year	–	–	(95)	(95)
Other comprehensive income for the year	–	–	–	–
Total comprehensive expense for the year	–	–	(95)	(95)
Issue of ordinary shares	300,000	–	–	300,000
At 31 December 2011	300,000	–	(107)	299,893
Loss for the year	–	–	(433)	(433)
Other comprehensive expense for the year	–	(253)	–	(253)
Total comprehensive expense for the year	–	(253)	(433)	(686)
At 31 December 2012	300,000	(253)	(540)	299,207
Profit for the period	–	–	3,802	3,802
Other comprehensive income for the period	–	448	–	448
Total comprehensive income for the period	–	448	3,802	4,250
Capital reduction *(Note 26)*	(180,000)	–	–	(180,000)
At 31 March 2013	120,000	195	3,262	123,457

	Attributable to owner of the Target BVI			
	Share capital	**Foreign currency translation reserve**	**Accumulated losses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
(Unaudited)				
At 1 January 2012	300,000	–	(107)	299,893
Loss for the period	–	–	(3)	(3)
Other comprehensive income for the period	–	–	–	–
Total comprehensive expense for the period	–	–	(3)	(3)
At 31 March 2012	300,000	–	(110)	299,890

Consolidated statements of cash flows

	Year ended 31 December			Three months ended 31 March	
	2010	2011	2012	2012	2013
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Cash flows from operating activities					
(Loss)/profit for the year/period	(12)	(95)	(433)	(3)	3,802
Adjustments for:					
Income tax expense recognized in profit or loss	–	–	33	–	409
Interest income on bank deposits	–	–	(3)	–	(12)
Depreciation of property, plant and equipment	–	–	50	–	24
	(12)	(95)	(353)	(3)	4,223
Movements in working capital					
Increase in loans receivables	–	–	(32,516)	–	(29,623)
Increase in prepayments and other receivables	–	–	(41)	–	(5,209)
Increase in other payables and accruals	–	18	985	–	414
Cash used in operations	(12)	(77)	(31,925)	(3)	(30,195)
Income taxes paid	–	–	–	–	(49)
Net cash used in operating activities	(12)	(77)	(31,925)	(3)	(30,244)
Cash flows from investing activities					
Interest received on bank deposits	–	–	3	–	12
Payments for property, plant and equipment	–	–	(319)	–	(5)
Net cash (used in)/generated by investing activities	–	–	(316)	–	7
Cash flows from financing activities					
Issue of ordinary shares	–	300,000	–	–	–
(Increase)/decrease in amount due from a shareholder	–	(299,911)	63,312	3	310
Increase/(decrease) in amount due to a shareholder	12	(12)	–	–	–
Net cash generated by financing activities	12	77	63,312	3	310
Net increase/(decrease) in cash and cash equivalents	–	–	31,071	–	(29,927)
Cash and cash equivalents at the beginning of year/period	–	–	–	–	30,818
Effect of foreign exchange rate changes, net	–	–	(253)	–	446
Cash and cash equivalents at the end of year/period	–	–	30,818	–	1,337
Analysis of the balances of cash and cash equivalents					
Bank balances and cash	–	–	30,818	–	1,337

NOTES TO THE FINANCIAL INFORMATION

1. CORPORATE INFORMATION

The Target BVI was incorporated in the BVI on 20 June 2012 as a limited liability company. The director of the Target BVI considers that the Target BVI's immediate and ultimate controlling party is Mr. Leung. The addresses of the registered office and principal place of business of the Target BVI are 3rd Floor, J&C Building, P.O. Box 933, Road Town, Tortola, VG1110, BVI and Room 1606, 16th Floor, Emperor Group Centre, No. 288 Hennessy Road, Wanchai, Hong Kong respectively.

The principal activity of the Target BVI is investment holding. The principal activities of the Target Group are provision of micro-financing in Jilin, the PRC and the provision of consultancy services.

2. GROUP REORGANIZATION AND BASIS OF PRESENTATION

The companies now comprising the Target Group underwent the Reorganization as mentioned in the section headed "Letter from the Board – Information of the Target Group" in the Circular to rationalize the existing group structure for the purpose of the Proposed Acquisition of the entire issued share capital of the Target BVI by Favour South Limited, a company incorporated in the BVI and a wholly-owned subsidiary of the Company.

Prior to the Reorganization, the businesses of the companies then comprising the Target Group were substantially carried out by the Target PRC No.1 and the Target PRC No.2. As part of the Reorganization undertook by the Target Group, the Target BVI was incorporated in the BVI on 20 June 2012 to acquire certain businesses of the companies then comprising the Target Group. All of the companies that took part in the Reorganization, namely the Target BVI, the Target HK No.1, the Target HK No.2, the Target PRC No.1 and the Target PRC No.2 were controlled by the same ultimate equity shareholder, Mr. Leung, during the Relevant Periods.

Because the companies now comprising the Target Group were controlled by the controlling shareholder Mr. Leung before and after the Reorganization and, consequently there was a continuation of the risks and benefits to Mr. Leung, the Financial Information has been prepared in accordance with the principles of merger accounting as set out in Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA, as if the Reorganization had been completed at the beginning of the Relevant Periods.

For the purpose of this report, the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows of the Target Group for the Relevant Periods include the results of operations of the companies now comprising the Target Group for the Relevant Periods (or where the companies were incorporated/established at a date later than 1 January 2010, for the period from their respective incorporation/establishment dates to 31 March 2013) as if the group structure upon the completion of the Reorganization had been in existence throughout the Relevant Periods. The consolidated statements of financial position of the Target Group as at 31 December 2010, 2011 and 2012 and 31 March 2013 have been prepared to present the state of affairs of the companies now comprising the Target Group as at the respective dates as if the group structure upon the completion of the Reorganization had been in existence as at the respective dates, using the existing carrying values from the controlling shareholder perspective. No adjustments are made to reflect fair values, or recognize any new assets or liabilities as a result of the Reorganization.

Items included in the financial statements of each of the Target Group's subsidiaries are measured using the currency of the primary economic environment in which the respective entity operates (the "functional currency"). The functional currency of the Target BVI is HK$ and the functional currencies of the Target Group's operating subsidiaries are RMB. For the convenience of the Financial Information users, the results and financial positions of the Target Group are presented in HK$.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

For the purpose of preparing and presenting the Financial Information for the Relevant Periods, the Target Group has consistently applied HKFRSs, Hong Kong Accounting Standards ("HKASs"), amendments and interpretations ("INT") issued by the HKICPA that are effective for the annual accounting periods beginning on or after 1 January 2013.

The Target Group has not early applied the following new and revised standards, amendments and interpretations that have been issued but are not yet effective.

HKFRS 7 and HKFRS 9 (Amendments)	*Mandatory Effective Date of HKFRS 9 and Transition Disclosures*[2]
HKFRS 9	*Financial Instruments*[2]
HKFRS 10, HKFRS 12 and HKAS 27 (Amendments)	*Investment Entities*[1]
HKAS 32 (Amendments)	*Offsetting Financial Assets and Financial Liabilities*[1]
HKAS 36 (Amendments)	*Recoverable Amount Disclosures for Non-Financial Assets*[1]
HKAS 39 (Amendments)	*Novation of Derivatives and Continuation of Hedge Accounting*[1]
HK(IFRIC) – Int 21	*Levies*[1]

Notes:

1 Effective for annual periods beginning on or after 1 January 2014

2 Effective for annual periods beginning on or after 1 January 2015

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

- All recognized financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent reporting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

The director of the Target BVI anticipates that HKFRS 9 that will be adopted in the Target Group's consolidated financial statements for the annual period beginning 1 January 2015 and that the application of the new standard may have an impact on amounts reported in respect of the Target Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

Amendments to HKAS 32 *Offsetting Financial Assets and Financial Liabilities*

The amendments to HKAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of set-off" and "simultaneous realization and settlement".

The amendments to HKAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required. The director of the Target BVI anticipates that the application of these amendments to HKAS 32 may result in more disclosures being made with regard to offsetting financial assets and financial liabilities in the future.

The director of the Target BVI anticipates that the application of the other new and revised standards and amendments will have no material impact on the results and the financial position of the Target Group.

4. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

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

Basis of consolidation

The Financial Information incorporates the financial statements of the Target BVI and entities controlled by the Target BVI (its subsidiaries). Control is achieved where the Target BVI:

- has the power over the investee;
- is exposed, or has rights to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its return.

The Target Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of controls listed above.

The results of subsidiaries acquired or disposed of during the Relevant Periods are included in the consolidated statements of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income/expense of subsidiaries is attributed to the owner of the Target BVI and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance (effective from 1 January 2010 onwards).

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Target Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Merger accounting for common control combinations

The Financial Information incorporates the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets/liabilities of the combining entities or businesses are consolidated using the existing book values from the controlling parties' perspective. No amount is recognized in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest. The consolidated statements of comprehensive income include the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business net of related taxes.

Service income is recognized when services are provided.

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Target Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Target Group as lessee

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;

- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and

- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purposes of presenting the Financial Information, the assets and liabilities of the Target Group's foreign operations are translated into the presentation currency of the Target Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity under the heading of foreign currency translation reserve (attributable to non-controlling interests as appropriate).

Retirement benefit costs

Payments to defined contribution retirement benefit schemes are recognized as an expense when employees have rendered services entitling them to the contributions.

Taxation

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

Current tax

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

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, except where the Target Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

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

Current and deferred tax for the Relevant Periods

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Property, plant and equipment

Property, plant and equipment are stated in the consolidated statements of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

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

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Impairment of tangible and intangible assets

At the end of each reporting period, the Target Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment for at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. When it is not possible to estimate the recoverable amount of an individual asset, the Target Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

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

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts (if any).

Provisions

Provisions are recognized when the Target Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Target Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Financial instruments

Financial assets and financial liabilities are recognized when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets

Financial assets are classified into the following specified categories: financial assets "at fair value through profit or loss" (**FVTPL**), "held-to-maturity' investments", "available-for-sale" (**AFS**) financial assets and "loans and receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

The Target Group's financial assets are classified as loans and receivables.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including loans receivables, other receivables, amount due from a shareholder and bank balances and cash) are measured at amortized cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Effective interest method

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

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

Impairment of financial assets

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

Objective evidence of impairment could include:

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

For certain categories of financial asset, such as loans receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Target Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

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

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investments at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Financial liabilities and equity instruments

Classification as debt or equity

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

Equity instruments

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

Financial liabilities

Financial liabilities (including other payables and accruals, amount due to a shareholder and amount due to a related company) are subsequently measured at amortized cost, using the effective interest method.

Effective interest method

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

Interest expense is recognized on an effective interest basis other than financial liabilities classified as at FVTPL.

Derecognition

The Target Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Target Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Target Group continues to recognize the asset to the extent of its continuing involvement and recognizes an associated liability. If the Target Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Target Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

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

On derecognition of a financial asset other than in its entirety, the Target Group allocates the previous carrying amount of the financial asset between the part it continues to recognize, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

The Target Group derecognizes financial liabilities when, and only when, the Target Group's obligations are discharged, canceled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Related parties

A party is considered to be a related to the Target Group if:

(a) the party is a person or a close member of that person's family and that person,

(i) has controls or joint control over the Target Group;

(ii) has significant influence over the Target Group; or

(iii) is a member of the key management personnel of the Target Group or of a parent of the Target Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Target Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Target Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Target Group or an entity related to the Target Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Target Group's accounting policies as described in Note 4, the director of the Target BVI is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Key sources of estimation uncertainty

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

Impairment loss on other receivables

The Target Group's policy for doubtful receivables is based on the on-going evaluation of the collectability and aging analysis of the other receivables and on management's judgments. Considerable judgment is required in assessing the ultimate realization of these receivables, including the current creditworthiness and the past collection history of each debtor, and the present values of the estimated future cash flows discounted at the effective interest rates. If the financial conditions of the Target Group's debtors were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment loss of other receivables may be required.

Impairment loss on loans receivables

The Target Group reviews its portfolios of loans receivables to assess impairment on a regular basis. In determining whether an impairment loss should be recorded in the consolidated statements of comprehensive income, the Target Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans receivables before the decrease can be identified with an individual loan receivable in those portfolios. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the Target Group.

For loans receivables for which no individual impairment are observed, management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the loan portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Estimated useful lives of property, plant and equipment

Management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. These estimates are based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charges where useful lives are less than previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

6. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	As at 31 December			As at 31 March
	2010	2011	2012	2013
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets				
Loans and receivables				
Loans receivables	–	–	32,516	62,139
Other receivables	–	–	–	5,240
Amount due from a shareholder	–	299,911	236,599	236,289
Bank balances and cash	–	–	30,818	1,337
Financial liabilities				
Financial liabilities at amortized cost:				
Other payables and accruals	–	18	163	191
Amount due to a shareholder	12	–	–	–
Amount due to a related company	–	–	–	180,000

(b) Financial risk management objectives and policies

The Target Group's major financial instruments include loans receivables, other receivables, amount due from a shareholder, bank balances and cash, other payables and accruals, amount due to a shareholder and amount due to a related company. Details of these financial instruments are set out in respective notes. The risks associated with these financial instruments include market risk (foreign currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

There has been no significant change to the Target Group's exposure in respect of financial instruments or the manner in which it manages and measures the risk over the Relevant Periods.

Market risks

Foreign currency risk management

Transactional currency exposures arise from revenue or operating costs by operating units in currencies other than the unit's functional currency. Substantially all the Target Group's revenue and operating costs are denominated in the functional currency of the operating units making the revenue, and substantially all the costs are denominated in the operating unit's functional currency. Accordingly, the director of the Target BVI considers that the Target Group is not exposed to significant foreign currency risk. The Target Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

At the end of the reporting period, the carrying amounts of the Target Group's major monetary assets denominated in currencies other than the functional currencies of the relevant group entities are as follows:

	As at 31 December			As at 31 March
	2010	**2011**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Assets				
US$	–	–	618	620
HK$	–	–	28,495	–

Foreign currency sensitivity analysis

Since HK$ is pegged to US$, relevant foreign currency risk is minimal. Accordingly, their fluctuation is excluded from the sensitivity analysis. The following table details the Target Group's sensitivity to a 5% increase and decrease in the RMB against HK$. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rate. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rate. A positive number below indicates a decrease/increase in profit/loss where RMB strengthens against HK$. For a 5% weakening of RMB against HK$, there would be an equal and opposite impact on the profit/loss.

	As at 31 December			As at 31 March
	2010	**2011**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
HK$	–	–	1,425	–

In management's opinion, the sensitivity analysis is unrepresentative of the inherent exchange risk as the year/period end exposure does not reflect the exposure during the year/period.

Interest rate risk management

The Target Group's exposure to the risk of changes in market interest rates relates primarily to the Target Group's interest-bearing financial assets. Interest-bearing financial assets are mainly deposits with banks and loans receivables. Interests on deposits with banks and loans receivables are principally based on deposits rates offered by banks in Hong Kong and the PRC and fixed rates, respectively.

All of the Target Group's loans receivables are based on fixed interest rates and short in duration with original maturities in range of 1 to 184 days. The Target Group prices these loans receivables strategically to reflect market fluctuations and achieve a reasonable interest-rate spread. The fixed rate instruments of the Target Group are insensitive to any change in market interest rates. As the Target Group has no significant variable-rate interest-bearing assets, except for short-term bank deposits, the Target Group's income and operating cash flows are substantially independent of changes in market interest rates. Management does not anticipate significant impact on variable-rate interest-bearing assets resulted from the changes in interest rates because the interest rates of bank deposits are relatively low and not expected to change significantly.

The Target Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

Credit risk management

The Target Group's maximum exposure to credit risk which will cause a financial loss to the Target Group due to failure to discharge an obligation by the counterparties is arising from the carrying amounts of the respective recognized financial assets as stated in the consolidated statements of financial position.

In order to minimize the credit risk, the management of the Target Group has delegated a team responsible for determination of credit limited, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Target Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the director of the Target BVI considers that the Target Group's credit risk is significantly reduced.

There are no significant concentrations of credit risk with the Target Group as the customer bases of the Target Group's loan receivables are widely dispersed.

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

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Target Group does not have any other significant concentration of credit risk.

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the director of the Target BVI, which has built an appropriate liquidity risk management framework to meet the Target Group's short, medium and long-term funding and liquidity management requirements. The Target Group manages liquidity risk by maintaining adequate reserves, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The maturity profile of the Target Group's financial liabilities at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

	On demand or less than 1 year	1 – 5 years	Total undiscounted cash flows	Total carrying amounts
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2010				
Non-derivative financial liabilities				
Amount due to a shareholder	12	–	12	12
At 31 December 2011				
Non-derivative financial liabilities				
Other payables and accruals	18	–	18	18
At 31 December 2012				
Non-derivative financial liabilities				
Other payables and accruals	163	–	163	163
At 31 March 2013				
Non-derivative financial liabilities				
Other payables and accruals	191	–	191	191
Amount due to a related company	180,000	–	180,000	180,000
	180,191	–	180,191	180,191

(c) Fair value of financial instruments

The director of the Target BVI considers that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the Financial Information approximate to their fair values.

Fair value measurements recognized in the consolidated statements of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value are grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

There were no transfers between Levels 1 and 2 during the Relevant Periods.

At the end of each reporting period, the Target Group did not have any assets and liabilities that were measured at the above fair value measurement hierarchy.

7. CAPITAL RISK MANAGMENT

The Target Group manages its capital to ensure that entities in the Target Group will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance. The Target Group's overall strategy remains unchanged during the Relevant Periods.

The capital structure of the Target Group consists of net debt, which comprised amount due to a shareholder and amount due to a related company as disclosed in Note 21, cash and cash equivalents and equity attributable to owner of the Target BVI, comprised issued share capital and reserves as disclosed in Note 23 and the consolidated statements of changes in equity, respectively.

The director of the Target BVI reviews the capital structure on a regular basis. As part of this review, the director of the Target BVI considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the director of the Target BVI, the Target Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt.

Gearing ratio

The gearing ratio at the end of the reporting period was as follows:

	As at 31 December			As at 31 March
	2010	**2011**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Debts	12	–	–	180,000
Cash and cash equivalents	–	–	(30,818)	(1,337)
Net debt	12	–	–	178,663
Equity *(Note)*	(12)	299,893	299,207	123,457
Net debt-to-equity ratio	N/A	Nil	Nil	145%

Note:

Equity includes all capital and reserves.

8. SEGMENT INFORMATION

The director of the Target BVI reviews the Target Group's internal financial reporting and other information and also obtains other relevant external information in order to assess performance and allocate resources.

The director of the Target BVI considers that the business of the Target Group is organized in one operating segment. Additional disclosure in relation to segment information is not presented as the director of the Target BVI assesses the performance of the only operating segment identified based on the consistent information as disclosed in the Financial Information.

The total net segment loss/profit is equivalent to total comprehensive expense/income for the Relevant Periods as shown in the consolidated statements of comprehensive income and the total segment assets and total segment liabilities are equivalent to the total assets and total liabilities as shown in the consolidated statements of financial position.

Details of bank interest income and depreciation in relation to the sole operating segment are disclosed in Notes 10 and 12 to the Financial Information respectively.

The Target BVI is domiciled in the BVI with the Target Group's major operations in the PRC. The director of the Target BVI considers that substantially all the assets of the Target Group are located in the PRC.

Information about major customers

The Target Group did not have revenue derived from any customer contributing over 10% of the total revenue of the Target Group during the Relevant Periods.

