

*Executive Directors:*Mr. Lo Lin Shing, Simon (*Chairman*)Ms. Yvette Ong (*Managing Director*)*Non-executive Director:*

Mr. To Hin Tsun, Gerald

*Independent non-executive Directors:*Mr. Peter Pun *OBE JP*Mr. Tsui Hing Chuen, William *JP*

Mr. Lau Wai Piu

*Registered office:*

Clarendon House

Church Street

Hamilton HM 11

Bermuda

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

41st Floor

New World Tower 1

16-18 Queen's Road Central Hong  
Kong

24 October 2014

*To the Shareholders and, for information only,  
holders of the convertible notes of the Company*

Dear Sir or Madam,

- (1) CAPITAL REORGANISATION;  
(2) CHANGE IN BOARD LOT SIZE;  
(3) CONNECTED TRANSACTION IN RELATION TO  
SUBSCRIPTION OF THE 2014 GI CONVERTIBLE NOTE;  
(4) SUBSCRIPTIONS OF THE 2014 CTF CONVERTIBLE  
NOTE AND THE 2014 SF CONVERTIBLE NOTES;  
AND  
(5) APPLICATION FOR WHITEWASH WAIVER IN  
RELATION TO THE 2014 GI CONVERTIBLE NOTE  
AND THE 2014 CTF CONVERTIBLE NOTE**

## **INTRODUCTION**

On 19 September 2014, the Board announced that it proposed to put forward to the Shareholders the Capital Reorganisation involving the Share Consolidation, the Capital Reduction and the Share Premium Reduction and it proposed the Change in Board Lot Size upon the Capital Reorganisation becoming effective.

Furthermore, on 19 September 2014, the Company entered into the Subscription Agreements with the GI Subscriber, the CTF Subscriber and the SF Subscribers respectively, pursuant to which the GI Subscriber, the CTF Subscriber and the SF Subscribers conditionally agreed to subscribe for the 2014 Convertible Notes.

The purpose of this circular is to give you (i) details of the Capital Reorganisation; (ii) details of the Subscriptions, the 2014 Convertible Notes and the Whitewash Waiver; (iii) recommendations from the Independent Board Committee in respect of the Subscriptions and the Whitewash Waiver, respectively; (iv) the advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Subscriptions and the Whitewash Waiver, respectively; (v) other information as required under the Listing Rules and the Takeovers Code and (vi) the notice of the SGM.

## **CAPITAL REORGANISATION**

On 19 September 2014, the Board proposed to put forward to the Shareholders the Capital Reorganisation which will comprise:

- (i) the Share Consolidation whereby every four (4) issued Existing Shares of par value of HK\$0.02 each will be consolidated into one (1) Consolidated Share of par value of HK\$0.08 each;
- (ii) the Capital Reduction whereby the par value of each issued Consolidated Share will be reduced from HK\$0.08 to HK\$0.02 by cancelling the paid-up capital to the extent of HK\$0.06 on each issued Consolidated Share and any fractional Consolidated Share in the issued share capital of the Company arising from the Share Consolidation will be cancelled;
- (iii) the Share Premium Reduction whereby the entire amount standing to the credit of the share premium account of the Company will be cancelled;
- (iv) the transfer of the credit arising from the Capital Reduction and the Share Premium Reduction to the contributed surplus account of the Company; and
- (v) the application of the contributed surplus account of the Company to set off the accumulated losses of the Company as permitted by the Companies Act and the Bye-Laws.

## **Effects of the Capital Reorganisation**

As at the Latest Practicable Date, the authorised share capital of the Company was HK\$300,000,000 divided into 15,000,000,000 Existing Shares, of which 6,756,547,828 Existing Shares are issued and credited as fully paid. Assuming there will be no change in the issued share capital of the Company from the Latest Practicable Date up to the date on which the Share Consolidation becomes effective and there is no fractional share arising from the Share Consolidation, the issued share capital of the Company will be HK\$135,130,956.56 divided into 1,689,136,957 Consolidated Shares of par value of HK\$0.08 each.

Upon the Capital Reduction becoming effective, the par value of all the Consolidated Shares shall be reduced from HK\$0.08 each to HK\$0.02 each and the issued share capital of the Company shall accordingly be reduced to the extent of HK\$0.06 per Consolidated Share in issue. The fractional Consolidated Shares in the issued share capital of the Company arising from the Share Consolidation, if any, will also be cancelled. Any fractional Consolidated Shares to which the Shareholders are entitled shall be aggregated and sold for the benefit of the Company.

