

28 April 2016

To the Independent Shareholders

Dear Sir or Madam,

**UNCONDITIONAL MANDATORY CASH OFFER BY
CHINA GALAXY
FOR AND ON BEHALF OF THE OFFEROR
FOR ALL THE ISSUED SHARES IN THE COMPANY
(OTHER THAN THOSE ALREADY OWNED BY OR AGREED TO BE
ACQUIRED BY THE OFFEROR
AND PARTIES ACTING IN CONCERT WITH IT)**

INTRODUCTION

Reference is made to the Joint Announcement.

Immediately following Completion, the Offeror and the parties acting in concert with it become interested in a total of 1,128,000,000 Shares, representing approximately 54.00% of the entire issued share capital of the Company as at the Latest Practicable Date. Pursuant to Rule 26.1 of the Takeovers Code, the Offeror is required to make an unconditional mandatory cash offer for all the issued Shares (other than those already acquired or agreed to be acquired by the Offeror and parties acting in concert with it).

This letter sets out, among other things, the details of the Offer, information on the Offeror and the intention of the Offeror regarding the Group. The terms of the Offer are set out in this letter, Appendix I to this Composite Document, and the accompanying Form of Acceptance.

The Independent Shareholders are strongly advised to consider carefully the information contained in the "Letter from the Board" and "Letter from the Independent Board Committee" as set out in this Composite Document before reaching a decision as to whether or not to accept the Offer.

THE OFFER

As at the Latest Practicable date, there are 2,088,807,500 Shares in issue and outstanding Warrants which entitle the holders to subscribe for up to an aggregate of 244,125,000 new Shares. Each of the holders of the Warrants has executed an irrevocable undertaking to the Offeror and the Company not to exercise the subscription rights attached to the Warrants and not to transfer, dispose of or otherwise deal in the Warrants before the close of the Offer, and not to accept the mandatory cash offer for the

outstanding Warrants if there is any or otherwise make the Warrants available for acceptance under the Offer. As such, the Offer is not extended to the holders of the Warrants. Save for the Warrants, the Company has no other outstanding warrants, options, derivatives, convertibles or other securities in issue which may confer any rights to the holder(s) thereof to subscribe for, convert or exchange into the Shares.

Principal terms of the Offer

China Galaxy, on behalf of the Offeror, hereby makes the Offer in accordance with the Takeovers Code on the following terms:-

For every Offer Share accepted under the Offer HK\$0.08 in cash

The Offer Price of HK\$0.08 per Offer Share is the same as the subscription price pursuant to the Subscription Agreement and was determined after arm's length negotiations between the Offeror and the Company.

The Offer is extended to all Independent Shareholders in accordance with the Takeovers Code. The Offer Shares to be acquired under the Offer shall be fully paid and free from all liens, charges, encumbrances, right of pre-emption and any other third party rights of any nature and together with all rights attaching to them as at the Completion Date, including the rights to receive in full all dividends and distributions, if any, declared, made or paid on or after the Completion Date.

There is no restrictions on subsequent sale of the Offer Shares.

The Offer is unconditional in all respects and is not conditional upon acceptances being received in respect of a minimum number of the Shares or any other conditions.

Comparison of value

The Offer Price of HK\$0.08 is equal to the subscription price under the Subscription Agreement and represents:

- (i) a discount of approximately 46.31% to the closing price of HK\$0.149 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a discount of approximately 45.95% to the average of the closing prices of the Shares as quoted on the Stock Exchange for the five consecutive trading days up to and including the Last Trading Day of approximately HK\$0.148 per Share;
- (iii) a discount of approximately 47.71% to the average of the closing prices of the Shares as quoted on the Stock Exchange for the ten consecutive trading days up to and including the Last Trading Day of approximately HK\$0.153 per Share;
- (iv) a discount of approximately 49.37% to the average of the closing prices of the Shares as quoted on the Stock Exchange for the 30 consecutive trading days up to and including the Last Trading Day of approximately HK\$0.158 per Share;

- (v) a discount of approximately 59.39% to the average of the closing prices of the Shares as quoted on the Stock Exchange for the 90 consecutive trading days up to and including the Last Trading Day of approximately HK\$0.197 per Share;
- (vi) a discount of 75.00% to the closing price of HK\$0.32 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- (vii) a premium of approximately 14.29% over the unaudited consolidated net asset value of approximately HK\$0.07 per Share as at 30 September 2015 (based on the unaudited consolidated statement of financial position of the Company as at 30 September 2015 and the number of Shares in issue as at the date of the Joint Announcement).