9. REVENUE

An analysis of the Target Group's revenue for the Relevant Periods is as follows:

	Year ended 31 December			Three months ended 31 March	
	2010	**2011**	**2012**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Interest income from loan financing activities	–	–	112	–	1,163
Consultancy services income	–	–	445	–	4,205
	–	–	557	–	5,368

Note:

The following is an analysis of the Target Group's revenue for the Relevant Periods in RMB.

	Year ended 31 December			Three months ended 31 March	
	2010	**2011**	**2012**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Gross interest income from loan financing activities	–	–	97	–	1,000
Gross consultancy services income	–	–	383	–	3,608
Less: business tax	–	–	(27)	–	(259)
	–	–	453	–	4,349

10. OTHER INCOME

	Year ended 31 December			Three months ended 31 March	
	2010	**2011**	**2012**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Interest income from bank deposits	–	–	3	–	12
Other income	–	–	–	–	32
	–	–	3	–	44

11. INCOME TAX EXPENSE

	Year ended 31 December			Three months ended 31 March	
	2010	**2011**	**2012**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Current tax:					
PRC Enterprise Income Tax	–	–	12	–	212
Deferred tax *(Note 22)*	–	–	21	–	197
	–	–	33	–	409

No provision for Hong Kong Profits Tax has been made in the Financial Information as the Target BVI and its subsidiaries had no assessable profits derived from or arising in Hong Kong during the Relevant Periods.

Under the Law of the PRC on Enterprise Income Tax (the "PRC EIT Law") and Implementation Regulation of the PRC EIT Law, the tax rate of a PRC subsidiary is 25% from 1 January 2008 onwards.

Notwithstanding the above, a PRC subsidiary has obtained written approval from the local government authority, the PRC subsidiary was subject to PRC Enterprise Income Tax at the effective rate of 2.5% on revenue for the year ended 31 December 2012 and three months ended 31 March 2013.

The tax expense for the year/period can be reconciled to the (loss)/profit per the consolidated statements of comprehensive income as follows:

	Year ended 31 December			Three months ended 31 March	
	2010	**2011**	**2012**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
(Loss)/profit before tax	(12)	(95)	(400)	(3)	4,211
Tax at the PRC EIT rate of 25%	(3)	(24)	(100)	(1)	1,053
Tax effect of expenses not deductible for tax purpose	2	16	12	1	55
Tax effect of deductible temporary differences not recognized	–	–	(9)	–	(7)
Tax effect of tax losses not recognized	–	–	201	–	–
Withholding tax on profits retained by the PRC subsidiaries	–	–	21	–	197
Effect of different tax rates applicable to the group entities	1	8	(92)	–	(889)
Income tax expense for the year/period	–	–	33	–	409

12. (LOSS)/PROFIT FOR THE YEAR/PERIOD

(Loss)/profit for the year/period has been arrived at after charging:

	Year ended 31 December			Three months ended 31 March	
	2010	**2011**	**2012**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Director's emolument *(Note 13)*	–	–	–	–	–
Employee benefits expense (excluding director's emolument):					
– Salaries and other benefits	–	–	166	–	310
– Contributions to retirement benefits schemes	–	–	21	–	57
	–	–	187	–	367
Auditors' remuneration	–	30	22	–	–
Depreciation of property, plant and equipment	–	–	50	–	24
Preliminary expenses	6	6	74	–	–
Net foreign exchange loss	–	–	378	–	344
Minimum lease payments paid under operating leases in respect of land and buildings	–	–	89	–	31

13. DIRECTOR'S, CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

Director's emolument

The emolument paid or payable to the director of the Target BVI were as follows:

	Fees	Salaries and other benefits	Contributions to retirement benefits schemes	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 31 December 2010				
Mr. Leung	–	–	–	–
Year ended 31 December 2011				
Mr. Leung	–	–	–	–
Year ended 31 December 2012				
Mr. Leung	–	–	–	–
Three months ended 31 March 2012 (Unaudited)				
Mr. Leung	–	–	–	–
Three months ended 31 March 2013				
Mr. Leung	–	–	–	–

Note:

The director was appointed on 20 June 2012.

No emoluments were paid or payable to the director of the Target BVI during the Relevant Periods.

During the Relevant Periods, no chief executive officer of the Target BVI has been appointed and no emolument was paid to the chief executive officer of the Target BVI.

Employees' emoluments

The five highest paid individuals of the Target Group for the Relevant Periods which fell within the salary band of Nil to HK$1,000,000, are as follows:

	Year ended 31 December			Three months ended 31 March	
	2010	**2011**	**2012**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Salaries and other benefits	–	–	166	–	249
Contributions to retirement benefits schemes	–	–	21	–	42
	–	–	187	–	291

During the Relevant Periods, no emoluments were paid by the Target Group to the director of the Target BVI or to any of the five highest paid individuals as an inducement to join or upon joining the Target Group, or as compensation for loss of office. There were no arrangements under which the director of the Target BVI waived or agreed to waive any remuneration during the Relevant Periods.

14. LOSS/PROFIT PER SHARE

Loss/profit per share has not been presented as such information is not considered meaningful for the purpose of this report.

15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements *HK$'000*	Office equipment *HK$'000*	Computer equipment *HK$'000*	Total *HK$'000*
Cost				
Balance at 1 January 2010, 31 December 2010 and 2011	–	–	–	–
Additions	163	125	31	319
Balance at 31 December 2012	163	125	31	319
Additions	–	5	–	5
Effect of foreign currency exchange differences	1	1	–	2
Balance at 31 March 2013	164	131	31	326
Accumulated depreciation and impairment				
Balance at 1 January 2010, 31 December 2010 and 2011	–	–	–	–
Depreciation expense	36	10	4	50
Balance at 31 December 2012	36	10	4	50
Depreciation expense	14	8	2	24
Balance at 31 March 2013	50	18	6	74
Carrying amounts				
Balance at 31 March 2013	114	113	25	252
Balance at 31 December 2012	127	115	27	269
Balance at 31 December 2011	–	–	–	–
Balance at 31 December 2010	–	–	–	–

The above items of property, plant and equipment are depreciated using the straight-line method after taking into account of their estimated residual values at the following rates per annum:

Leasehold improvements	Over the shorter of term of the lease or 3 years
Office equipment	3 to 5 years
Computer equipment	3 years

16. LOANS RECEIVABLES

	As at 31 December			As at 31 March
	2010	**2011**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Loans receivables	–	–	32,516	62,139

The Target Group seeks to maintain strict control over its outstanding loans receivables so as to minimize credit risk. The granting of loans is subject to approval by the directors of the Target BVI and/or its subsidiaries, where appropriate, whilst overdue balances are reviewed regularly by senior management. Loans receivables are charging on effective interest rate mutually agreed with the contracting parties, ranging from 6% to 12% per annum.

The following is an aging analysis of loans receivables based on repayment schedule date at the end of the reporting period:

	As at 31 December			As at 31 March
	2010	**2011**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within 1 month	–	–	119	33,096
3 months or less but over 1 month	–	–	–	21,628
6 months or less but over 3 months	–	–	32,397	7,415
	–	–	32,516	62,139

The aging analysis of loans receivables that are not considered to be impaired is as follows:

	As at 31 December			As at 31 March
	2010	**2011**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Neither past due nor impaired	–	–	32,516	62,139

Loans receivables that were neither past due nor impaired relate to diversified customers for whom there was no recent history of default. The director of the Target BVI is of the opinion that no provision for impairment is necessary in respect of the loans receivables as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

17. PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December			As at 31 March
	2010	**2011**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Prepayments	–	–	41	10
Other receivables	–	–	–	5,240
	–	–	41	5,250

Note:

Included in the Target Group's other receivables as at 31 March 2013 was non-interest bearing advances of approximately RMB4,240,000 (equivalent to approximately HK$5,240,000) made to an independent third party. The amount was unsecured, interest-free and repayable in April 2013. The amount has been fully settled subsequent to the end of the reporting period.

18. AMOUNT DUE FROM A SHAREHOLDER

	As at 31 December			As at 31 March
	2010	**2011**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Mr. Leung	–	299,911	236,599	236,289

The amount due from a shareholder is unsecured, interest-free and has no fixed terms of repayment. The Target Group does not hold any collateral over these balances. Such amount has been settled subsequent to 31 March 2013 (Section II).

19. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Target Group, bank balances that earn interest at floating rate based on daily bank deposit rates and short term time deposits that earn interest at the respective short term deposit rates. The bank balances and short term time deposits are deposited with creditworthy banks with no recent history of default.

As at 31 December 2010, 2011 and 2012 and 31 March 2013, bank balances and cash of the Target Group of approximately Nil, Nil, HK$1,481,000 and HK$493,000 respectively were denominated in RMB. RMB is not freely convertible into other currencies, however, under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Target Group is permitted to exchange RMB for other currencies through banks authorized to conduct foreign exchange business.

20. OTHER PAYABLES AND ACCRUALS

	As at 31 December			As at 31 March
	2010	**2011**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Other payables	–	–	48	67
Accruals	–	18	115	124
Receipt in advance	–	–	840	1,226
	–	18	1,003	1,417

Other payables are non-interest-bearing.

21. AMOUNTS DUE TO A SHAREHOLDER/RELATED COMPANY

The amounts due are unsecured, interest-free and have no fixed terms of repayment. The amount due to a related company has been settled subsequent to 31 March 2013 (Section II).

22. DEFERRED TAXATION

The following are the major deferred tax liabilities recognized and movements thereon during the Relevant Periods:

	Withholding tax
	HK$'000
At 1 January 2010, 31 December 2010 and 2011	–
Charged to profit or loss *(Note 11)*	21
At 31 December 2012	21
Charged to profit or loss *(Note 11)*	197
At 31 March 2013	218

Pursuant to the PRC EIT Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between the PRC and the jurisdiction of the foreign investors. For the Target Group, the applicable rate is 5% or 10%. The Target Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in the PRC in respect of earnings generated from 1 January 2008.

As at 31 December 2010, 2011 and 2012 and 31 March 2013, the Target Group has estimated unused tax losses of approximately Nil, Nil, HK$801,000 and HK$503,000 respectively arising from subsidiaries operating outside Hong Kong which is available for setting off against future taxable profit of that subsidiary and is due to expire within one to five years. No deferred tax asset has been recognized in respect of the tax losses due to the unpredictability of future profit streams.

23. SHARE CAPITAL

The Target BVI was incorporated in the BVI on 20 June 2012 with limited liability. The authorized share capital of the Target BVI was US$50,000 divided into 50,000 shares of US$1 each and one share was issued thereafter.

For the purpose of this Financial Information, the balance of share capital of the Target Group as at 31 December 2010, 2011 and 2012 and 31 March 2013 represented the aggregate of the paid-up capital of the companies now comprising the Target Group as at the respective dates.

24. FOREIGN CURRENCY TRANSLATION RESERVE

Exchange differences relating to the translation of the net assets/liabilities of the Target Group's foreign operations from their functional currencies to the Target Group's presentation currency (i.e. HK$) are recognized directly in other comprehensive income/expense and accumulated in the foreign currency translation reserve. Such exchange differences accumulated in the foreign currency translation reserve are reclassified to profit or loss on the disposal of the foreign operations.

25. RETIREMENT BENEFITS SCHEMES

The employees of the Target Group's PRC subsidiaries are members of the state-managed retirement benefits schemes operated by the PRC government. The Target Group is required to contribute a certain percentage of their payroll to the retirement benefits schemes to fund the benefits. The only obligation of the Target Group with respect to the retirement benefits schemes is to make the required contributions under the schemes.

The total expenses recognized in the consolidated statements of comprehensive income were as follows:

	Year ended 31 December			Three months ended 31 March	
	2010	**2011**	**2012**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Contributions to retirement benefits schemes	–	–	21	–	57

The total expenses recognized represent contributions payable to these schemes by the Target Group at rates specified in the rules of the schemes.

26. MAJOR NON-CASH TRANSACTIONS

Pursuant to a special resolution passed on 12 December 2012, the Target HK No.1 effected reduction of issued share capital of the Target HK No.1 through cancelation of 180,000,000 paid-up ordinary shares of HK$1 each in issue (the "Capital Reduction"). The Capital Reduction was approved by the High Court of Hong Kong on 25 March 2013 and was certified by the Registrar of Companies of Hong Kong on 28 March 2013. Upon completion of the Capital Reduction, the issued and paid-up share capital of the Target HK No.1 was decreased from HK$300,000,000 divided into 300,000,000 ordinary shares of HK$1 each to HK$120,000,000 divided into 120,000,000 ordinary shares of HK$1 each. All amounts of canceled issued capital was applied to offset by the current account with a related company (Note 21).

27. OPERATING LEASE COMMITMENTS

The Target Group as lessee

At the end of the reporting period, the Target Group had commitments for future minimum lease payments in respect of rented premises under non-cancelable operating lease which fall due as follows:

	As at 31 December			As at 31 March
	2010	**2011**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	–	–	82	113
In the second to fifth years inclusive	–	–	163	134
	–	–	245	247

Operating lease relates to office premises with lease term of 3 years.

28. CAPITAL COMMITMENTS

At the end of the reporting period, the Target Group had the following significant commitments which were not provided for in the Financial Information:

	As at 31 December			As at 31 March
	2010	**2011**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Capital commitment to the registered capital of a PRC subsidiary	–	–	60,686	61,117

Note:

Pursuant to minutes and resolution upon incorporation of the Target PRC No.1, the Target PRC No.1 has registered capital of RMB100,000,000 which is to be contributed by the Target HK No.1. At 31 December 2012 and 31 March 2013, approximately RMB50,547,000 has been contributed by the Target HK No.1.

29. RELATED PARTY TRANSACTIONS

Apart from the outstanding balances with related parties set out in Notes 18 and 21, the Target Group had the following significant transactions with related parties during the Relevant Periods:

Compensation of key management personnel

	Year ended 31 December			Three months ended 31 March	
	2010	**2011**	**2012**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Short-term employee benefits	–	–	152	–	228
Post-employment benefits	–	–	18	–	35
	–	–	170	–	263

II. EVENTS AFTER THE REPORTING PERIOD

In connection to the Proposed Acquisition, as one of the conditions pursuant to the Agreement (as supplemented by the 1st Supplemental Agreement and 2nd Supplemental Agreement) as defined in the section headed "Definitions" in the Circular, all outstanding shareholder loans owing from the Target Group to Mr. Leung's associates have to be assigned to become loans owing by the Target BVI to Mr. Leung immediately before the completion and all necessary approvals, consents, authorizations and licenses in relation thereto have to be obtained from the relevant governmental authorities or parties concerned. Subject to the satisfaction of the closing conditions as pursuant to the Agreement, Mr. Leung shall assign the shareholder's loan (such amount as equals the face value of the loans outstanding as at the completion made by or on behalf of Mr. Leung to the Target Group, subject to adjustment as set out in the terms and conditions of the Agreement) (the "Sale Debts") and Favour South Limited (as purchaser) shall accept the assignment of all of Mr. Leung's title, right, benefit and interest to of and in the Sale Debts. Subsequent to 31 March 2013, the following arrangements have been entered into between the parties involved:

(a) Pursuant to the Capital Reduction set out in Note 26, the Target HK No.1 is required to return the excess capital to a related company (a company which is wholly-owned by Mr. Leung, the "Related Company") in the total amount of HK$180,000,000. The Related Company has signed a direction regarding funds dated 23 May 2013 (the "Direction Regarding Funds") pursuant to which the Related Company has authorized and directed the Target HK No.1 to pay to Mr. Leung of the amount of excess capital instead of paying to the Related Company, so as to make partial repayment of the amount of HK$300,000,000 owed by the Related Company to Mr. Leung.

(b) Pursuant to a deed of settlement and assumption of repayment obligation (the "Settlement Deed") entered into between the Target BVI, the Target HK No.1, Mr. Leung and the Related Company dated 23 May 2013, the parties have agreed upon the execution of the Settlement Deed that: (i) the Target BVI shall assume the obligation of the Related Company to make repayment of the amount of the debt owing by the Target BVI to the Related Company (the

"Assumed Debt") to Mr. Leung in a total amount of approximately HK$119,610,000; (ii) the Target BVI shall assume the obligation of Mr. Leung to make repayment of the outstanding balance of approximately HK$57,040,000 owing by Mr. Leung to the Target HK No.1 (the "M Loan") so as to set-off against and reduce its obligation to repay the Assumed Debt to Mr. Leung by the amount of the M Loan, and as a result thereof the Target BVI shall owe and be obliged to repay Mr. Leung the net balance of the Assumed Debt and the M Loan instead of the full amount of the Assumed Debt whereas the Target BVI shall owe and be obliged to repay the Target HK No.1 the amount of the M Loan; and (iii) the Related Company's repayment obligation to Mr. Leung shall be reduced by the amount of the Assumed Debt, leaving the amount of the reduced balance to be repayable by the Related Company to Mr. Leung.

As a result of the loan assumption and set-off of repayment obligations as stated in the Settlement Deed, the net loan balance (including an amount of approximately HK$134,000 owes to Mr. Leung by the Target BVI before the completion of the Settlement Deed) of approximately HK$62,704,000 will be owing by the Target BVI to Mr. Leung after the completion of the Settlement Deed. Such loan will form part of the Sale Debts at the completion of the Proposed Acquisition.

(c) Pursuant to a deed of assignment entered into between the Target BVI and the Target HK No.2 dated 23 May 2013, the Target HK No.2 has an amount of approximately HK$808,000 (the "D Loan") due to Mr. Leung. The Target BVI and the Target HK No.2 have agreed to assign the repayment obligation of the D Loan from the Target HK No.2 to the Target BVI and the D Loan has become owing by the Target BVI to Mr. Leung.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Target Group have been prepared in respect of any period subsequent to 31 March 2013.

Yours faithfully,
HLB Hodgson Impey Cheng Limited
Certified Public Accountants
Hui Chun Keung, David
Practising Certificate Number: P05447
Hong Kong

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

Introduction

Capitalized terms used herein shall have the same meanings as those defined in this Circular, unless the context requires otherwise.

The unaudited pro forma financial information of the Enlarged Group, comprising the unaudited pro forma consolidated statement of comprehensive income, the unaudited pro forma consolidated statement of financial position and the unaudited pro forma consolidated statement of cash flows of the Enlarged Group (the "Unaudited Pro Forma Financial Information"), has been prepared by the Directors in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of illustrating the effects of the Acquisition, as if the Completion had been taken place at the dates reported on.

Unaudited pro forma consolidated statement of comprehensive income of the Enlarged Group

The following is the unaudited pro forma consolidated statement of comprehensive income of the Enlarged Group, as if the Acquisition had been completed at the commencement of the period being reported on (i.e. 1 April 2012). The unaudited pro forma consolidated statement of comprehensive income of the Enlarged Group has been prepared based on the audited consolidated statement of comprehensive income of the Group for the year ended 31 March 2013 as extracted from the Company's published annual report for the year ended 31 March 2013 and the audited consolidated statement of comprehensive income of the Target Group for the year ended 31 December 2012 as extracted from the accountants' report of the Target Group (set out in Appendix II to this Circular), after incorporating the pro forma adjustments as described in the accompanying notes to illustrate the effect of the Acquisition.

The unaudited pro forma consolidated statement of comprehensive income of the Enlarged Group has been prepared for illustrative purposes only, based on judgments and assumptions of the Directors, and, because of its hypothetical nature, it may not give a true picture of the results of the Enlarged Group for the year ended 31 March 2013 or any future periods.

	The Group for the year ended 31 March 2013	The Target Group for the year ended 31 December 2012	Pro forma adjustments	*Notes*	Pro forma Enlarged Group for the year ended 31 March 2013
	HK$'000	*HK$'000*	*HK$'000*		*HK$'000*
	(Audited)	(Audited)	(Unaudited)		(Unaudited)
	Note 1.1	*Note 1.2*			
Revenue	54,483	557			55,040
Cost of sales	(51,718)	–			(51,718)
Gross profit	2,765	557			3,322
Other income and gains	10,357	3			10,360
General and administrative expenses	(91,750)	(960)	(4,780)	*1.3*	(97,490)
Finance costs	–	–	(5,827)	*1.4*	(17,980)
			(12,153)	*1.5*	
Loss before tax	(78,628)	(400)			(101,788)
Income tax credit/(expense)	1,038	(33)			1,005
Loss for the year	(77,590)	(433)			(100,783)
Other comprehensive income/ (expense)					
Items that may be reclassified subsequent to profit or loss:					
Exchange differences on translation of foreign operations	9,015	(253)			8,762
Other comprehensive income/ (expense)	9,015	(253)			8,762
Total comprehensive expense for the year	(68,575)	(686)			(92,021)

Notes to the unaudited pro forma consolidated statement of comprehensive income of the Enlarged Group

1.1 The balances are extracted from the audited consolidated statement of comprehensive of the Group for the year ended 31 March 2013, as set out in the published annual report of the Company for the year ended 31 March 2013.

1.2 The adjustments represent the inclusion of income and expenses of the Target Group (as extracted from the audited consolidated statement of comprehensive income of the Target Group for the year ended 31 December 2012 as set out in Appendix II to this Circular), as if the Acquisition had been completed at the commencement of the period reported on (i.e. 1 April 2012). These adjustments are expected to have a continuing effect on the Enlarged Group.

1.3 The adjustment represents the estimated legal and professional fees attributable to the Acquisition of approximately HK$4,780,000. This adjustment is not expected to have a continuing effect on the Enlarged Group.

1.4 The adjustment represents the annual effective interest expense of the T1 CB of approximately HK$5,827,000 using the effective interest rate method at a rate of 35.55% per annum, assuming the T1 CB had been issued as at the date being reported on (i.e. 1 April 2012). The fair value of the T1 CB as at 1 April 2012 is estimated by the Directors, after taking reference to a valuation carried out by Peak Vision Appraisals Limited, an independent professional valuer. This adjustment is expected to have a continuing effect on the Enlarged Group.

1.5 The adjustments represent the annual effective interest expense of approximately HK$12,153,000 for the T1 PN assuming the T1 PN had been issued as at the date being reported on (i.e. 1 April 2012). The fair value of the T1 PN as at 1 April 2012 is estimated by the Directors, after taking reference to a valuation carried out by Peak Vision Appraisals Limited, an independent professional valuer. The effective interest expense have been arrived using the effective interest method at discount rates ranging from 14.12% to 14.53% with reference to Hong Kong Sovereign Curves and option-adjusted yields of comparable bonds. This adjustment is expected to have a continuing effect on the Enlarged Group.

Unaudited pro forma consolidated statement of financial position of the Enlarged Group

The following is the unaudited pro forma consolidated statement of financial position of the Enlarged Group, as if the Acquisition had been completed at the date reported on (i.e. 31 March 2013). The unaudited pro forma consolidated statement of financial position of the Enlarged Group has been prepared based on the audited consolidated statement of financial position of the Group as at 31 March 2013 as extracted from the Company's published annual report for the year ended 31 March 2013 and the audited consolidated statement of financial position of the Target Group as at 31 March 2013 as extracted from the accountants' report of the Target Group (as set out in Appendix II to this Circular), after incorporating the pro forma adjustments as described in the accompanying notes to illustrate the effect of the Acquisition.

The unaudited pro forma consolidated statement of financial position of the Enlarged Group has been prepared for illustrative purposes only, based on the judgments and assumptions of the Directors, and, because of its hypothetical nature, it may not give a true picture of the financial position of the Enlarged Group as at 31 March 2013 or any future dates.

	The Group as at 31 March 2013	**The Target Group as at 31 March 2013**	**Pro forma adjustments**	*Notes*	**Pro forma Enlarged Group as at 31 March 2013**
	HK$'000	*HK$'000*	*HK$'000*		*HK$'000*
	(Audited)	(Audited)	(Unaudited)		(Unaudited)
	Note 2.1	*Note 2.2*			
Non-current assets					
Property, plant and equipment	104,116	252			104,368
Mining rights	141,419	–			141,419
Exploration and evaluation assets	1,151,082	–			1,151,082
Goodwill	94,177	–	545,405	*2.5*	639,582
	1,490,794	252			2,036,451
Current assets					
Inventories	9,244	–			9,244
Loans receivables	15,632	62,139			77,771
Prepayments, deposits and other receivables	358,641	5,250	(200,000)	*2.3*	163,891
Amount due from a shareholder	–	236,289	(180,000)	*2.6*	–
			(119,610)	*2.7*	
			63,321	*2.8*	
Bank balances and cash	186,499	1,337	(4,780)	*2.9*	183,056
	570,016	305,015			433,962
Current liabilities					
Other payables and accruals	26,837	1,417			28,254
Amount due to a non-controlling interest of a subsidiary	9,205	–			9,205
Amount due to related company	–	180,000	(180,000)	*2.6*	–
Contingent consideration payable	–	–	164,296	*2.4*	164,296
Tax payable	979	175			1,154
	37,021	181,592			202,909

	The Group as at 31 March 2013	The Target Group as at 31 March 2013	Pro forma adjustment	*Notes*	Pro forma Enlarged Group as at 31 March 2013
	HK$'000	*HK$'000*	*HK$'000*		*HK$'000*
	(Audited)	(Audited)	(Unaudited)		(Unaudited)
	Note 2.1	*Note 2.2*			
Net current assets	532,995	123,423			231,053
Total assets less current liabilities	2,023,789	123,675			2,267,504
Non-current liabilities					
Convertible bonds	–	–	31,867	*2.3*	101,933
			70,066	*2.4*	
Promissory notes	–	–	86,909	*2.3*	86,909
Provision for restoration costs	393	–			393
Deferred tax liabilities	35,194	218			35,412
	35,587	218			224,647
Net assets	1,988,202	123,457			2,042,857
Capital and reserves					
Share capital	77,579	120,000	(120,000)	*2.5*	77,579
Reserves	1,787,679	3,457	(3,457)	*2.5*	1,842,334
			22,208	*2.3*	
			37,227	*2.4*	
			(4,780)	*2.9*	
Equity attributable to owners of the Company	1,865,258	123,457			1,919,913
Non-controlling interests	122,944	–			122,944
Total equity	1,988,202	123,457			2,042,857

Notes to the unaudited pro forma consolidated statement of financial position of the Enlarged Group

2.1 The balances are extracted from the audited consolidated statement of financial position of the Group as at 31 March 2013, as set out in the published annual report of the Company for the year ended 31 March 2013.

2.2 The adjustments represent the inclusion of the assets and liabilities of the Target Group as extracted from the audited consolidated statement of financial position of the Target Group as at 31 March 2013 (as set out in Appendix II to this Circular), as if the Acquisition had been completed at the date reported on (i.e. 31 March 2013). These adjustments are expected to have a continuing effect on the Enlarged Group.

2.3 The adjustment represents the fair value of consideration for the Acquisition of approximately HK$612,573,000.

On 27 September 2012, the Group entered into a sale and purchase agreement (as supplemented by the 1st Supplemental Agreement dated 19 November 2012 and the 2nd Supplemental Agreement dated 19 December 2012) with the Vendor, to acquire (i) the Sales Shares representing the entire issued share capital in the Target BVI and (ii) Sale Debts. Pursuant to the Agreement, the consideration for the Acquisition shall be a maximum of HK$850,000,000, subject to adjustments, and the consideration shall be satisfied by a combination of a refundable cash deposit of HK$200,000,000, the promissory notes with an aggregate principle amount of HK$200,000,000 and the convertible bonds with an aggregate principal amount of HK$450,000,000 and in the following manner:

	HK$'000
Consideration of the Acquisition	
T1 Price	425,000
T2 Price	170,000
T3 Price	170,000
T4 Price	85,000
	850,000

The total fair value of the consideration at the Completion, as if the Acquisition had been completed on 31 March 2013, is calculated as follows:

	HK$'000
Fair value of consideration of the Acquisition	
T1 Price	340,984
Contingent consideration *(Note 2.4)*	271,589
	612,573

Pursuant to the Agreement, the T1 Price of HK$425,000,000, subject to adjustments, is to be settled as described below on the completion date. There is an adjustment to consideration depending on the conditions as set out in Note 2.4.

(a) Cash consideration of HK$200,000,000

The Group will apply the HK$200,000,000 paid in cash by way of a refundable deposit upon the entering into of the Agreement to satisfy the payment of a pro tanto amount of the T1 Price;

(b) Issuance of T1 CB with a principal amount of HK$75,000,000

The zero coupon T1 CB with a principal amount of HK$75,000,000 issued by the Company as part of the consideration for the Acquisition will mature upon 5 years from the date of issue on Completion and is recognized in the Unaudited Pro Forma Financial Information in accordance with the Hong Kong Accounting Standard 32 "Financial Instruments: Presentation" ("HKAS 32") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The T1 CB shall be measured at fair value on Completion considering both fair values of the debt component and the equity component.

The debt component of the T1 CB is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially at the difference between the fair value of the T1 CB as a whole and the fair value of the debt component.

For the purpose of this Unaudited Pro Forma Financial Information, the fair value of the T1 CB is estimated by the Directors, after taking reference to a valuation carried out by Peak Vision Appraisals Limited, an independent professional valuer, to be HK$54,075,000, which comprises the fair value of debt component of HK$31,867,000 and the residual amount of HK$22,208,000 represents the equity component as at 31 March 2013. The fair values of the T1 CB are determined using partial differential equation method based on the key assumptions including volatility of daily stock price return of 93.43%, which is based on annualized standard derivation of daily stock price return of the Company over the past 5 years extracted from Bloomberg database and risk free rate of 0.56%, based on market yield of Hong Kong sovereign curve with maturity of 5 years as at 31 March 2013 which is the observable period consistent with the maturity of the T1 CB.

The significant inputs into the model were as follows:

Stock price	HK$0.208
Exercise price	HK$0.370
Discount rate	13.66%
Risk-free rate	0.56%
Expected bond period	5 years
Expected volatility	93.43%
Expected dividend yield	Nil

The fair value of the debt component of the T1 CB is determined by using discounted cash flow analysis, which represents the present value of the redemption price discounted at a rate of 13.66%.

(c) Issuance of T1 PN with a principal amount of HK$150,000,000.

The T1 PN with principal amount of HK$150,000,000 shall be interest-bearing at 1.5% per annum, which shall be payable in 5 years since the date of issue. The T1 PN shall be measured at fair value on Completion. For the purpose of this Unaudited Pro Forma Financial Information, the fair value of the T1 PN is estimated to be HK$86,909,000 by the Directors, after taking reference to a valuation carried out by Peak Vision Appraisals Limited, an independent professional valuer.

The fair value of the T1 PN is determined by using discounted cash flow analysis, which represents the present value of the redemption price and interest in arrear discounted at rates ranging from approximately 13.24% to 13.66%, as if it is to be paid on 30 March 2018, being 5 years from the Completion.

Calculation and key assumptions used in determining the discount rates are as follows:

Risk free rates	0.14% – 0.56%
Option-adjusted spread	5.22%

Notes:

(i) risk free rates ranging from 0.14% to 0.56% is determined with reference to the Hong Kong sovereign curves with maturities ranging from 1 to 5 years as of 31 March 2013;

(ii) option-adjusted spread of 5.22% is determined with referenced to the market yields of bonds with similar characteristics as of 31 March 2013.

The T1 PN is recognized initially at fair value and is subsequently carried at amortized cost using the effective interest method.

Since the fair values of the T1 CB and T1 PN to be issued at the Completion date may be substantially different from their fair values used in preparing this Unaudited Pro Forma Financial Information, the final amounts of the fair values of the T1 CB and T1 PN of the Company may be different from the amounts presented above.

2.4 According to the terms of the Agreement, the Consideration will be adjusted by the extent to fulfillment of the different payment conditions and contingent consideration will arise under the following circumstances:

(a) Upon fulfillment of T2 Payment Condition, a sum of HK$170,000,000 including (i) issuance of zero coupon T2 CB with a principal amount of HK$120,000,000 and (ii) issuance of T2 PN with a principal amount of HK$50,000,000;

(b) Upon fulfillment of T3 Payment Condition, a sum of HK$170,000,000 by issuance of zero coupon T3 CB with a principal amount of HK$170,000,000.

(c) Upon fulfillment of T4 Payment Condition, a sum of HK$85,000,000 by issuance of zero coupon T4 CB with a principal amount of HK$85,000,000.

This constitutes a contingent consideration arrangement as defined under Hong Kong Financial Reporting Standard 3 (Revised) Business Combinations ("HKFRS 3") issued by the HKICPA, whose fair value was estimated to be HK$271,589,000 as at 31 March 2013, as if the Acquisition has been completed on 31 March 2013.

Under HKFRS 3, any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration is recognized to reflect its fair value at date of Completion on information obtained about facts and circumstances that existed as of that date or, if known, during the measurement period, as provided for under HKFRS 3.

For the purpose of this Unaudited Pro Forma Financial Information, Directors have assumed that the contingent consideration comprising the T2 PN, T2 CB, T3 CB and T4 CB (the "Contingent Consideration") are expected to be issued to the fullest extent after taking into consideration the latest unaudited financial information of the Target Group.

The Directors also assumed that the possible changes to the fair value of the Contingent Consideration as at 1 April 2012 and 31 March 2013 to be nil. Therefore, no change in fair value of the Contingent Consideration was reflected in the unaudited pro forma consolidated statement of comprehensive income and the unaudited pro forma consolidated statement of cash flows of the Target Group for the year ended 31 March 2013.

Since the Directors are of the opinion that the T3 Payment Condition could be met, for the purpose of this Unaudited Pro Forma Financial Information, the fair value of zero coupon T3 CB with principal amount of HK$170,000,000 is estimated to be approximately HK$107,293,000, which comprises the fair value of debt component of HK$70,066,000 and the residual amount of HK$37,227,000 represents the equity component as at 31 March 2013, using a similar approach as T1 CB as disclosed above, with similar key assumptions being applied, as if the Acquisition has been completed on 31 March 2013.

As T2 Price and T4 Price will be subject to the fulfillment of T2 Payment Condition and T4 Payment Condition, the related principal amount payable would be adjusted according to a pre-defined formula set forth in the Agreement, thus, the T2 CB and T4 CB fails the "fixed-for-fixed" requirement in HKAS 32 as the Company may be obliged to deliver a variable number of convertible bonds depending on the financial performance of the Target Group as set forth in the T2 Payment Condition and T4 Payment Condition in this Circular. Accordingly, the contingent consideration in respect of the T2 CB and T4 CB is classified as financial liabilities.

For the purpose of this Unaudited Pro Forma Financial Information, the aggregate fair value of the T2 CB and T4 CB at 31 March 2013 was estimated by the Directors with referenced to valuation carried out by Peak Vision Appraisals Limited, an independent professional valuer, to be HK$137,201,000.

The aggregate fair value of the T2 CB and T4 CB was determined by using the partial differential equation method, after considering the terms and conditions of the T2 CB and T4 CB. The significant inputs into the model were as follows:

	T2 CB	**T4 CB**
Issue date	30 September 2013	31 March 2014
Stock price	HK$0.208	HK$0.208
Exercise price	HK$0.370	HK$0.370
Discount rate	13.66%	13.66%
Risk-free rate	0.56%	0.56%
Expected bond period	4.5 years	4 years
Expected volatility	93.43%	93.43%
Expected dividend yield	Nil	Nil

The T2 PN with principal amount of HK$50,000,000 shall be interest-bearing at 1.5% per annum, which shall be payable in 5 years since the date of issue. The T2 PN shall be measured at fair value on Completion. For the purpose of this Unaudited Pro Forma Financial Information, the fair value of the T2 PN at 31 March 2013 is estimated to be HK$27,095,000 by the Directors, after taking reference to a valuation carried out by Peak Vision Appraisals Limited, an independent professional valuer.

The fair value of the T2 PN is determined by using discounted cash flow analysis, which represents the present value of the redemption price and interest in arrear discounted at rates ranging from approximately 13.27% to 13.72%, as if it is to be paid on 29 September 2018, being 5.5 years from the Completion.

Calculation and key assumptions used in determining the discount rates are as follows:

Risk free rates	0.17% – 0.62%
Option-adjusted spread	5.22%

Notes:

(i) risk free rates of 0.17% to 0.62% is determined with reference to the Hong Kong sovereign curves with maturities ranging from 1.5 to 5.5 years as of 31 March 2013;

(ii) option-adjusted spread of 5.22% is determined with referenced to the market yields of bonds with similar characteristics.

Upon Completion, the Company will assess the probability of different outcomes in respect of the issuance of the Contingent Consideration after taking into consideration of the information available up to the date of Completion when determining the fair values of the Contingent Consideration. The actual fair values of the Contingent Consideration at the date of Completion and at the end of each of the reporting period may be materially different from the estimated amounts shown in this Unaudited Pro Forma Financial Information.

2.5 The adjustments reflect the recognition of goodwill of approximately HK$545,405,000 and elimination of share capital and pre-acquisition reserves of the Target Group of approximately HK$123,457,000 arising from the Acquisition, as if the Acquisition had been completed at the date reported on (i.e. 31 March 2013).

In accordance with HKFRS 3 issued by the HKICPA, the Group will apply the acquisition method to account for the acquisition of the Target Group. Under the acquisition method, the identifiable assets and liabilities of the Target Group will be recorded on the consolidated statement of financial position of the Group at their respective fair values at the date of completion.

The excess amount of the consideration, including Contingent Consideration (see Notes 2.3 and 2.4 above) over the fair value of net identifiable assets of the Target Group and Sale Debts is recognized as goodwill.

The goodwill arising in the acquisition of the Target Group is calculated as follows:

	HK$'000
Fair value of consideration transferred *(see Notes 2.3 and 2.4)*	612,573
Less: Adjusted net assets of the Target Group	(3,847)
Sale Debts *(Note 2.8)*	(63,321)
Goodwill arising from the Acquisition	545,405

The adjusted net assets of the Target Group of HK$3,847,000 represent the net assets of the Target Group of approximately HK$123,457,000 as extracted from the audited consolidated statement of financial position of the Target Group as at 31 March 2013 (as set out in Appendix II to this Circular) after adjusting the assignment of loans and advances between the Target Group and the Vendor and his associates of approximately HK$119,610,000 (Note 2.7) upon Completion as if the Acquisition had been completed at the date reported on (i.e. 31 March 2013).

For the preparation of the unaudited pro forma consolidated statement of financial position of the Enlarged Group, the adjusted net assets of the Target Group of approximately HK$3,847,000 as at 31 March 2013 have been assumed to approximate the fair values of the assets, liabilities and contingent liabilities of the Target Group at the Completion of the Acquisition.