Highest and lowest Share prices

The highest and lowest closing prices of the Shares as quoted on the Stock Exchange during the Relevant Period were HK\$0.32 per Share (on 25 April 2016) and HK\$0.108 per Share (on 15 March 2016) respectively.

The outstanding Warrants

As at the Latest Practicable Date, there are four holders of the Warrants. Each Warrant entitles the holder thereof to subscribe for one Warrant Share at the adjusted subscription price of HK\$0.16 per Warrant Share at any time during a period of 36 months commencing from 12 August 2014, being the date of issue of the Warrants. Upon exercise of the subscription rights attaching to the Warrants in full, an aggregate of 244,125,000 new Shares will be allotted and issued. Apart from being holders of the Warrants, to the best knowledge, information and belief of the Directors and having made all reasonable enquiries, each of the holders of the Warrants are Independent Third Parties and do not have any relationship with the Offeror. Each of the holders of the Warrants has executed an irrevocable undertaking to the Offeror and the Company not to exercise the subscription rights attached to the Warrants and not to transfer, dispose of or otherwise deal in the Warrants before the close of the Offer, and not to accept the mandatory cash offer for the outstanding Warrants if there is any or otherwise make the Warrants available for acceptance under the Offer. As such, the Offer is not extended to the holders of the Warrants.

Total consideration of the Offer

On the basis of the Offer Price of HK\$0.08 per Offer Share and there are 2,088,807,500 Shares in issue as at the Latest Practicable Date. Excluding the Subscription Shares having been subscribed by the Offeror pursuant to the Subscription and 128,000,000 Shares being held by IEL as at the Latest Practicable Date and assuming that there is no change in the issued share capital of the Company prior to the close of the Offer, 960,807,500 Shares are subject to the Offer and the total consideration of the Offer would be approximately HK\$77,000,000 based on the Offer Price and on the basis of full acceptances of the Offer.

Financial resources available for the Offer

The financial resources required from the Offeror to satisfy the total consideration of the Offer amount to approximately HK\$77,000,000. The Offeror intends to finance the total consideration for the Offer by internal resources.

China Galaxy has been appointed as the financial adviser to the Offeror in respect of the Offer and is satisfied that sufficient financial resources are available to the Offeror to satisfy full acceptances of the Offer.

Payment

Payment in cash in respect of acceptances of the Offer will be made as soon as practicable but in any event within seven business days (as defined under the Takeovers Code) of the date on which the relevant documents of title are received by the Offeror to render each such acceptance complete and valid, whichever is later.

Effect of accepting the Offer

By accepting the Offer, the Independent Shareholders will sell their Shares free from all liens, charges, encumbrances, right of pre-emption and any other third party rights of any nature and together with all rights attaching to them as at the Completion Date, including the rights to receive in full all dividends and distributions, if any, declared, made or paid on or after the Completion Date.

Acceptance of the Offer by any Independent Shareholder will be deemed to constitute a warranty by such person that all the Shares sold by such person under the Offer are free from all liens, charges, encumbrances, right of pre-emption and any other third party rights of any nature and together with all rights attaching to them as at the Completion Date, including the rights to receive in full all dividends and distributions, if any, declared, made or paid on or after the Completion Date. The Offer is unconditional in all respects and will open for acceptance from the date of the Offer Document until 4:00 p.m. on the Closing Date. Acceptance of the Offer shall be irrevocable and not capable of being withdrawn, except as permitted under the Takeovers Code.

Hong Kong Stamp duty

In Hong Kong, seller's ad valorem stamp duty arising in connection with acceptances of the Offer will be payable by relevant Independent Shareholders at a rate of 0.1% of the market value of the Offer Shares as determinate by the Collector of Stamp Revenue under the Stamp Duty Ordinance (Chapter 111 of the laws of Hong Kong) or consideration payable by the Offeror in respect of the relevant acceptances of the Offer, whichever is higher, will be deducted from the cash amount payable by the Offeror to the relevant Independent Shareholder accepting the Offer. The Offeror will arrange for payment of the seller's ad valorem stamp duty on behalf of relevant Independent Shareholders accepting the Offer and will pay the buyer's ad valorem stamp duty in connection with the acceptance of the Offer and the transfer of the Shares in accordance with the Stamp Duty Ordinance (Chapter 111 of the laws of Hong Kong).