Since the actual fair values of assets, liabilities and contingent liabilities of the Target Group as of the completion date of the Acquisition would be different from the assumed amounts used in the preparation of the Unaudited Pro Forma Financial Information, the actual amount of goodwill arising from the Acquisition to be recognized by the Group might be materially different from the estimated amount as shown in this appendix.

The Directors have assessed whether there is any impairment on goodwill as at 31 March 2013 in accordance with Hong Kong Accounting Standard 36 "Impairment of Assets" ("HKAS 36"), taking into account the valuation of 100% equity interest of five business entities (as set out in Appendix IV) carried out by an independent professional valuer, Peak Vision Appraisals Limited. The Directors concluded that there is no impairment in respect of the goodwill as at 31 March 2013.

The Directors confirmed that they will apply consistent accounting policies, principal assumptions and valuation method to assess impairment of goodwill in subsequent reporting periods in accordance with the requirement of HKAS 36.

2.6 Pursuant to the Agreement, the Purchaser and the Vendor agreed that the Completion is further conditional upon all outstanding loans owing from the Target Group to the Vendor's associates are to be assigned to become loans owing by the Target BVI to the Vendor immediately before Completion.

The adjustment reflects the assignment of the loans and advances between the Vendor and his associates of approximately HK$180,000,000 upon the Completion, as if the Acquisition had been completed at the date reported on (i.e. 31 March 2013). This adjustment is not expected to have a continuing effect on the Enlarged Group.

2.7 The adjustment reflects the settlement and set-off of repayment obligation amounting to HK$119,610,000 pursuant to a deed of settlement and assumption of repayment obligation (the "Settlement Deed") entered into between the Target BVI, the Target HK No.1, Mr. Leung and a related company (a company which is wholly-owned by Mr. Leung, the "Related Company") dated 23 May 2013 upon Completion, as if the Acquisition had been completed at the date reported on (i.e. 31 March 2013). This adjustment is not expected to have a continuing effect on the Enlarged Group.

2.8 Pursuant to the Agreement, the balance of debts owing by the Target Group to the Vendor is to be acquired as part of the Acquisition.

For the purpose of this Unaudited Pro Forma Financial Information, the adjustment represents the acquisition of the Sale Debts pursuant to the Agreement amounting to HK$63,321,000 upon Completion of the Acquisition, as if the Acquisition had been completed at the date reported on (i.e. 31 March 2013).

The balance will be adjusted upon Completion of the Acquisition with reference to the actual balances of debts owing by the Target Group to the Vendor as at the date of Completion.

This adjustment will not have a continuing effect on the Enlarged Group.

2.9 The adjustment reflects the estimated cost of HK$4,780,000 directly attributable to the Acquisition, which mainly comprises professional fees payable to financial advisors, legal advisors, reporting accountants, printers and other professional parties. The estimate is based on latest information available to the Directors, which is subject to change, and accordingly, the actual costs to be incurred in connection with the Acquisition may differ from the estimate as disclosed above.

Unaudited pro forma consolidated statement of cash flows of the Enlarged Group

The following is the unaudited pro forma consolidated statement of cash flows of the Enlarged Group, as if the Acquisition had been completed at the commencement of the period being reported on (i.e. 1 April 2012). The unaudited pro forma consolidated statement of cash flows of the Enlarged Group has been prepared based on the audited consolidated statement of cash flows of the Group for the year ended 31 March 2013 as extracted from the Company's published annual report for the year ended 31 March 2013 and the audited consolidated statement of cash flows of the Target Group for the year ended 31 December 2012 as extracted from the accountants' report of the Target Group (as set out in Appendix II to this Circular), after incorporating the pro forma adjustments as described in the accompanying notes to illustrate the effect of the Acquisition.

The unaudited pro forma consolidated statement of cash flows of the Enlarged Group has been prepared for illustrative purposes only, based on the judgments and assumptions of the Directors, and, because of its hypothetical nature, it may not give a true picture of the cash flows of the Enlarged Group for the year ended 31 March 2013 or any future periods.

	The Group for the year ended 31 March 2013 HK$'000 (Audited) Note 3.1	The Target Group for the year ended 31 December 2012 HK$'000 (Audited) Note 3.2	Pro forma adjustments HK$'000 (Unaudited)	Notes	Pro forma Enlarged Group for the year ended 31 March 2013 HK$'000 (Unaudited)
Cash flows from operating activities					
Loss for the year	(77,590)	(433)	(4,780)	3.3	(100,783)
			(5,827)	1.4	
			(12,153)	1.5	
Adjustments for:					
Payment for acquisition-related costs	–	–	4,780	3.3	4,780
Income tax (credit)/expense recognized in profit or loss	(1,038)	33			(1,005)
Finance costs recognized in profit or loss	–	–	5,827	1.4	17,980
			12,153	1.5	
Interest income on bank deposits	(8,425)	(3)			(8,428)
Loss on disposal of property, plant and equipment	7	–			7
Depreciation of property, plant and equipment	6,518	50			6,568
Amortization of mining rights	7,065	–			7,065
Impairment loss on inventories	250	–			250
Expense recognized in respect of equity-settled share-based payments	12,071	–			12,071
	(61,142)	(353)			(61,495)
Movements in working capital					
Decrease in inventories	6,560	–			6,560
Increase in loans receivables	(15,632)	(32,516)			(48,148)
Decrease/(increase) in prepayments, deposits and other receivables	136	(41)			95
Increase in trade and other payables	2,418	985			3,403
Increase in amount due to a non-controlling interest of a subsidiary	3	–			3
Net cash used in operating activities	(67,657)	(31,925)			(99,582)

	The Group for the year ended 31 March 2013 *HK$'000* (Audited) *Note 3.1*	The Target Group for the year ended 31 December 2012 *HK$'000* (Audited) *Note 3.2*	Pro forma adjustments *HK$'000* (Unaudited)	*Notes*	Pro forma Enlarged Group for the year ended 31 March 2013 *HK$'000* (Unaudited)
Cash flows from investing activities					
Payment for acquisition-related costs	–	–	(4,780)	*3.3*	(4,780)
Acquisition of the Target Group, net of cash and cash equivalents acquired	–	–	(200,000)	*3.4*	(200,000)
Interest received on bank deposits	10,891	3			10,894
Payments for property, plant and equipment	(30,974)	(319)			(31,293)
Proceeds from disposal of property, plant and equipment	460	–			460
Deposit paid for acquisition of subsidiaries	(200,000)	–	200,000	*3.4*	–
Payments for exploration and evaluation assets	(4,226)	–			(4,226)
Net cash used in investing activities	(223,849)	(316)			(228,945)
Cash flows from financing activities					
Proceeds from issue of unlisted warrants	1,520	–			1,520
Payment for transaction costs attributable to issue of unlisted warrants	(100)	–			(100)
Increase in amount due to a shareholder	–	63,312			63,312
Interest paid	–	–	(2,250)	*3.5*	(2,250)
Net cash generated by financing activities	1,420	63,312			62,482
Net (decrease)/increase in cash and cash equivalents	(290,086)	31,071			(266,045)
Cash and cash equivalents at the beginning of year	477,218	–			477,218
Effect of foreign exchange rate changes, net	(633)	(253)			(886)
Cash and cash equivalents at the end of year	186,499	30,818			210,287

Notes to the unaudited pro forma consolidated statement of cash flows of the Enlarged Group

3.1 The balances are extracted from the audited consolidated statement of cash flows of the Group for the year ended 31 March 2013, as set out in the published annual report of the Company for the year ended 31 March 2013.

3.2 The adjustments represent the inclusion of the cash flows of the Target Group as extracted from the audited consolidated statement of cash flows of the Target Group for the year ended 31 December 2012 (as set out in Appendix II to this Circular), as if the Acquisition had been completed at the commencement of the period reported on (i.e. 1 April 2012). These adjustments are expected to have a continuing effect on the Enlarged Group.

3.3 The adjustments represent a reclassification of payment for the estimated legal and professional fees attributable to the Acquisition of approximately HK$4,780,000 in cash under investing activities, as if the Acquisition had been completed at the commencement of the period reporting on (i.e. 1 April 2012). This adjustment is not expected to have a continuing effect on the Enlarged Group.

3.4 The adjustment represents the settlement of the partial payment of the T1 Price by way of cash deposit of HK$200,000,000 paid upon entering into of the Agreement, as if the Acquisition had been completed at the commencement of the period reporting on (i.e. 1 April 2012).

3.5 The adjustment represents the coupon interest paid of approximately HK$2,250,000 to the holder of the T1 PN, as if the Acquisition had been taken place at the commencement of the period being reported on (i.e. 1 April 2012). The interest payment is based on coupon rate of 1.5% per annum on the principal amount of HK$150,000,000 of the T1 PN. This adjustment is expected to have a continuing effect on the Enlarged Group.

B. REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is the text of a report received from the reporting accountants of the Company, HLB Hodgson Impey Cheng Limited, Certified Public Accountants, Hong Kong, prepared for the purpose of incorporation in this circular.

HLB 國衛會計師事務所有限公司
Hodgson Impey Cheng Limited

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

TO THE DIRECTORS OF SINO PROSPER STATE GOLD RESOURCES HOLDINGS LIMITED

We have completed our assurance engagement to report on the compilation of pro forma financial information of Sino Prosper State Gold Resources Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The pro forma financial information consists of the unaudited pro forma consolidated statement of comprehensive income, the unaudited pro forma consolidated statement of financial position and the unaudited pro form consolidated statement of cash flows of the Enlarged Group (the "Unaudited Pro Forma Financial Information"), and related notes as set out in Section A entitled "Unaudited Pro Forma Financial Information of the Enlarged Group" in Appendix III to the circular issued by the Company dated 11 September 2013 (the "Circular"). The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described in Section A of Appendix III to the Circular.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the proposed acquisition of the entire issued share capital in, and shareholder's loans to Treasure Join Limited by Favour South Limited, a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of the Company on the Group's financial position as at 31 March 2013 and the Group's financial performance and cash flows for the year ended 31 March 2013 as if the transaction had taken place at 31 March 2013 and 1 April 2012 respectively. As part of this process, information about the Group's financial position, financial performance and cash flows has been extracted by the Directors from the Group's consolidated financial statements for the year ended 31 March 2013, on which an audit report has been published.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 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" ("AG7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Reporting Accountants' Responsibilities

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

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting 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 AG7 issued by the HKICPA.

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

The purpose of 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 2013 would have been as presented.

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

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

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

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

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

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,
HLB Hodgson Impey Cheng Limited
Certified Public Accountants
Hui Chun Keung, David
Practising Certificate Number: P05447
Hong Kong
11 September 2013

The following is the text of a business valuation report, prepared for the purpose of incorporation in this circular received from Peak Vision Appraisals Limited, an independent valuer, in connection with the business valuation of the Target Group as at 30 June 2013.

Peak Vision
Appraisals Limited

12/F, Effectual Building
14-16 Hennessy Road
Wanchai, Hong Kong
www.peakval.com
Tel (852) 2187 2238
Fax (852) 2187 2239

11 September 2013

The Board of Directors
Sino Prosper State Gold Resources Holdings Limited
Unit A03, 11th Floor
Bank of East Asia Harbour View Centre
56 Gloucester Road
Hong Kong

Dear Sirs,

Re: Valuation of 100% equity interest of five business entities

In accordance with your instructions, we have conducted a valuation of the market value of the 100% equity interest of a group of five business entities (hereinafter referred to as the "Target Group"), including Treasure Join Limited (hereinafter referred to as the "Target BVI"), Menston Investment Limited (hereinafter referred to as the "Target HK No.1"), Dragon Growth Investment Limited (hereinafter referred to as the "Target HK No.2"), 吉林市瑞信小額貸款有限公司 (unofficially translated as "Jilin Ruixin Microfinance Co., Ltd." and hereinafter referred to as the "Business Enterprise I") and 吉林豐瑞投資管理諮詢有限公司 (unofficially translated as "Jilin Fengrui Investment Management Consulting Co., Ltd." and hereinafter referred to as the "Business Enterprise II"). It is our understanding that Target BVI is an ultimate investment holding company, after reorganization, which wholly controls the Business Enterprise I and the Business Enterprise II (hereinafter together referred to as the "Business Enterprises") through the Target HK No.1 and the Target HK No.2 respectively. The Business Enterprises are principally engaged in providing micro-financing and investment and management consultation services to small enterprises in Jilin City, Jilin Province, the People's Republic of China (hereinafter referred to as the "PRC" or "China"). We confirm that we have made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the Target Group as at 30 June 2013 (hereinafter referred to as the "Valuation Date").

This report states the purpose of valuation and premise of value, sources of information, identifies the businesses valued, describes the methodology of our valuation, investigation and analysis, assumptions and limiting conditions, and presents our opinion of value.

1.0 PURPOSE OF VALUATION

This report is being prepared solely for the use of the directors and management of Sino Prosper State Gold Resources Holdings Limited (hereinafter referred to as the "Company") for public documentation purpose. The Company is listed on the Main Board of The Stock Exchange of Hong Kong Limited.

Peak Vision Appraisals Limited (hereinafter referred to as "Peak Vision Appraisals") acknowledges that this report may be made available to the independent financial adviser of the Company and used by such adviser as one of the sources of information for formulating its advice in relation to the proposed acquisition of the Target Group (hereinafter referred to as the "Proposed Acquisition"), to the independent directors and shareholders of the Company and, if requested, regulators. Peak Vision Appraisals assumes no responsibility whatsoever to any person other than the directors and management of the Company in respect of, or arising out of, the contents of this report. If others choose to rely in any way on the contents of this report they do so entirely on their own risk.

2.0 PREMISE OF VALUE

Our valuation is based on the going concern premise and conducted on a market value basis. **Market Value** is defined as the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently, and without compulsion.

Our valuation has been prepared in accordance with The HKIS Valuation Standards 2012 Edition published by the Hong Kong Institute of Surveyors and the Business Valuation Standards (First Printed 2005) published by the Hong Kong Business Valuation Forum.

3.0 SOURCES OF INFORMATION

We relied on the following major documents and information in the valuation analysis. Some of the information and materials are furnished by the management of the Company, the Target Group and their representatives (hereinafter collectively referred to as the "Management"). Other information are extracted from public sources such as government sources, Bloomberg and Morningstar, etc.

The major documents and information include the following:

- Copies of business licences of the Target Group provided by the Management;
- Copy of feasibility study report of the Business Enterprises provided by the Management (hereinafter referred to as the "Feasibility Study Report");

- Copies of relevant permits and written approvals issued by local government authorities for the Business Enterprises to engage in the provision of micro-financing and relevant financial services as provided by the Management;

- Announcement(s) made by the Company in relation to the Proposed Acquisition;

- Copies of legal opinions prepared by Jiayuan Law Firm (嘉源律師事務所) (hereinafter referred to as the "Legal Opinions") as provided by the Management;

- Historical financial information such as income statements and balance sheets of the Target Group provided by the Management; and

- Business plan and projections prepared by the Management.

In the course of our valuation, we have conducted a company visit in May 2013 and had discussions with the Management on the money lending industry in the PRC and the development of the Business Enterprises. Furthermore, we have made reference to or reviewed the above information and data and assumed such information and data are true and accurate without independent verification except as expressly described herein. We consider that we have obtained adequate information from the sources described above to provide a reliable opinion of market value.

We have no reason to believe that any material facts have been withheld from us, however, we do not warrant that our investigations have revealed all of the matters which an audit or more extensive examination might disclose.

In arriving at our opinion of value, it was assumed that the projections provided to us were based on the assumptions reflecting the best available estimates, judgment and knowledge of the Management in relation to the proposed operations and are reasonable, reflecting market conditions and economic fundamentals. We do not express an opinion as to whether the actual results of the operations of the Target Group will approximate the projections because assumptions regarding future events by their nature are not capable of independent substantiation.

In applying the projections to the valuation of the market value of the Target Group, we are making no representation that the business expansion will be successful, or that market growth and penetration will be realized.

4.0 TARGET GROUP

4.1 Background

(i) Target BVI

Treasure Join Limited (Target BVI) is an investment holding company incorporated in the British Virgin Islands on 20 June 2012. As represented by the Management, Target BVI currently owns the entire equity interest in the Target HK No.1 and the Target HK No.2, has not commenced any business operation since its incorporation and has no other major asset or investment.

(ii) Target HK No.1

Menston Investment Limited (the Target HK No.1) is an investment holding company incorporated in Hong Kong on 22 December 2010. The Target HK No.1 currently owns the entire equity interest in the Business Enterprise I, has not commenced any business operation since its incorporation and has no other major asset or investment.

(iii) Target HK No.2

Dragon Growth Investment Limited (the Target HK No.2) is an investment holding company incorporated in Hong Kong on 16 April 2010. The Target HK No.2 currently owns the entire equity interest in the Business Enterprise II, has not commenced any business operation since its incorporation and has no other major asset or investment.

(iv) Business Enterprise I

吉林市瑞信小額貸款有限公司 (the Business Enterprise I) is a wholly foreign owned enterprise with limited liability (有限責任公司(台港澳法人獨資)) incorporated in the PRC on 18 October 2012. The following table summarizes the background information of the Business Enterprise I, according to the 企業法人營業執照 (unofficially translated as the "Enterprise Legal Person Business Licence") issued by 吉林省工商行政管理局 (unofficially translated as the "Jilin Province Administration for Industry and Commerce").

企業法人營業執照 (Enterprise Legal Person Business Licence)

Licence number	:	220000400014176
Name	:	吉林市瑞信小額貸款有限公司 (the Business Enterprise I)
Registered address	:	中華人民共和國吉林省吉林市昌邑區江灣路2號 (unofficially translated as "No. 2 Jiangwan Road, Changyi District, Jilin City, Jilin Province, the PRC")

Registered capital	:	RMB100,000,000
Incorporation date	:	18 October 2012
Expiry date	:	9 October 2032
Confined business scope	:	Provision of micro-financing services, and consulting services for small enterprises in respect of corporate development, management and financing in Jilin City.

Table 1: Enterprise Legal Person Business Licence of Business Enterprise I
Source: Management

(v) Business Enterprise II

吉林豐瑞投資管理諮詢有限公司 (the Business Enterprise II) is a wholly foreign owned enterprise with limited liability (有限責任公司(台港澳法人獨資)) incorporated in the PRC on 30 October 2012. The following table summarizes the background information of the Business Enterprise II, according to the 企業法人營業執照 (Enterprise Legal Person Business License) issued by 吉林市工商行政管理局 (unofficially translated as the "Jilin City Administration for Industry and Commerce").

企業法人營業執照 (Enterprise Legal Person Business Licence)

Licence number	:	220200400005715
Name	:	吉林豐瑞投資管理諮詢有限公司 (the Business Enterprise II)
Registered address	:	中華人民共和國吉林省磐石市經濟開發區創業園辦公樓第一層南側辦公室 (unofficially translated as "South side office, Level 1, Chuangye Yuan, Economy Development Area, Panshi City, Jilin Province, the PRC")
Registered capital	:	USD100,000
Incorporation date	:	30 October 2012
Expiry date	:	29 October 2032
Confined business scope	:	Provision of consulting services for project development in respect of investment planning, corporate management and financial management.

Table 2: Enterprise Legal Person Business Licence of Business Enterprise II
Source: Management

4.2 Corporate Structure

As represented by the Management, the Business Enterprises are indirectly wholly owned by Mr. Leung Ngai Man (hereinafter referred to as the "Vendor"). The shareholding structure immediately before the completion of the Proposed Acquisition of the Target Group is tabulated in the figure below:

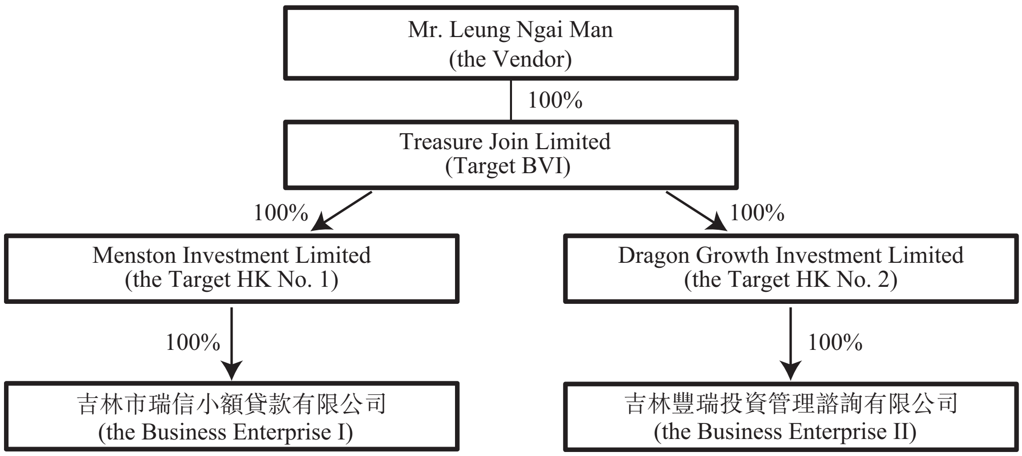


Figure 1: Shareholding structure of the Target Group immediately before the completion of the Proposed Acquisition
Source: Management

Upon the completion of the Proposed Acquisition, the Company will indirectly wholly own the Business Enterprises. The shareholding structure immediately after the Proposed Acquisition of the Target Group is tabulated as follows:

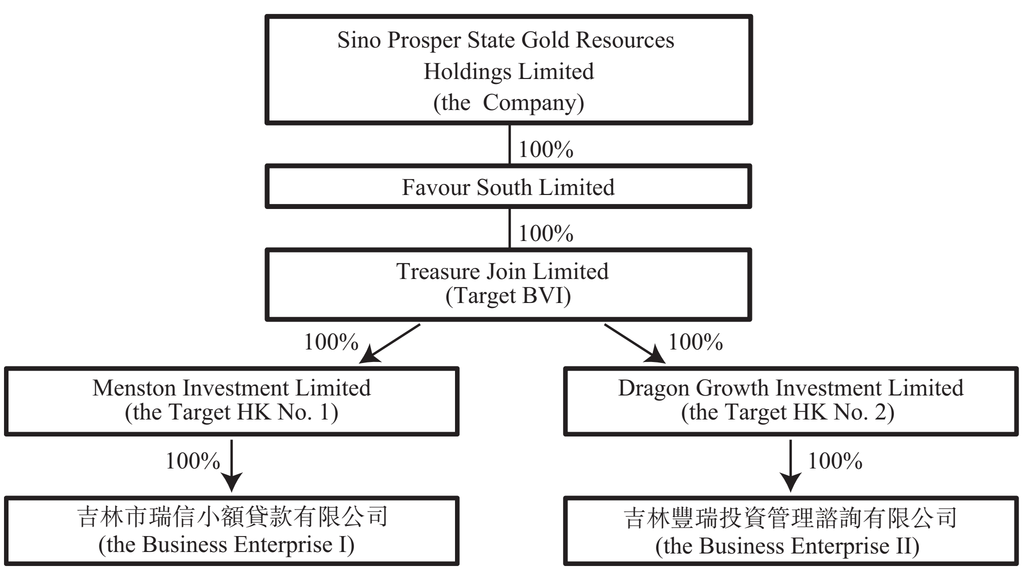


Figure 2: Shareholding structure of the Target Group immediately after the completion of the Proposed Acquisition
Source: Management

5.0 BUSINESS OVERVIEW

The principal activity of the Target Group is the provision of micro-financing and investment and management consultation services in the PRC, which is intended to be carried out by the Business Enterprises. As at the Valuation Date, the Business Enterprises have granted loans to their customers with loan receivables totaling RMB49,000,000. Furthermore, the Business Enterprises have obtained relevant permits granted by local government authorities in relation to their business operations. As advised by the Management, the Business Enterprise I will mainly focus on micro-financing while the Business Enterprise II will primarily carry out investment and financial management consulting services.

5.1 Relevant Permits

As advised by the Management, the Business Enterprises have obtained all necessary permits, licenses, consents, approvals and written confirmation, etc. for the operations of their proposed businesses (hereinafter collectively referred to as the "Permits"). To approve or reject the application of the Permits, the relevant government authorities will take into consideration the capital level of the companies and the industry experience and knowledge of the staff among other factors. The Permits obtained by the Business Enterprise I include the following:

- written approvals issued by 吉林省金融工作辦公室 (unofficially translated as the "Jilin Province Financial Affairs Office");
- written approval issued by 吉林省經濟技術合作局 (unofficially translated as the "Jilin Province Economic and Technological Cooperation Bureau"); and
- written confirmation issued by 吉林市經濟技術合作局 (unofficially translated as the "Jilin City Economic and Technological Cooperation Bureau").

According to the Legal Opinions, the above approvals and confirmation allow the Business Enterprise I, which is currently the only wholly foreign owned enterprise engaged in micro-financing in Jilin City, to provide such services in Jilin City. Furthermore, Business Enterprise I is allowed to raise capital through bank borrowings in accordance with relevant PRC regulations.

In addition, the Permits obtained by the Business Enterprise II include the following:

- written approval issued by 吉林市經濟技術合作局 (unofficially translated as the "Jilin City Economic and Technological Cooperation Bureau").

Referring to the Legal Opinions, the above approval allows the Business Enterprise II to provide corporate management, financial management and investment planning consulting services in the PRC.

5.2 Capital Structure

The current registered capital of the Business Enterprise I is RMB100 million. It is, however, the current intention of the Management to apply for the increase of its registered capital from RMB100 million to RMB200 million. The Legal Opinions are of the view that the Business Enterprise I has no legal obstacle to increase its registered capital as planned.

Under the relevant PRC regulations as stated in the Legal Opinions, the micro-financing companies are allowed to secure borrowings from up to two banks in an amount equivalent to a maximum of 50% of the net asset value. In such case, the proposed entire capital investment of RMB 300 million will comprise the registered capital of RMB200 million and the bank loans of RMB100 million after the approval of new registered capital, or the bank loans amount higher than RMB100 million if the net asset value further increases due to increase in retained earning or otherwise.

5.3 Business Model

As represented by the Management, the main sources of revenue of the Business Enterprises will mainly comprise interest income generated from the provision of micro-financing as well as consultation fee income associated with the provision of investment and management consultation services. The Business Enterprises will provide services as stated in their business licenses to small enterprises operating in Jilin City. The Management expects synergy effects through the co-operation of the Business Enterprises. The Business Enterprise I is planned to lend out parts of the total capital raised in 2013 to small and medium enterprises, while the Business Enterprise II will offer various consultation services and solutions to these borrowers for corporate development.

(i) Sources of Revenue

According to the Feasibility Study Report as provided by the Management, the Business Enterprises will focus on serving small and medium enterprises (the SMEs) and sole proprietors. The Business Enterprises will approach their target customer through various channels, including a direct sales team, outsourced marketing companies, web promotion and tele-marketing. For the Business Enterprise I, the Management expects that the borrowing terms will be between 14 days to one and a half years, with annual interest of approximately 12%. The types of loan available to the small borrowers include revolving loans, mortgage loans, installment loans and secured and unsecured loans. On the other hand, the services offered by the Business Enterprise II relates to the provision of consultation on investment planning, corporate management and financing arrangement. After analyzing the business operations and financial position of the borrowers, they will advise on the means of financing and facilitate the borrowers to secure the necessary funds.

(ii) Corporate Structure

The Business Enterprises will be run by a group of experienced personnel, who were previously in senior positions of banks and financial institutions. They have sufficient knowledge and relevant experience in managing money lending businesses. As advised by the Management, they propose to set up four divisions for the micro-financing business of the

Business Enterprise I. Each division has its own duties and functions, namely 信貸業務部門 (unofficially translated and hereinafter referred to as the "Credit Business Division"), 信貸管理部門 (unofficially translated and hereinafter referred to as the "Credit Management Division"), 信貸風險管理部門 (unofficially translated and hereinafter referred to as the "Credit Risk Management Division") and 行政財務部 (unofficially translated and hereinafter referred to as the "Administrative and Finance Division"). The duties and functions of each division are summarized as follows:

- *Credit Business Division*

  This division is the revenue generating unit which mainly focuses on customer relationship development, product design, credit assessment, finalization of loan terms and debt collections. Tasks include search of potential customers and conducting credit analysis of financial position, collateral quality, repayment ability and credit profiling of the borrowers. An analytical report will summarize the result such as the credit rank and risks and proposing to the customers the best means of financing and details of borrowing terms. This division will also closely monitor the loan portfolios to ensure the borrowers' obligations are fulfilled without default.

- *Credit Management Division*

  The main function of this division is credit information system management. They will reassess all the materials provided by the Credit Business Division and carry out relevant checks and verifications for further review. They will examine the findings and give preliminary advice on the analysis and investigation performed by Credit Business Division. In addition, they will conduct internal control reviews and follow-up reviews on, among other things, business operations, corporate governance and legal compliance issues. They will also be responsible for the provision of business training and performance appraisals.

- *Credit Risk Management Division*

  This division is the last safeguard of the Business Enterprise I and is responsible for risk control activities. They will have the final review on the credit analysis, in particular, the borrowing terms and conditions. Another main duty of the division is to monitor the credit activities and supervise the debt collections performed by the Credit Business Division. In case of doubtful debts, the Credit Risk Management Division and the Credit Business Division will together provide solutions and file the case to the senior management for instruction. Furthermore, they will prepare review reports regularly on the credit policies and suggest precautionary measures.

• *Administrative and Finance Division*

This division is in charge of administration, accounting and financial management of the business. Apart from bookkeeping and business planning, its main function is to periodically report on the operations as well as the financial performance of the business based on the data and statistics. They will also highlight any issues for management consideration.

To lead these four divisions, there will be a committee formed by each division head and the general manager, namely 貸款審查委員會 (unofficially translated and hereinafter referred to as the "Loan Approval Committee"). All the analysis and applications including the borrowing terms and conditions will be discussed and finally approved by this committee before contracting.

The detailed corporate structure is chartered as follows:

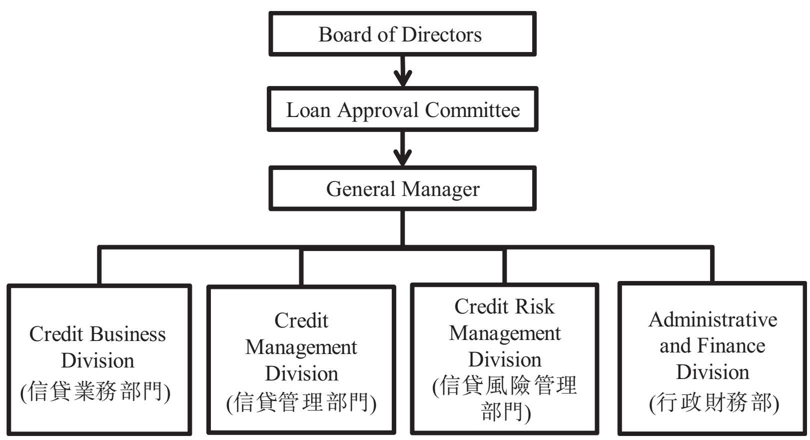


Figure 3: Corporate Structure of the Business Enterprise I
Source: Management

(iii) Micro-financing Procedure

The procedure of micro-financing can be broadly divided into eight steps:

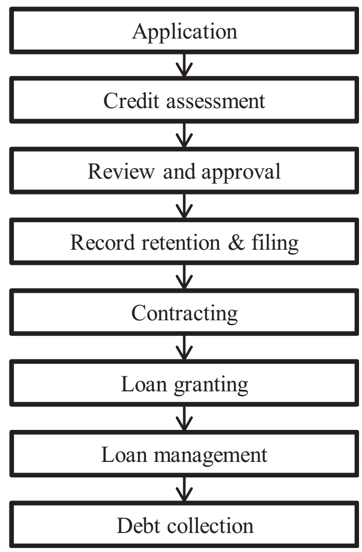


Figure 4: Business process of the Business Enterprise I
Source: Management

The borrower will first apply for loans and provide relevant information for review. Upon receiving the application, the Credit Business Division will begin the credit assessment and forward the relevant documents for further review. The Credit Management Division and the Credit Risk Management Division will conduct an in-depth assessment and give second opinions on the applications before submission to the Loan Approval Committee. Once the committee approves the loans, all the related parties such as borrowers, lenders and guarantors, etc. will enter into binding contracts or agreements. The borrowing account will be monitored by officers at least once a week to check the use of loan proceeds and loan repayment. Additionally, a monthly investigation report concerning the credit business will be submitted to the senior management.

6.0 PROJECTIONS OF THE BUSINESS ENTERPRISES

In the course of our valuation, we have relied on the projections prepared by the Management. The table below presents the profit and loss forecast of the proposed businesses until year 2020 and major parameters and inputs are discussed below:

	Year ending 31 March						
(RMB'000)	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Revenue	12,994	57,028	115,947	143,534	187,707	243,608	316,485
Less:							
Cost of bank financing	0	4,250	7,305	9,470	12,305	15,983	20,762
Provision for bad debts	0	3,699	7,713	2,235	4,289	5,326	6,962
Business tax	728	2,053	4,174	5,167	6,757	8,770	11,393
Selling and admin. expenses	1,689	4,562	9,276	11,483	15,017	19,489	25,319
Profit before tax	10,577	42,464	87,479	115,179	149,339	194,040	252,049
Less: profit tax	988	2,347	4,809	7,675	9,715	12,665	16,444
Net profit	9,589	40,117	82,670	107,504	139,624	181,375	235,605

* *Figures above are subject to rounding*

Table 3: Projected performance of the Business Enterprises
Source: Management

(i) Capital funds available for lending

The target paid-up capital is RMB200 million upon approval for the increase in registered capital. The initial paid-up capital is RMB50 million. It is expected that additional capital of RMB150 million will be paid up in three equal installments in October 2013, June 2014 and December 2014 respectively.

In addition to equity capital, the Business Enterprises are expected to obtain bank financing in an amount of RMB75 million, when the paid-up capital totals RMB150 million on 1 June 2014. A further RMB25 million will be financed from bank upon the additional paid-up capital available in December 2014. In total, the Business Enterprises are scheduled to have a total capital of RMB300 million available for lending in 2015. Regarding the bank financing, the Business Enterprises have been assured by a local bank that financial support will be provided for its business development, subject to final approval.

(ii) Revenue

The revenue is calculated on the basis of the aggregate amount of funds available for lending out to customers, after taking into account of loan term, the lending interest rate and consultancy rate. With reference to the announcements and annual reports of listed comparable companies, it was noted that the adopted lending rate and consultancy fee rate of the Business Enterprises, which is in the sum of 3.5% per month, is comparable to the rates charged by comparable companies. As represented by the Legal Opinions, we have noted that the lending rate for micro-financing business is capped at 4 times of statutory rate published by the People's Bank of China. So the annual lending rate of 12% is permitted under the relevant regulations and is far below the prevailing cap of 24%.

The Business Enterprises have commenced their micro-financing business since December 2012 and the audited financial results indicate that the actual figures are consistent with market data. Furthermore, to estimate the annual turnover, it is reasonable to account for the time spent for administrative work of loan application, which takes approximately one month, and hence leads to a lower effective interest rate and consultancy rate. Micro-financing is usually short term and small amount loan. The application procedure is usually straightforward and normally takes less than a month to finalize the necessary process as the borrowers are often in urgent need of financing. It is also assumed that the new capital injected into the business will be lent out gradually during the first period when it is available, and thus appropriate adjustments have been made for these periods.

(iii) Cost of bank financing

The borrowing cost of 6% per annum is based on the statutory rate published by the People's Bank of China (hereinafter referred to as the "PBC").

(iv) Provision for bad debts

In preparing the projections, provision has been made for potential default and doubtful debts. Since there is no reliable source concerning the default rates of PRC corporate bonds or loans, the provision of bad debts is therefore based on the default rate of global speculative grade corporate bonds by making reference to the 2012 Annual U.S. Corporate Default Study And Rating Transitions published by Standard & Poors on 20 March 2013. Upon our analysis, the default rate used as the basis of such provision is also consistent with the research carried out by other representative global rating agencies. The research report issued by Fitch Ratings stated that the global corporate speculative grade default is below 3%. Furthermore, Moody's rating agency indicated that the high yield default rate for Asia Pacific (ex-Japan) corporates would be as low as 2% in 2013. Among the default rates estimated by the rating agencies, the default rate published by Standard & Poor is the highest one and thus out of caution, is selected herein as the basis of provision for bad debts.

The default rate is deemed to be prudent and appropriate as it was noted that the Business Enterprises has not recorded any default payment from its customers since the commencement of its operations. The input adopted is also verified by checking the amount of provision of bad debts of comparable companies, which is found to be minimal.

(v) Other expenses

Despite the interest expense, the Business Enterprises are projected to incur other expenses as a percentage of revenue including business tax (5.6% for the Business Enterprise I and 2.8% for the Business Enterprise II) and selling (6%) and administrative expenses (7%). To support the development of the micro-financing business, the Business Enterprises have obtained certain tax benefits from the local tax authority, which is lower than standard business tax rate and subject to renewal each year. According to the Legal Opinions, the tax benefits applicable to the Business Enterprise II are valid and that there would be no legal obstacle for the Business Enterprise II to renew the said tax benefits each year as long as it is able to meet the stated requirements.

The selling and administrative expenses are calculated on the basis of revenue. The input is based on the relevant experience of the Management and the track record of the business. The percentage basis to revenue of such expenses will gradually decline due to economies of scale as lending businesses are not labor intensive in nature and the expenses will not increase significantly with the increasing turnover and the funds available for lending.

(vi) Income tax

The Business Enterprise I is subject to the income tax rate of 25% on profit before tax. In contrast, 10% of the revenue of the Business Enterprise II is taxable at the income tax rate of 25%. The Business Enterprise II's lower income tax rate is due to the tax benefits granted by local PRC government authority and is subject to annual renewal. Such rate does not take into account the additional tax benefits to be derived from the potential tax refund that the local government authority promised to pay to the Business Enterprise II under an agreement that the local government authority entered with the Business Enterprise II on 2 November 2012. It is noted that, according to the Legal Opinions, the Business Enterprise II has no legal obstacle to renew the relevant benefits mentioned above.

(vii) Projection period

Since the Management plans to gradually increase the invested capital from RMB50 million to RMB300 million in 2015, 5-year projections have been prepared starting from the year when capital of RMB300 million is fully invested. The forecast is therefore up to year 2020 and the business is considered to become mature thereafter with a terminal growth rate of 3%.