Taxation advice

The Independent Shareholders are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of accepting or rejecting the Offer. None of the Offeror, parties acting in concert with it, the Company, China Galaxy, Lego and their respective ultimate beneficial owners, directors, officers, advisers, agents or associates or any other person involved in the Offer accepts responsibility for any taxation effects on, or liabilities of, any persons as a result of their acceptance or rejection of the Offer.

Overseas Shareholders

As the Offer to persons not resident in Hong Kong may be affected by the laws of the relevant jurisdiction in which they are resident, the Overseas Shareholders who are citizens or residents or nationals of a jurisdiction outside Hong Kong should inform themselves about and observe any applicable legal or regulatory requirements and where necessary seek legal advice. It is the responsibility of the Overseas Shareholders who wish to accept the Offer to satisfy themselves as to the full observance of the laws of the relevant jurisdiction in connection therewith (including the obtaining of any governmental or other consent which may be required or the compliance with other necessary formalities and the payment of any transfer or other taxes due in respect of such jurisdiction).

ACCEPTANCE AND SETTLEMENT

Your attention is drawn to the further details regarding the procedures for acceptance and settlement and acceptance period as set out in Appendix I to this Composite Document and the accompanying Form of Acceptance.

Dealings and interests in securities of the Company

Save for the Subscription, none of the Offeror nor parties acting in concert with it has dealt in the Shares and any outstanding options, derivatives, warrants or other securities convertible or exchangeable into Shares during the six-month period prior to the date of the Joint Announcement.

As at the Latest Practicable Date, the Offeror and parties acting in concert with it have not entered into any arrangements or contracts in relation to the outstanding derivatives in respect of securities in the Company nor have any of its members borrowed or lent any Relevant Securities in the Company. As at the Latest Practicable Date, save for the Subscription Shares and the 128,000,000 Shares held by IEL, the holding company of the Subscriber, the Offeror and parties acting in concert with it do not hold, own or control any Shares, outstanding options, derivatives, warrants or other securities convertible into Shares during the Relevant Period.

Other arrangements

As at the Latest Practicable Date, (i) there is no arrangement (whether by way of option, indemnity or otherwise) of the kind referred to in Note 8 to Rule 22 of the Takeovers Code in relation to the shares of the Offeror or the Shares and which might be material to the Offer; (ii) save for the Subscription Agreement, there is no agreement or arrangement to which the Offeror is a party which relates to circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the Offer; (iii) none of the Offeror nor parties acting in concert with it has received any irrevocable commitment to accept the Offer; and (iv) none of the Offeror nor parties acting in concert with it has borrowed or lent any Relevant Securities (as defined in Note 4 to Rule 22 of the Takeovers Code).

Compulsory acquisition

The Offeror and parties acting in concert with it do not intend to exercise any right which may be available to them to acquire compulsorily any Shares not tendered for acceptance under the Offer.

INFORMATION ON THE OFFEROR

The Offeror is an investment holding company incorporated in the BVI and a direct wholly-owned subsidiary of IEL, a company incorporated in the Cayman Islands whose shares are listed on the Main Board of the Stock Exchange (stock code: 1328). IEL, through its subsidiaries, is a customer relationship management outsourcing service provider which principally engages in the provision of inbound and outbound services to companies in various service-oriented industries and the research and development, production and sales of RF-SIM products and the licensing of RF-SIM operation rights in markets other than Hong Kong and Macau as well as the research and development and technology transfer of CA-SIM application right to customers.

INFORMATION ON THE GROUP

The Company is an investment holding company incorporated in the Cayman Islands and through its subsidiaries, is principally engaged in provision of train information systems, and development of various community mobile internet applications and related services through the licensed utilization of the CA-SIM patented technology.

The following table is a summary of certain consolidated financial information of the Group for the two financial years ended 31 March 2014 and 31 March 2015, for the six months ended 30 September 2015 and for the nine months ended 31 December 2015.