7.0 RISK FACTORS

There are certain risks involved in the operations of the Business Enterprises and some of these risks are possibly beyond the control of the Management. Any of the risks and uncertainties described below could have a material adverse effect on the business, profitability and financial condition of the Business Enterprises. These risks can be characterized as (i) risks relating to the Business Enterprises and their operations, and (ii) risks relating to the market and industry.

(i) Risks relating to the Business Enterprises and their operations

- The Business Enterprises are newly set-up companies and are at a very preliminary stage of operations with short business history;
- The Business Enterprises are dependent on key management personnel with relevant experience in the money lending industry;

- Owing to higher credit risk of small borrowers, the Business Enterprises are exposed to default risk;

- The Business Enterprises are subject to early repayment risk from their customers;

- The collateral quality is of great importance and may not be sufficient to cover losses in case of borrower default;

- The Business Enterprises may be exposed to fraud or other misconduct committed by their employees, customers or other third parties that could result in severe financial losses and sanctions imposed by governmental authorities.

(ii) Risks relating to the market and industry

- The competition in the money lending industry is intense;

- The industry in which the Business Enterprises operate is highly subject to changes in applicable rules and regulations. Any failure by the Business Enterprises to comply with relevant laws and regulations may have a significant impact on the business, results of operations and financial conditions; and

- The participants of the industry are subject to fluctuations in interest rates.

8.0 ECONOMIC OVERVIEW

Since 2010, concern regarding government debt has cast a shadow over recovery from the economic downturn. Governments had spent to save banks and stimulate their domestic economies, but exaggerated borrowings have led to concern of the repayment ability of the governments in the Euro Zone and the United States. Nevertheless, advanced economies have so far avoided any potential crisis including the breakup of the Euro Zone and the revision of the fiscal debt ceiling in the United States which may have adversely impacted economic growth. According to the World Economic Outlook issued by the International Monetary Fund (hereinafter referred to as the "IMF"), GDP growth for advanced economies was approximately 1.25% in 2012, with the expectation that the world economy will continue to recover from the economic recession, reaching a GDP growth greater than 2% in 2014 for advanced economies.

GDP growth in emerging markets and developing economies has outperformed the advanced economies consistently and significantly. The GDP growth for emerging markets and developing economies was approximately 5.06% in 2012, with an expected GDP growth of 5.31% and 5.72% respectively in 2013 and 2014. Challenges in emerging markets and developing economies were different when compare to advanced economies, which need to curb inflation while maintaining their economic growth.

8.1 China

China has experienced rapid economic growth over the past few years. According to the International Monetary Fund, the GDP of China in 2012 was RMB51.93 trillion, up by 7.8% over the previous year, compared to a yearly growth rate of 1.25% for advanced economies and 5.06% for emerging markets and developed economies around the world. As further projected in the World Economic Outlook April 2013 issued by the IMF, China is expected to realize approximately 8.04% GDP growth in 2013, which will again outperform the global economy. Growth in China for the five years from 2008 to 2012 has averaged at a compound annualized growth rate of 9.27% and according to the IMF, the growth rate is expected to reach 8.0% in 2013 and 8.2% in 2014 despite uncertainty in the global economic environment.

	2008	2009	2010	2011	2012	2013 estimate	2014 estimate
Growth rate	9.6%	9.2%	10.4%	9.3%	7.8%	8.0%	8.2%

Table 4: Historical and projected China GDP growth rate in 2008 – 2014
Source: IMF

9.0 INDUSTRY OVERVIEW

9.1 Money Lending Market in the PRC

According to the PBC, the total outstanding loan amounts by all financial institutions at the end of September 2012 was RMB61.51 trillion, representing an annual growth of 16.3%. In the first three quarters of 2012, outstanding loans increased by RMB6.72 trillion. The growth of micro and small enterprise loans, which rose by 20.7% on annual basis and was 5% points higher than total enterprise loan growth, is one of the driving forces for the increase in total outstanding loans of the country.

The outstanding loans attributable to micro and small enterprises registered RMB11.29 trillion. The growth for this sector surpassed that of loans to large enterprises and to medium enterprises in the same period by 9.9% and 4% respectively. At the end of September 2012, the loans to micro and small enterprises accounted for 28.6% of total enterprise loans outstanding, up 0.4% points from the end of the previous quarter. The micro and small enterprise loans increased by RMB1.35 trillion in the first three quarters, posting 35% of total enterprise loan growth in the same period. Despite the credit control policy proposed by the Chinese Government, the growth of micro and small enterprise loans indicates the increasing need of micro financing from smaller borrowers and the potential of this market sector. The figure below shows that the total outstanding loans extended to small enterprises has exhibited a higher growth.

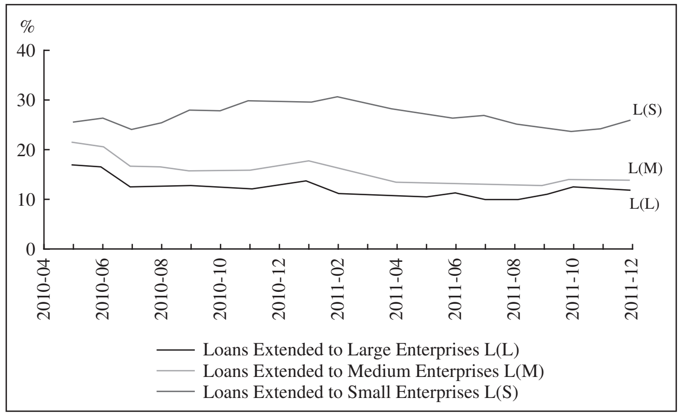


Figure 5: Growth rate of outstanding loans extended to large enterprises, medium enterprises, and small enterprises
Source: PBC

9.2 Borrowings to Small and Medium Sized Enterprises

To cope with China's inflationary environment, the Chinese authorities introduced credit tightening measures to control liquidity in the system while maintaining steady economic growth. The monetary tightening policies have made small and medium sized enterprises (hereinafter referred to as "SMEs"), which have a significant contribution to the Chinese economy, face funding difficulties to sustain their businesses. The rigid requirements for loan approvals, extensions and collateral have caused SMEs to turn to alternative credit channels such as pawn loans, small loan companies, financial leasing, loan guarantees, entrusted loans and loans provided by trust companies. The need for cash by SMEs and credit limit tightening by commercial banks have provided a good business opportunity for alternative financial institutions. The figure below shows the informal lending market rate in Wenzhou has continued to surge, which is much higher than the official lending rate. Given the tighter monetary policy, the small borrowers have risked themselves in borrowing money from grey markets or shadow banking systems.

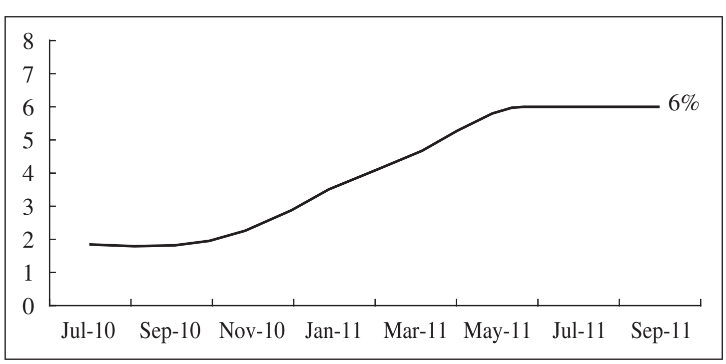


Figure 6: Borrowing cost in the informal lending market (per month)
Source: Local newspaper in Wenzhou and Credit Suisse

China's Ministry of Industry and Information Technology estimated only 15% of SMEs in China were able to secure loans from banks. These borrowers, however, had to pay interest rates 20%-50% more than that charged to large enterprises. To alleviate the pressure on the SMEs, the government aimed to boost liquidity by cutting the reserve requirement ratio recently. Demand for loans still significantly exceeds supply.

9.3 Types of Alternative Credit Channels

SMEs in the PRC face the problem of raising funds as they are sometimes not catered to by commercial banks. Commercial banks are closely monitored by the Chinese authorities in the interest of public deposits. To limit risk exposure, banks are required to apply risk control during the review of loan application which is tedious and untimely. However, SMEs usually have small but urgent financing needs for various purposes. The emergence of alternative financing providers often bridge this funding gap in the loan market. The lending channels are categorized as follows:

(i) Entrusted Loan

Entrusted loans are a form of agency business in which fund capital provided by government, private organizations or individuals is loaned through banks to the target borrowers for a specified purpose, amount, tenor and at a specified lending rate as instructed by the fund capital provider. Entrusted loans do not require commercial banks to bear any credit risk and provide a means of financing for the small borrowers who fail to meet the credit requirements of banks.

(ii) Finance Lease

This is usually an equipment based financing, in which the lessor owns the asset and then leases such asset for a specified term and rental amount. It is usually difficult for SMEs to obtain long term financing for the purchase of equipment. This arrangement offers a long term financing option for fixed asset investment.

(iii) Small and Micro Loan Companies

Small and micro loan companies provide high interest loans which are often unsecured. The lenders serve SMEs and individuals who are unable to provide collateral. These loan companies have higher risk tolerance than typical banks.

(iv) Pawn Loan

Pawn loans are loans that are secured by easily transferable collaterals. The lenders are more concerned about the collateral quality rather than repayment ability of borrowers which can shorten the time of relevant processing. Therefore, this loan provides a faster financing solution to SMEs.

(v) Loan Guarantee

Where SMEs are unable to meet the credit requirements of banks and lenders, a loan guarantor company provides guarantees to banks on behalf of the borrowers. The guarantor is subject to contingent liability in case of the borrowers' default and in return, receives a fee from the borrower.

9.4 Small and Micro Financing in Jilin Province

Based on the statistics released by the PBC, at the end of June 2013, there are in total 319 companies engaged in small and micro financing in Jilin Province and more than 2,800 workers employed for this market. The total invested capital is around RMB9 billion, of which approximately 75% are loans currently outstanding, amounting to approximately RMB6.84 billion. The invested capital as well as the outstanding loans extended to small borrowers has increased continuously since 2010. The following table illustrates the invested capital and outstanding loans at the end of each quarter in Jilin Province since 31 December 2010.

(RMB billion)	**2010 Q4**	**2011 Q1**	**2011 Q2**	**2011 Q3**	**2011 Q4**
Invested capital	2.32	3.05	3.44	3.79	4.05
Loans outstanding	1.73	2.17	2.63	2.85	3.05
	2012 Q1	**2012 Q2**	**2012 Q3**	**2012 Q4**	**2013 Q1**
Invested capital	4.66	5.44	5.99	6.98	7.98
Loans outstanding	3.47	4.10	4.63	5.59	6.16
	2013 Q2				
Invested capital	9.13				
Loans outstanding	6.84				

* *Figures above are subject to rounding.*

Table 5: Invested capital and loans outstanding in Jilin Province
Source: PBC

10.0 INVESTIGATION AND ANALYSIS

Our investigation included discussions with the Management in relation to the money lending industry in the PRC, and the development, operations and other relevant information of the Target Group. In addition, we have made relevant inquiries and obtained such further information including financial and business information, and statistical figures from other sources as we consider necessary for the purpose of this valuation. As part of our analysis, we have made reference to the Feasibility Study Report, the Legal Opinions, the business plan, the projections and other pertinent data concerning the Business Enterprises provided to us by the Management.

The valuation of the Target Group requires consideration of all pertinent factors, which affect the operation of the businesses and their ability to generate future investment returns. The factors considered in this valuation include the following:

- Nature and operations of the Target Group;
- Historical information of the Target Group;
- Proposed business development and expansion of the Target Group;
- Terms and conditions as stated in formal agreements and contracts;
- Terms and conditions as stated in the Permits;
- Regulations and rules of the money lending industry in the PRC;
- Economic and industry data affecting the money lending industry and other dependent industries in the PRC;
- Market-derived investment return(s) of similar business; and
- General global economic outlook.

During the course of our valuation, we have independently assessed the reasonableness of key inputs provided by the Management, including the lending rate, the consultancy fee rate and the borrowing cost of funds. We consider these inputs are reasonable, reflecting market conditions.

11.0 GENERAL VALUATION APPROACHES

There are three generally accepted approaches to obtain the market value of the Target Group, namely the Market-based Approach, the Asset-based Approach and the Income-based Approach. Each of these approaches is appropriate in one or more circumstances, and sometimes, two or more approaches may be used together. Whether to adopt a particular approach will be determined by the most commonly adopted in valuing business entities that are similar in nature.

11.1 Market-based Approach

The Market-based Approach values a business entity by comparison of the prices at which other similar business nature companies or interests changed hands in arm's length transactions. The underlying theory of this approach is that one would not pay more than one would have to pay for an equally desirable alternative. By adopting this approach, we will first look for an indication of value from the prices of other similar companies or equity interest in companies that were sold recently.

The right transactions employed in analyzing for indications of value need to be sold at an arm's length basis, assuming that the buyers and sellers are well informed and have no special motivations or compulsions to buy or to sell.

The derived multiples (most commonly used are: price to earnings, price to revenues and price to book multiple) based on the analysis of those transactions are then applied to the fundamental financial variables of the subject business entity to derive an indication of value.

11.2 Asset-based Approach

The Asset-based Approach is based on the general concept that the earning power of a business entity is derived primarily from its existing assets. The assumption of this approach is that when each of the elements of working capital, tangible and intangible assets is individually valued, their sum represents the value of a business entity and equals the value of its invested capital (equity and debt capital). In other words, the value of the business entity is represented by the money that has been made available to purchase the business assets needed.

This money comes from investors who buy stocks of the business entity (equity) and investors who lend money to the business entity (debt). After collecting the total amounts of money from equity and debt, and converted into various types of assets of the business entity for its operation, the sum of such assets equals the value of the business entity.

From a valuation perspective, we will restate the values of all types of assets of a business entity from book values, i.e. historical cost minus depreciation to appropriate standards of value. After the restatement, we can identify the indicated value of the business entity, or, by applying the accounting principle "assets minus liabilities", to arrive at the value of the equity interest of the business entity.

11.3 Income-based Approach

The Income-based Approach focuses on the economic benefits generated by the income producing capability of a business entity. The underlying theory of this approach is that the value of a business entity can be measured by the present worth of the economic benefits to be received over the life of the business entity.

Based on this valuation principle, the Income-based Approach estimates the future economic benefits and discounts these benefits to its present value using a discount rate appropriate for the risks associated with realizing those benefits.

Alternatively, this can be calculated by capitalizing the economic benefits to be received in the next period at an appropriate capitalization rate. This is subject to the assumption that the business entity will continue to maintain stable economic benefits and growth rate.

12.0 VALUATION APPROACH FOR THE TARGET GROUP

In the process of valuing a business subject, we have taken into consideration the business nature, specialty of its operation and the industry it is participating. Having considered the three general valuation methodologies, we believed that the Income-based Approach would be appropriate and reasonable in the valuation of the market value of the Target Group.

The Target Group is currently at the start-up stage of operation, while the comparable companies are mainly listed companies with stable operations. Therefore, the market approach is less appropriate as there are no public listed companies to derive price multiples or market transactions directly comparable to the Target Group due to the uniqueness of location and stage of development of the relevant businesses. Furthermore, the market approach can result in inconsistent estimates of value where key variables such as risk and growth potential are ignored. For a going concern, the Asset-based Approach is not appropriate as it ignores the economic benefits generated by the business as a whole. We have therefore relied solely on the Income-based Approach in determining our opinion of value. In contrast, the Income-based Approach allows projecting the economic benefits of the business by taking into account of the proposed expansion and growth potential of the subject business, which provides a better understanding of the future development of the subject business. The risk of the underlying business will also be taken into account by adjusting the discount rate to factor for any uncertainties.

For the valuation of financial lending institutions, common valuation methods under the Income-based Approach include the Dividend Discount Model, the Cashflows to Equity Model, and the Residual Income Model. In the course of our valuation, we have adopted the Residual Income Model in deriving our opinion of value of the Target Group. We considered the Dividend Discount Model is not suitable in our valuation as the Target Group are not expected to payout dividends in the near term. The Cashflow to Equity Model is not suitable for valuing the Target Group, since the nature of the business causes fluctuations in the free cash flow which cannot be estimated reliably.

Under the Residual Income Model, the equity value of a company is calculated by discounting the residual income to its present value. The residual income or economic profit is the net income generated by a firm in excess of the opportunity cost of capital of equity holders. The opportunity cost of capital is calculated from the discount rate which is based on the cost of equity as derived from the capital asset pricing model (CAPM).

12.1 Discount Rate

To adopt the Residual Income Model, we must obtain the cost of equity of the company as a basic discount rate. It is the minimum required return that a valuation subject must earn to satisfy its shareholders.

From a modern portfolio management perspective, typical investors are risk-averse and rational. They make all investment decisions based on risk and return of an investment opportunity. The cost of equity, therefore, should account for the risk premium, which is the required additional return over the risk free rate. Additional risk premiums such as country risk premium and size premium are added to reflect the other risk factors concerning the Target Group. All the estimates are supported by public sources such as Bloomberg and Morningstar. The capital asset pricing model (CAPM) is used to determine the appropriate cost of equity of the Target Group. The CAPM states that the required return of the asset is based on the non-diversifiable risk, as represented by the beta, and the market return and the risk free rate. In estimating the beta, we have identified 9 comparable companies listed in Hong Kong and overseas, which are involved in provision of financial assistance, especially to small borrowers. The comparable companies are listed as follows:

Bloomberg stock code	Company name
605 HK	China Financial Services Holdings Ltd.
626 HK	Public Finance Holdings Ltd.
900 HK	AEON Credit Service Asia Co.
8207 HK	Credit China Holdings Ltd.
8215 HK	First Credit Finance Group Limited
8515 JP	Aiful Corporation
8572 JP	ACOM Co. Ltd.
ADMF IJ	Adira Dinamika Multi Finance Tbk
VRNA IJ	Verena Multi Finance Tbk

The comparable companies above are regarded generally to be subjected to the same systematic risks as the Business Enterprises.

Cost of equity = risk free rate + equity beta x market risk premium + size premium + country risk premium + specific risk premium

Cost of equity calculation:

(1) Risk free rate	2.41%
(2) Equity beta	0.60
(3) Market risk premium	6.70%
(4) Size premium	3.81%
(5) Country risk premium	1.05%
(6) Specific risk premium	2.00%
Cost of equity	**13.29%**

** Figures above are subject to rounding process*

Notes:

(1) This is the yield of US treasury government bond, which is a mature market risk free rate sourced from 2013 Ibbotson SBBI Valuation Yearbook.

(2) This is the adjusted beta by making reference to public listed companies as listed above with comparable business nature and operation, which are sourced from Bloomberg.

(3) Market risk premium = market rate of return – risk free rate. To derive a long-term equity risk premium, we refer to the long-horizon expected equity risk premium (historical), sourced from "2013 Ibbotson SBBI Valuation Yearbook". A mature market equity risk premium is used since we derive a stable, long-term discount rate for use in the valuation, therefore we have adopted the expected equity risk premium of the United States instead of one from developing equity markets. The country risk premium (in Note 5 below) accounts for the location of operation of the Business Enterprises.

(4) Based on the research published by Ibbotson Associates, Inc. (as referenced from "2013 Ibbotson SBBI Valuation Yearbook"), the CAPM does not fully account for the higher returns of smaller company stocks. According to their research data of historical returns from 1926 – 2012 of micro-cap companies, the size premium (returns in excess of those predicted by CAPM) is 3.81%.

(5) This is the increased risk with operating in the PRC where the risk profile is different to the market premium applied in our analysis, including business risk, financial risk, liquidity risk, exchange rate risk and country risk. We refer to the data and methodology derived on Damodaran Online (http://pages.stern.nyu.edu/~adamodar/), updated for 2013, in determining the country risk premium for the PRC.

Damodaran Online is prepared by Aswath Damodaran, who is currently a Professor of Finance at the Stern School of Business at New York University. Mr. Damodaran teaches valuation and corporate finance courses in the MBA program and has published several books, including four books on equity valuation and two on corporate finance. He has also published papers in the Journal of Financial and Quantitative Analysis, the Journal of Finance, the Journal of Financial Economics and the Review of Financial Studies. He received his MBA and Ph.D from the University of California at Los Angeles.

(6) This is the increased required return by shareholders for the illiquidity of the equity interest as compared to interests in publicly traded companies and the start up risk of the business after weighing up the relevant risk factors of the Target Group as disclosed in the circular of the Company.

Given the above variables, we have derived the cost of equity of 13.29%.

13.0 VALUATION ASSUMPTIONS

- We have made reference to the Feasibility Study Report, the Legal Opinions, the business plan, the financial information and the projections provided by the Management and have independently verified key inputs including the lending rate, the consultancy fee rate and the borrowing cost of funds and bad debts provision, which are representative and comparable to current market data;

- Estimation of related interest income, borrowing costs, expenses and capital injections are provided by the Management;

- The target aggregate paid-up capital is RMB200 million upon approval for the increase in registered capital. As advised, this will allow for bank financing in aggregate of RMB100 million, resulting in a total capital of RMB300 million available for lending in 2015.

- The profit tax is based on the Legal Opinions as provided by the Management;

- The terminal growth rate adopted is approximately 3%, which is based on IMF projected inflation rate;

- For the Target Group to continue as a going concern, the Target Group will successfully carry out all necessary activities for the development of their businesses;

- Market trends and conditions where the Target Group operates will not deviate significantly from economic forecasts in general;

- The unaudited financial statements of the Target Group as supplied to us have been prepared in a manner which truly and accurately reflect the financial position of the Target Group as at the respective balance sheet dates;

- Key management, competent personnel and technical staff will all be retained to support the ongoing operation of the Target Group;

- There will be no material changes in the business strategy of the Target Group and their operating structure;

- The Target Group shall have uninterrupted rights to operate their existing businesses during the unexpired term of their authorized operating period;

- Interest rates and exchange rates in the localities for the operation of the Target Group will not differ materially from those presently prevailing;

- All relevant approvals, business certificates, licenses or other legislative or administrative authority from any local, provincial or national government, or private entity or organization required to operate in the localities where the Target Group operate or intend to operate will be officially obtained and renewable upon expiry unless otherwise stated; and

- There will be no major changes in the political, legal, economic or financial conditions and taxation laws in the localities in which the Target Group operates or intends to operate, which would adversely affect the revenues and profits attributable to the Business Enterprises.

14.0 SENSITIVITY ANALYSIS

As part of our analysis, we have performed a sensitivity analysis of our market value derived from Income-based Approach. We have tested the sensitivity of the market value of the Target Group to change of the discount rate, the borrowing cost, the lending rate and the consulting fees, which are the underlying variables considered to be risk exposures of the Business Enterprises. The results are presented as follows:

	Changes in Market Value
	(RMB'000)
Cost of equity	
1% increase in cost of equity	(139,417)
1% decrease in cost of equity	172,542
Borrowing cost	
1% increase in borrowing cost	(24,925)
1% decrease in borrowing cost	25,366
Interest rate on loans	
1% increase in interest rate	48,557
1% decrease in interest rate	(47,134)
Consultancy fee	
1% increase in consultancy fee	61,293
1% decrease in consultancy fee	(59,152)

The above sensitivity analysis is for reference only and it is intended to show the possible outcome under different market conditions. Due to the existence of other uncertainties, actual result could exceed the ranges shown above.

15.0 SCENARIO ANALYSIS

We have performed a scenario analysis of the market value in the case where (i) the total capital available for lending is RMB150 million and (ii) the tax benefits are not sustainable.

(i) Scenario I

In the case where the registered capital of the Business Enterprise I remained at RMB100 million with bank financing of RMB50 million, for a total capital of RMB150 million available for lending, given other basis, inputs and assumptions in our analysis remained constant, the market value of the Target Group as at the Valuation Date would be in the sum of RMB605,620,000.

(ii) Scenario II

In the case where the tax benefits are not sustainable and the Business Enterprise II is subject to statutory taxes in the PRC, given other basis, inputs and assumptions in our analysis remained constant, the market value of the Target Group as at the Valuation Date would be in the sum of RMB695,060,000.

16.0 LIMITING CONDITIONS

Our conclusion of the market value is derived from generally accepted valuation procedures and practices that rely substantially on the use of various assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained. This valuation reflects facts and conditions existing at the Valuation Date. Subsequent events have not been considered and we are not required to update our report for such events and conditions.

To the best of our knowledge, all data set forth in this report is reasonable and accurately determined. The data, opinions, or estimates as identified or being furnished by others, which have been used in formulating this analysis, are gathered from reliable sources, however, no guarantee is made nor liability assumed for their accuracy.

We have made reference to the information provided by the Management in arriving at our opinion of value. We are not in the position to verify the accuracy of all information provided to us. However, we have had no reason to doubt the truth and accuracy of the information provided to us and that any material facts have been omitted from the information provided. No responsibility for operational and financial information that have not been provided to us is accepted.

We have not investigated the title to or any legal liabilities of the Target Group and have assumed no responsibility for the title to the Target Group.

Save as and except for the purpose stated above, neither the whole nor any part of this report nor any reference thereto may be included in any document, circular or statement without our written approval of the form and context in which it will appear.

In accordance with our standard practice, we must state that this report is for the exclusive use of the party to whom it is addressed and for the specific purpose stated above. No responsibility is accepted to any third party for the whole or any part of its contents.

We would particularly point out that our valuation was based on the information such as company background, business nature, market share, future prospect as well as the business plan of the Target Group provided to us.

17.0 REMARKS

Unless otherwise stated, all monetary amounts stated in this valuation report are in Renminbi (RMB).

We hereby confirm that we have neither present nor prospective interest in the Target Group, the Company, and its subsidiaries and associated companies, or the value reported herein.

18.0 OPINION OF VALUE

Based on the investigation and analysis stated above and on the valuation method employed, we are of the opinion that the market value of the 100% equity interest of the Target Group as at the Valuation Date was in the sum of **RMB1,101,800,000 (RENMINBI ONE BILLION ONE HUNDRED AND ONE MILLION EIGHT HUNDRED THOUSAND ONLY)**.

Yours faithfully,
For and on behalf of
Peak Vision Appraisals Limited
Nick C. L. Kung
Registered Business Valuer of HKBVF
MRICS, MHKIS, RPS (G.P.), RICS Registered Valuer
Director, Corporate Valuations

Notes: Mr. Nick C. L. Kung is a Registered Professional Surveyor and Registered Business Valuer of the Hong Kong Business Valuation Forum (HKBVF) who has more than 8 years of experience in the valuation of trade-related business assets and business enterprises in Hong Kong and the PRC.

Set out below are the texts of the reports from Messis Capital Limited and HLB Hodgson Impey Cheng Limited in connection with the cash flow forecasts underlying the valuation on the Target Group as at 30 June 2013 and prepared for the purpose of inclusion in this Circular.

1. LETTER FROM MESSIS CAPITAL LIMITED

大有融資有限公司
MESSIS CAPITAL LIMITED

11 September 2013

The Board of Directors
Sino Prosper State Gold Resources Holdings Limited
Unit A03, 11th Floor
Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

Dear Sirs,

We refer to the discounted cash flow forecasts underlying the business valuation (the "Valuation") prepared by Peak Vision Appraisals Limited (the "Valuer") in relation to the appraisal of the valuation of the entire equity interests in the Target Group as at 30 June 2013. The Valuation is regarded as a profit forecast under Rule 14.61 of the Listing Rules. The details of the Valuation are contained in the circular of the Company dated 11 September 2013 (the "Circular"), of which this report forms part. Capitalised terms used in this letter have the same meanings as defined in the Circular unless the context otherwise requires.

We have reviewed the forecasts upon which the Valuation has been made and have discussed with you and the Valuer the information and documents provided by you which formed part of the basis and assumptions upon which the forecasts have been prepared. We have also considered the letter from HLB Hodgson Impey Cheng Limited dated 11 September 2013 addressed to you as set out in Appendix V to the Circular regarding the calculations upon which the forecasts have been made. We have noted that no accounting policies of the Company have been adopted in the preparation of the Valuation as the Valuation relates only to cash flows.

On the basis of the foregoing, we are satisfied that the forecasts underlying the Valuation, for which you as the Directors of the Company are solely responsible, have been made by you after due and careful enquiry.

Yours faithfully,
For and on behalf of
Messis Capital Limited
Thomas Lai
Managing Director

2. REPORT FROM HLB HODGSON IMPEY CHENG LIMITED

HLB 國衛會計師事務所有限公司
Hodgson Impey Cheng Limited

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

11 September 2013

The Board of Directors
Sino Prosper State Gold Resources Holdings Limited
Unit A03, 11th Floor
Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
HONG KONG

Dear Sirs,

Sino Prosper State Gold Resources Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group")

Report on forecasts underlying the valuation of 100% equity interest of five business entities (hereinafter referred to as the "Target Group")

We have examined the arithmetical accuracy of the calculations of the discounted cash flow forecasts underlying the business valuation (the "Underlying Forecast") dated 11 September 2013 prepared by Peak Vision Appraisals Limited in relation to the appraisal of the valuation of the entire equity interest of the Target Group as at 30 June 2013, which is regarded as a profit forecast under Rule 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Underlying Forecast is set out in Appendix IV "Valuation Report" to the circular of the Company dated 11 September 2013 (the "Circular").

Respective responsibilities of the directors of the Company and the reporting accountants

The directors of the Company (the "Directors") are responsible for the preparation of the Underlying Forecast and the reasonableness and validity of the assumptions based on which the Underlying Forecast is prepared (the "Assumptions"). It is our responsibility to form an opinion, based on our work on the arithmetical accuracy of the calculation of the Underlying Forecast and to report our opinion solely to you, as a body, solely for the purpose of reporting under paragraph 29(2) of Appendix 1B of the Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of, arising out of, or in connection with our work. Because the Underlying Forecast relates to cash flows, no accounting policies of the Company have been adopted in its preparation. The Assumptions include hypothetical assumptions about future events as detailed in Appendix IV to the Circular and management actions that cannot be confirmed and verified in the same way as past results, and these assumptions may or may not occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Underlying Forecast and the variation may be material. Accordingly, we have not reviewed, considered or conducted any work on the reasonableness and the validity of the Assumptions and do not express opinion whatsoever thereon.

Basis of opinion

We conducted our work in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to the procedures under Auditing Guideline 3.341 "Accountants' report on profit forecasts" issued by the Hong Kong Institute of Certified Public Accountants. We have examined the arithmetical accuracy of the calculations of the Underlying Forecast. Our work has been undertaken solely to assist the Directors in evaluating whether the Underlying Forecast, so far as the arithmetical accuracy of the calculations are concerned, has been properly compiled in accordance with the Assumptions made by the Directors. Our work does not constitute any valuation of the 100% equity interest of the Target Group.

Opinion

In our opinion, so far as the arithmetical accuracy of the calculations are concerned, the Underlying Forecast has been properly compiled in accordance with the Assumptions made by the Directors.

Yours faithfully,
HLB Hodgson Impey Cheng Limited
Certified Public Accountants
Hui Chun Keung, David
Practising Certificate Number: P05447
Hong Kong

1. RESPONSIBILITY STATEMENT

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

2. SHARE CAPITAL

Assuming that the number of issued Shares will not be changed by any allotment and issue or repurchase of Shares during the period between the Latest Practicable Date and the Completion Date, the auothorised and issued share capital of the Company (i) as at the Latest Practicable Date were, (ii) after the Completion and before conversion of the Convertible Bonds; and (iii) after the Completion and following the allotment and issue of the Conversion Shares upon full conversion of the Convertible Bonds will be, as follows:

As at the Latest Practicable Date

Authorised:	*HK$*
2,000,000,000 Shares of a nominal value of HK$0.1 each	200,000,000.00
Issued and fully paid:	
775,787,497 Shares of a nominal value of HK$0.1 each	77,578,749.70

After the Completion and before conversion of the Convertible Bonds

Authorised:	*HK$*
4,000,000,000 Shares of a nominal value of HK$0.1 each	400,000,000.00
Issued and fully paid or credited as fully paid:	
775,787,497 Shares of a nominal value of HK$0.1 each	77,578,749.70

After the Completion and following the allotment and issue of the Conversion Shares upon full conversion of the Convertible Bonds

Authorised:	*HK$*
4,000,000,000 Shares of a nominal value of HK$0.1 each	400,000,000.00
Issued and fully paid or credited as fully paid:	
1,992,003,713 Shares of a nominal value of HK$0.1 each	199,200,371.30

The Conversion Shares shall rank pari passu in all respects, including the right to all dividends, voting and interests in capital, among themselves and with all other Shares then in issue on the dates of issue of the Conversion Shares.

The Shares are primarily listed on the main board of the Stock Exchange. No part of the share capital 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 the Conversion Shares to be listed or dealt in on any other stock exchange.

Application will be made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.

There are no arrangements under which future dividends will be waived or agreed to be waived.

3. INTERESTS OF DIRECTORS

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporation(s) (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) 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 (the ''Model Code''), were as follows:

Name of Director/ Chief Executive	Nature of interest	Number of Shares interested or deemed to be interested (long position)	Approximate percentage of the issued share capital of the Company *(Note 1)*
Leung Ngai Man	Beneficial owner	159,663,000 *(Note 2)*	20.58%
Sung Kin Man	Beneficial owner	7,000,000 *(Note 3)*	0.90%
Zhang Qingkui	Beneficial owner	7,700,000 *(Note 4)*	0.99%
Wu Wei Hua	Beneficial owner	8,800,000 *(Note 5)*	1.13%

Note 1: This percentage is calculated on the basis of 775,787,497 Shares in issue as at the Latest Practicable Date but does not take into account of any Shares which may fall to be allotted and issued upon the exercise of any options which remained outstanding as at the Latest Practicable Date.

Note 2: These 159,663,000 Shares were attributable to Mr. Leung Ngai Man. Among these shares, (a) 158,863,000 Shares were beneficially owned by Mr. Leung Ngai Man; and (b) 800,000 Shares represented underlying Shares for which Mr. Leung was entitled to subscribe upon exercise of certain options granted to him under the old Share Option Scheme (which was adopted by the Company on 25 April 2002 and terminated on 20 April 2012) ("Old Share Option Scheme"). Share options carrying rights to subscribe for 8,000,000 Shares were granted to Mr. Leung Ngai Man on 3 January 2005 pursuant to the Old Share Option Scheme. Pursuant to an ordinary resolution passed on 24 February 2012, a share consolidation was approved with effect from 27 February 2012 in which every 10 of the then existing issued and unissued ordinary shares of HK$0.01 each in the share capital of the Company were consolidated into 1 consolidated share having a par value of HK$0.1 per share (the "Share Consolidation"). Every 10 of the then options were consolidated into 1 consolidated option and the exercise prices were adjusted accordingly.

Note 3: Share options carrying rights to subscribe for 10,000,000 and 60,000,000 Shares were granted to Mr. Sung Kin Man on 4 May 2010 and 27 January 2012, respectively pursuant to the Old Share Option Scheme, which has been adjusted by the Share Consolidation as stated in Note 2 above.

Note 4: Share options carrying rights to subscribe for 7,700,000 Shares were granted to Mr. Zhang Qingkui on 26 April 2012 pursuant to the share option scheme adopted and approved by Shareholders on 20 April 2012 ("New Share Option Scheme").

Note 5: Share options carrying rights to subscribe for 3,000,000 Shares, 8,000,000 Shares and 60,000,000 Shares were granted to Ms. Wu Wei Hua on 8 May 2006, 4 May 2010 and 27 January 2012, respectively pursuant to the Old Share Option Scheme, which has been adjusted by the Share Consolidation as stated in Note 2 above. Share options carrying rights to subscribe for 1,700,000 Shares were granted to Ms. Wu Wei Hua on 24 September 2012 pursuant to the New Share Option Scheme.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executives of the Company have interest or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 & 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or (ii) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or (iii) which were required pursuant to the Model Code to be notified to the Company and the Stock Exchange.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and proposed Directors is a director or employee of a company which has an interest or short position in the Shares and underlying Shares which would fall to be disclosed under the provisions of Division 2 and 3 of Part XV.

4. INTERESTS OF SUBSTANTIAL SHAREHOLDERS

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

Name of Shareholder	Nature of interest	Number of Shares interested or deemed to be interested (long position)	Approximate percentage of the issued share capital of the Company *(Note 1)*
Matterhorn Investment Management (Asia) Limited	Investment manager *(Note 2)*	54,645,300	7.04%
Somercourt Investments Limited	Nominee for another person (other than a bare trustee) *(Note 3)*	54,645,300	7.04%
Somercourt Services	Interest of a controlled corporation	54,645,300	7.04%
George Robinson	Interest of a controlled corporation	54,645,300	7.04%

Note 1: This percentage is calculated on the basis of 775,787,497 Shares in issue as at the Latest Practicable Date but does not take into account of any Shares which may fall to be allotted and issued upon the exercise of any options which remained outstanding as at the Latest Practicable Date.

Note 2: Matterhorn Investment Management (Asia) Limited was appointed as non-beneficial discretionary investment manager to Somercourt Investments Limited.

Note 3: Somercourt Investments Limited was interested in 54,645,300 Shares of the Company. It was a wholly owned subsidiary of Somercourt Services which in turn was 69.05% controlled by George Robinson.

Save as disclosed above, as so far is known to the Directors or chief executives of the Company, the Company had not been notified of any other interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO, or any persons (other than the Directors and chief executives of the Company) who, as at the Latest Practicable Date, was directly and indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group, or had any options in respect of such capital.

5. DIRECTORS' SERVICE CONTRACTS

As 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).

6. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to the Directors to be pending or threatened by or against the Group.

As at the Latest Practicable Date, to the best of the Directors' knowledge, information and belief and based on information provided by the Vendor, the Target Group was not engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Target Group.

7. COMPETING INTERESTS

For complete record purpose, Mr. Leung has been taking steps to establish a micro-financing enterprise in Changchun city, Jilin Province, which however is still in the application-vetting stage. According to Mr. Leung, up to the Latest Practicable Date, such application has not yet been approved by the relevant authorities in Changchun City. Whether or not such enterprise may be incorporated is still uncertain as at the Latest Practicable Date. In addition, even if established, such enterprise may not conduct business in Jilin City (although both of them are located at Jilin Province) because of the geographic restriction imposed by the relevant permits and the related application laws and regulations in the PRC. Please refer to page 68 of this circular for further details of this matter.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or their respective associates had any interest in any business which competes or may compete, either directly or indirectly, with the business of the Group or has or may have any other conflicts of interest with the Group pursuant to the Listing Rules.