	Year ended	Year ended	Six months	Nine
	31 March	31 March	ended	months
	2014	2015	30	ended
	<i>HK\$'000</i>	<i>HK\$'000</i>	September	December
	<i>(audited)</i>	<i>(audited)</i>	2015	2015
			<i>HK\$'000</i>	<i>HK\$'000</i>
			<i>(unaudited)</i>	<i>(unaudited)</i>
Revenue	68,133	75,427	20,589	37,984
(Loss) before taxation	(53,042)	(41,926)	(9,993)	(13,208)
(Loss) after taxation attributable to equity Shareholders	(56,809)	(42,462)	(9,993)	(13,208)

The unaudited net assets value attributable to equity Shareholders as at 30 September 2015 was approximately HK\$76,029,000.

OFFEROR'S INTENTION ON THE GROUP

It is the intention of the Offeror to continue with the existing principal businesses of the Group. The Offeror will conduct a more detailed review on the operations of the Group with a view to formulate a suitable business strategy for the Company and will explore other business opportunities and consider whether any assets and/or business acquisitions by the Group will be appropriate in order to enhance its growth. As at the Latest Practicable Date, the Offeror has no intention or concrete plans for any acquisition or disposal of assets and/or business by the Group and has no intention to (i) discontinue the employment of any employees of the Group (save for a change in the composition of the Board as discussed below); (ii) redeploy the fixed assets of the Group other than those in its ordinary and usual course of business; or (iii) introduce any major changes in the existing operations and business of the Company.

PROPOSED CHANGE OF COMPOSITION OF THE BOARD

As at the Latest Practicable Date, the Board is made up of six Directors, comprising two executive Directors, namely Mr. Ma Yuanguang and Mr Hu Tiejun; one non-executive Director, namely Mr. Wing Kee Eng, Lee; and three independent non-executive Directors, namely Mr. Liu Kejin, Professor Lu Ting Jie and Mr. Leung Kwok Keung.

After the despatch of the Composite Document, the Offeror will nominate new Director(s) to the Board, representing a majority of the Board. Any changes to the composition of the Board will be made in compliance with the memorandum and articles of association of the Company, the Takeovers Code and the GEM Listing Rules and a further announcement will be made accordingly.

MAINTENANCE OF THE LISTING STATUS OF THE COMPANY

The Offeror intends to maintain the listing of the Shares on GEM after the close of the Offer. The directors of the Offeror had jointly and severally undertaken to the Stock Exchange to take appropriate steps to ensure that a sufficient public float exists in the Shares.

The Stock Exchange has stated that if, upon the close of the Offer, less than the minimum prescribed percentage applicable to the Company, being 25%, of the issued Shares are held by the public or if the Stock Exchange believes that (i) a false market exists or may exist in the trading of the Shares; or (ii) there are insufficient Shares in public hands to maintain an orderly market, then it will consider exercising its discretion to suspend trading in the Shares under the GEM Listing Rules.

GENERAL

To ensure equality of the treatment of all Independent Shareholders, those registered Independent Shareholders who hold the Offer Shares as nominees for more than one beneficial owner should, as far as practicable, treat the holding of each beneficial owner separately. It is essential for the beneficial owners of the Offer Shares whose investments are registered in the names of nominees to provide instructions to their nominees of their intentions with regard to the Offer.

The attention of the Overseas Shareholders is drawn to paragraph 8 in Appendix I to this Composite Document.

All documents and remittance will be sent to the Independent Shareholders by ordinary post at their own risk. Such documents and remittances will be sent to them at their respective addresses as they appear in the register of members of the Company or, in the case of joint Independent Shareholders, to the Independent Shareholder whose name appears first in the register of members of the Company, as applicable. None of the Company, the Offeror and parties acting in concert with it, China Galaxy, Lego and the Registrar, nor any of their respective directors or any persons involved in the Offer will be responsible for any loss or delay in transmission or any other liabilities that may arise as a result thereof.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information regarding the Offer set out in the appendices to this Composite Document and the accompanying Form(s) of Acceptance, which form part of this Composite Document. In addition, your attention is also drawn to the “Letter from the Board”, the “Letter from the Independent Board Committee” and the letter of advice by the Independent Financial Adviser to the Independent Board Committee in respect of the Offer as set out in the “Letter from the Independent Financial Adviser” contained in this Composite Document.

Yours faithfully,
For and on behalf of
China Galaxy International Securities (Hong Kong) Co., Limited

Steven Chiu
Managing Director