8. DIRECTORS' INTERESTS IN ASSETS

Save as the Acquisition (details of which are disclosed in this circular) and the SSDL Acquisition (details of which are disclosed in the announcement of the Company dated 30 December 2011), none of the Directors or proposed Director or expert (as named in this circular) had any interest, direct or indirect, in any assets which have been, since 31 March 2013, being the date to which the latest published audited accounts of the Company 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.

Details of the SSDL Acquisition were set out in the announcement of the Company dated 30 December 2011. As disclosed, Sino Prosper State Gold HK Limited, a wholly-owned subsidiary of the Company, and Mr. Leung entered into an agreement on 19 December 2011 pursuant to which Sino Prosper

State Gold HK Limited has conditionally agreed to acquire and Mr. Leung has conditionally agreed to dispose of the entire issued share capital of SSDL and a sale loan at a total consideration of RMB550 million. As at the Latest Practicable Date, completion of the SSDL Acquisition has not yet taken place.

9. DIRECTORS' INTERESTS IN CONTRACTS

Mr. Leung Ngai Man entered into a service contract with the Group for an initial term of one year commencing from 3 September 2010 which was automatically renewable for the successive terms of one year but not more than an aggregate of three years from the date of initial commencement, unless terminated by either party giving not less than three months' notice in writing to the other party.

Mr. Sung Kin Man entered into a service contract with the Group on 4 November 2009 without a definite term of appointment, and may be terminated by either party giving not less than three months' notice in writing to the other party.

Mr. Ng Kwok Chu, Winfield entered into a service contract with the Group on 25 June 2012 for an initial term of two years commencing from 26 June 2012, which would then be renewed thereafter on terms to be mutually agreed, unless terminated by either party giving not less than one month's notice in writing to the other party.

Mr. Niu Zhihui has signed an appointment letter with the Group on 6 November 2012 for an initial term of 1 year commencing from 6 November 2012, which would then be renewed thereafter on terms to be mutually agreed, unless terminated by either party giving not less than one month's notice in writing to the other party.

Mr. Cai Wei Lun signed an appointment letter with the Group on 31 March 2012 for an initial term of two years commencing from 1 April 2012, which would then be renewed thereafter on terms to be mutually agreed, unless terminated by either party giving not less than one month's notice in writing to the other party.

Mr. Zhang Qingkui signed an appointment letter with the Group on 31 January 2013 for an initial term of two years commencing from 31 January 2013, which would then be renewed thereafter on terms to be mutually agreed, unless terminated by either party giving not less than one month's notice in writing to the other party.

Save as disclosed above, none of the Directors has a service contract with any member of the Group which is not determinable by the Company within one year without payment of compensation other than their statutory compensation.

Save as disclosed above and (i) the Acquisition (details of which are disclosed in this circular) and (ii) the SSDL Acquisition (details of which are disclosed in the announcement of the Company dated 30 December 2011), no Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Enlarged Group to which the Company or any of its subsidiaries or any of the Target Group was a party as at the Latest Practicable Date.

10. EXPERTS AND CONSENTS

The following sets out the qualifications of the experts who have given opinion or advice which are contained in this circular:

Name	Qualification
HLB Hodgson Impey Cheng Limited	Certified Public Accountants
Messis Capital Limited	A licensed corporation under the SFO permitted to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
Nuada Limited	A licensed corporation under the SFO permitted to carry on type 6 (advising on corporate finance) regulated activity under the SFO
Peak Vision Appraisals Limited	Independent professional valuer

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 respectively appear.

As at the Latest Practicable Date, none of the above experts was beneficially interested in the share capital of any member of the Group, nor did any one of them have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group (including any company which become a subsidiary of the Company by reason of an acquisition or which has been agreed or proposed since 31 March 2013, being the date to which the audited consolidated financial statements of the Company have been made up).

11. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by the members of the Group within two years immediately preceding the date of this circular, which are or may be material:

(a) the agreement dated 19 December 2011 entered into between Sino Prosper State Gold HK Limited, a wholly-owned subsidiary of the Company (as purchaser), and Mr. Leung (as vendor), in respect of the SSDL Acquisition, pursuant to which Sino Prosper State Gold HK Limited has conditionally agreed to acquire and Mr. Leung has conditionally agreed to dispose of the entire issued share capital of SSDL and a sale loan at a total consideration of RMB550 million (and the related supplemental agreement dated 28 December 2012 and a second supplemental agreement dated 30 August 2013);

(b) the warrant placing agreement dated 7 March 2012 (as supplemented by a deed dated 8 March 2012) entered into between the Company and Astrum Capital Management Limited in respect of placing of 152,000,000 warrants of the Company by Astrum Capital Management Limited on a best effort basis at the placing price of HK$0.01 per warrant and the subscription price is HK$0.72 per Share upon exercising the subscription rights attaching to the Warrants;

(c) the Agreement dated 27 September 2012, as supplemented by the 1st Supplemental Agreement and the 2nd Supplemental Agreement, entered into between the Purchaser and the Vendor in respect of the Acquisition, where the Purchaser has agreed to acquire, and the Vendor has agreed to sell, or procure the sale of, the Sale Shares and the Sale Debts at a maximum consideration of HK$850 million, on and subject to the terms and conditions of the Agreement (as supplemented by the 1st Supplemental Agreement and the 2nd Supplemental Agreement);

(d) the deed of settlement and assumption of repayment obligation (the "Settlement Deed") entered into between Target BVI, Target HK No.1, Mr. Leung and a related company (a company which is wholly-owned by Mr. Leung, the "Related Company") dated 23 May 2013, pursuant to which the parties have agreed upon the execution of the Settlement Deed that: (i) Target BVI shall assume the obligation of the Related Company to make repayment of the amount of the debt owing by Target BVI to the Related Company (the "Assumed Debt") to Mr. Leung in a total amount of approximately HK$119,610,000; (ii) Target BVI shall assume the obligation of Mr. Leung to make repayment of the outstanding balance of approximately HK$57,040,000 owing by Mr. Leung to Target HK No.1 (the "M Loan") so as to set-off against and reduce its obligation to repay the Assumed Debt to Mr. Leung by the amount of the M Loan, and as a result thereof Target BVI shall owe and be to repay Mr. Leung the net balance of the Assumed Debt and the M Loan instead of the full amount of the Assumed Debt whereas Target BVI shall owe and be obliged to repay Target HK No.1 the amount of the M Loan; and (iii) the Related Company's repayment obligation to Mr. Leung shall be reduced by the amount of the Assumed Debt, leaving the amount of the reduced balance to be repayable by the Related Company to Mr. Leung; and

(e) the deed of assignment entered into between Target BVI and Target HK No.2 dated 23 May 2013, pursuant to which Target HK No.2 has an amount of approximately HK$808,000 (the "D Loan") due to Mr. Leung. Target BVI and Target HK No.2 have agreed to assign the repayment obligation of the D Loan from Target HK No.2 to Target BVI and the D Loan has become owing by Target BVI to Mr. Leung.

12. EVENTS TRIGGERING ADJUSTMENTS TO CONVERSION PRICE AND THE ADJUSTMENT FORMULA OF THE CONVERTIBLE BONDS

Under the instrument to be executed which will constitute and define the rights and interests of holders of the Convertible Bonds, certain events will trigger adjustments to conversion price of the Convertible Bonds (the "Conversion Price"). Such events and the related formula are set summarised below:

1. Subject as provided in the instrument, the Conversion Price shall from time to time be adjusted in accordance with the following relevant provisions:

(a) If and whenever the Shares by reason of any consolidation, sub-division or reclassification become of a different nominal amount, the Conversion Price in force immediately prior thereto shall be adjusted by multiplying it by the following fraction:

$$\frac{A}{B}$$

where:

A = the revised nominal amount; and

B = the former nominal amount.

Each such adjustment shall be effective from the close of business in Hong Kong on the date on which the consolidation or sub-division becomes effective.

(b) If and whenever the Company shall issue (other than in lieu of a cash dividend) any Shares credited as fully paid by way of capitalisation of profits or reserves (including any share premium account or, if any, capital redemption reserve fund), the Conversion Price in force immediately prior to such issue shall be adjusted by multiplying it by the following fraction:

$$\frac{C}{C + D}$$

where:

C = the aggregate nominal amount of the issued Shares immediately before such issue; and

D = the aggregate nominal amount of the Shares issued in such capitalisation.

Each such adjustment shall be effective (if appropriate retroactively) from the commencement of the day next following the record date for such issue.

(c) If and whenever the Company shall make any Capital Distribution (as defined in Paragraph 2 below) (except where, and to the extent that, the Conversion Price falls to be adjusted under sub-paragraph (b) above) to holders of the Convertible Bonds (the "Bondholders") (in their capacity as such) of Shares (whether on a reduction of capital or otherwise) or shall grant to such holders rights to acquire for cash assets of the Company or any of its subsidiaries, the Conversion Price in force immediately prior to such distribution or grant shall be adjusted by multiplying it by the following fraction:

$$\frac{E - F}{E}$$

where:

E = the market price (as defined in Paragraph 2) on the date on which the Capital Distribution or, as the case may be, the grant is publicly announced or (failing any such announcement) next preceding the date of the Capital Distribution or, as the case may be, of the grant; and

F = the fair market value on the day of such announcement or (as the case may require) the next preceding day, as determined in good faith by an approved merchant bank or auditors of the Company for the time being, of the portion of the Capital Distribution or of such rights which is attributable to one Share;

Provided that:

(i) if in the opinion of the relevant approved merchant bank or auditors of the Company (as the case may be), the use of the fair market value as aforesaid produces a result which is significantly inequitable, it may instead determine, and in such event the above formula shall be construed as if F meant the amount of the said market price which should properly be attributed to the value of the Capital Distribution or rights; and

(ii) the provisions of this sub-paragraph (c) shall not apply in relation to the issue of Shares paid out of profits or reserves and issued in lieu of a cash dividend.

Each such adjustment shall be effective (if appropriate retroactively) from the commencement of the day next following the record date for the Capital Distribution or grant.

(d) If and whenever the Company shall after the date hereof offer to holders of Shares new Shares for subscription by way of rights, or shall grant to holders of Shares any options, warrants or other rights to subscribe for or purchase any Shares, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before the date of the announcement of such offer or grant by the following fraction:

$$\frac{G + \frac{H \times I}{J}}{G + H}$$

where:

G = the number of Shares in issue immediately before the date of such announcement;

H = the aggregate number of Shares so offered for subscription;

I = the amount (if any) payable for the rights, options or warrants or other rights to subscribe for each new Share, plus the subscription price payable for each new Share; and

J = the closing price per Share on the last trading day on which the Shares are traded on cum-rights basis.

Such adjustment shall become effective (if appropriate retroactively) from the commencement of the day next following the record date for the offer.

2. For the purposes of the above adjustments:

"announcement" shall include the release of an announcement to the press or the delivery or transmission by telephone, telex, electronic means or otherwise of an announcement to the Stock Exchange and "date of announcement" shall mean the trading day of the Stock Exchange on which the announcement is first so released to the press or first appears on the website of the Stock Exchange at "www.hkex.com.hk";

"Capital Distribution" shall (without prejudice to the generality of that phrase) include distributions in cash or specie. Any dividend charged or provided for in the accounts for any financial period shall (whenever paid and however described) be deemed to be a Capital Distribution provided that any such dividend shall not automatically be so deemed if it is paid out of the aggregate of the net profits (less losses) attributable to the holders of Shares for all financial periods after 31 December 2007 as shown in the audited consolidated profit and loss account of the Company and its subsidiaries for each financial period ended 31 December;

"issue" shall include allot;

"market price" mean on or of any day the market price falls to be ascertained means the arithmetic means of the closing price per Share for each of the last five (5) trading days ending on such trading day immediately preceding such day;

"reserves" includes unappropriated profits; and

"rights" includes rights in whatsoever form issued.

3. The provisions of Paragraph 1 shall not apply to:

(a) an issue of fully paid Shares upon the exercise of any conversion rights attached to securities convertible into Shares or upon exercise of any rights (including any conversion of the Convertible Bonds) to acquire Shares;

(b) an issue of Shares or other securities of the Company or any subsidiary of the Company wholly or partly convertible into, or rights to acquire, Shares to eligible participants pursuant to any share option scheme duly approved by the Company;

(c) an issue of fully-paid Shares by way of capitalisation of all or part of any subscription right reserve, or any similar reserve which has been or may be established pursuant to the terms of any securities wholly or partly convertible into, or rights to acquire, Shares; or

(d) an issue of Shares pursuant to a scrip dividend scheme duly approved by the Company in accordance with its constitutional documents.

13. GENERAL

(a) The registered office of the Company is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

(b) The head office and principal office of business of the Company in Hong Kong is at Unit A03, 11th Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.

(c) The branch share registrar of the Company in Hong Kong is Trior Secretaries Limited situated at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

(d) The secretary of the Company is Ms. Chiu Ngan Ling Annie, a fellow member of The Association of Chartered Accountants, an associate member of Hong Kong Institute of Certified Public Accountants, a member of Hong Kong Securities Institute and a Certified Public Accountant in Hong Kong.

(e) In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.

14. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the principal place of business of the Company in Hong Kong at Unit A03, 11th Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong during normal business hours from the date of this circular up to and including the date of the EGM:

(a) the memorandum and articles of association of the Company;

(b) the material contracts referred to under the paragraph headed "Material contracts" in this appendix;

(c) the letter from the Independent Board Committee, the text of which is set out on pages 103 to 104 of this circular;

(d) the letter of advice from the Independent Financial Adviser, the text of which is set out on pages 105 to 136 of this circular;

(e) the accountants' report of the Target Group, the text of which is set out in appendix II to this circular;

(f) the report on the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in appendix III to this circular;

(g) the Valuation Report, the text of which is set out in appendix IV to this circular;

(h) the reports on forecasts underlying the valuation of the Target Group prepared by HLB Hodgson Impey Cheng Limited and Messis Capital Limited, the texts of which are set out in appendix V to this circular;

(i) the written consents referred to under the paragraph headed "Experts and Consents" in this appendix;

(j) the annual reports of the Company for each of the three financial years ended 31 March 2013; and

(k) this circular.

SINO PROSPER STATE GOLD RESOURCES HOLDINGS LIMITED
中盈國金資源控股有限公司

(incorporated in the Cayman Islands with limited liability)
(Stock Code: 766)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of Sino Prosper State Gold Resources Holdings Limited ("**Company**") will be held at BC Boardroom 2-3, 1/F., Hong Kong SkyCity Marriott Hotel, 1 Sky City Road East, Hong Kong International Airport, Lantau, Hong Kong on Monday, 30 September 2013 at 10:30 a.m. (or immediately following the extraordinary general meeting to be held at 10:00 a.m. pursuant to the notice dated 3 September 2013 given by the Company, whichever is later) or any adjournment thereof for the purpose of considering and, if thought fit, passing the following resolutions as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

1. "**THAT** the authorised share capital of Sino Prosper State Gold Resources Holdings Limited ("**Company**") be and it is hereby increased from HK$200,000,000 to HK$400,000,000 by the creation of an additional 2,000,000,000 ordinary shares of HK$0.1 each in the capital of the Company, and that the Directors be and they are hereby authorised to do all such acts and things, to sign and execute all such further documents and to take such steps as the Directors may consider necessary, appropriate, desirable or expedient to give effect to or in connection with such increase in the authorized share capital of the Company."

2. "**THAT** subject to the passing of resolution numbered 1 above:

   (A) the form and substance of the agreement ("**Acquisition Agreement**") dated 27 September 2012 and made between Leung Ngai Man as vendor ("**Vendor**") and Favour South Limited as purchaser ("**Purchaser**") in relation to the sale and purchase of the entire issued shares in Treasure Join Limited and the face value of the loans outstanding as at the completion of such transaction made by or on behalf of the Vendor to Treasure Join Limited at a consideration (subject to adjustments pursuant to the terms of the Acquisition Agreement) of HK$850 million (a copy of which Acquisition Agreement has been produced to the meeting and marked "**A**" and initialed by the chairman of the meeting for identification purpose), as mentioned in the Company's circular ("**Circular**") dated 11 September 2013 (a copy of which has been produced to the meeting marked "B" and signed by the chairman of the meeting for the purpose of identification) and all the transactions contemplated thereby be and they are hereby approved;

(B) the creation and issue of the Convertible Bonds (as defined in the Circular), on and subject to the terms of the Acquisition Agreement, be and it is hereby approved;

(C) the directors ("**Directors**") of the Company be and they are hereby generally and specifically authorized to allot and issue such number of new shares in the capital of the Company as may be allotted and issued upon the exercise of the conversion rights in full attaching to the Convertible Bonds (as defined in the Circular); and

(D) the Directors be and they are hereby authorized to do all such acts and things, to sign and execute all such further documents and to take such steps as the Directors in their discretion may consider necessary, appropriate, desirable or expedient to give effect to or in connection with the Acquisition Agreement, the allotment and issue of the new shares upon exercise of the conversion rights attaching to the Convertible Bonds (as defined in the Circular), the issue of the Convertible Bonds (as defined in the Circular), the allotment and issue of the Conversion Shares (as defined in the Circular) or any of the transactions contemplated under the Acquisition Agreement (including but not limited to the execution of the instrument which will constitute the Convertible Bonds (as defined in the Circular)) and to agree to such variation, amendments or waiver or matters relating thereto (including any variation, amendments or waiver of such documents, which are not fundamentally different from those as provided under the Acquisition Agreement) as are, in the opinion of the Directors, in the interest of the Company and its shareholders as a whole."

For and on behalf of the board of directors of
Sino Prosper State Gold Resources Holdings Limited
Ng Kwok Chu, Winfield
Executive Director

Hong Kong, 11 September 2013

Registered Office:
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Head office and principal place of business in Hong Kong:
Unit A03, 11th Floor
Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

Notes:

(1) Any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person as his/her proxy to attend and vote instead of him/her. A proxy need not be a member of the Company. A member who is holder of more than one share in the Company may appoint more than one proxy to attend in his/her stead.

(2) The enclosed form of 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 at the Company's branch share registrar and transfer office, Tricor Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the Meeting or adjourned meeting at which the person named in the enclosed form of proxy proposes to vote, or, in the case of a poll taken subsequently to the date of the Meeting or adjourned meeting, not less than 48 hours before the time appointed for the taking of the poll, and in default the enclosed form of proxy shall not be treated as valid provided always that the chairman of the Meeting may at his discretion direct that an instrument of proxy shall be deemed to have been duly deposited upon receipt of telex or cable or facsimile confirmation from the appointor that the instrument of proxy duly signed is in the course of transmission to the Company. Delivery of any instrument appointing a proxy shall not preclude a member from attending and voting in person at the Meeting or poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

(3) Where there are joint registered holders of any share in the Company, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such share as if he/she were solely entitled thereto; but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present being the most, or as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register in respect of the relevant joint holding.

(4) The enclosed form of proxy must be signed by the appointor or of his attorney 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.

As at the date of hereof, the Board comprises the following members: (a) as executive Directors, Mr. Leung Ngai Man, Mr. Sung Kin Man and Mr. Ng Kwok Chu, Winfield; and (b) as independent non-executive Directors, Mr. Niu Zhihui, Mr. Cai Wei Lun and Mr. Zhang Qingkui.