The New Shares will rank pari passu in all respects with each other in accordance with the Bye-Laws. The authorised share capital of the Company will remain unchanged upon the Capital Reduction becoming effective, but the issued share capital will be reduced to HK\$33,782,739.14 divided into 1,689,136,957 New Shares of par value of HK\$0.02 each.

The credit of approximately HK\$101,348,217.42 arising from the Capital Reduction and the credit arising from the Share Premium Reduction will be transferred to the contributed surplus account of the Company and applied to set off against the accumulated losses of the Company as permitted by the Companies Act and the Bye-Laws with the balance (if any) after such set off to remain in the contributed surplus account of the Company.

Other than the relevant expenses incurred and to be incurred, the implementation of the Capital Reorganisation will have no effect on the consolidated net asset value of the Group, nor will it alter the underlying assets, business, operations, management or financial position of the Company.

The Capital Reorganisation will not involve any diminution of any liability in respect of any unpaid capital of the Company or the repayment to the Shareholders of any unpaid capital of the Company nor will it result in any change in the relative rights of the Shareholders.

The following table sets out the effect of the Capital Reorganisation on the share capital of the Company before and after the implementation of the Capital Reorganisation, assuming that there is no change in the issued share capital of the Company from the Latest Practicable Date until the effective date of the Capital Reorganisation.

	As at the Latest Practicable Date	Immediately after the Share Consolidation becoming effective	Immediately after the Capital Reorganisation becoming effective
Par value	HK\$0.02 per Existing Share	HK\$0.08 per Consolidated Share	HK\$0.02 per New Share
Authorised share capital	HK\$300,000,000.00 divided into 15,000,000,000 Existing Shares	HK\$300,000,000.00 divided into 3,750,000,000 Consolidated Shares	HK\$300,000,000.00 divided into 15,000,000,000 New Shares
Issued and fully paid up or credited as fully paid up share capital	HK\$135,130,956.56 divided into 6,756,547,828 Existing Shares	HK\$135,130,956.56 divided into 1,689,136,957 Consolidated Shares (Note)	HK\$33,782,739.14 divided into 1,689,136,957 New Shares (Note)
Unissued share capital	HK\$164,869,043.44 divided into 8,243,452,172 Existing Shares	HK\$164,869,043.44 divided into 2,060,863,043 Consolidated Shares (Note)	HK\$266,217,260.86 divided into 13,310,863,043 New Shares (Note)

*Note:* Assuming that there is no fractional Share arising from the Share Consolidation.

### Reasons for the Capital Reorganisation

The Board considers that (i) the Share Consolidation will reduce the transaction costs for dealing in the New Shares, including those fees which are charged with reference to the number of board lots; (ii) the Capital Reorganisation will provide the Company with greater flexibility in possible fund raisings in the future; and (iii) the credit in the contributed surplus account of the Company arising from the Capital Reduction and the Share Premium Reduction will enable the Company to set off its accumulated losses and may be applied in the future for distribution to the Shareholders or in any manner permitted by the laws of Bermuda and the Bye-Laws.

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

## **Conditions of the Capital Reorganisation**

The Capital Reorganisation (which will be effected in accordance with the Bye-Laws and the Companies Act) is conditional upon:

- (i) the passing of a special resolution to approve the Capital Reorganisation by the Shareholders at the SGM;
- (ii) the Stock Exchange granting the listing of, and permission to deal in, the New Shares arising from the Capital Reorganisation and the New Shares which may fall to be allotted and issued upon exercise of the share options granted and to be granted under the share option schemes of the Company and upon exercise of the conversion rights attaching to the outstanding convertible notes of the Company;
- (iii) the compliance with the relevant procedures and requirements under the laws of Bermuda and the Listing Rules to effect the Capital Reorganisation; and
- (iv) the obtaining of all necessary approvals from the regulatory authorities or otherwise as may be required in respect of the Capital Reorganisation.

## **Listing and dealings**

Application will be made to the Listing Committee for the granting of the listing of, and permission to deal in, the New Shares arising from the Capital Reorganisation and the New Shares which may fall to be allotted and issued upon exercise of the Share Options and upon exercise of the conversion rights attaching to the outstanding convertible notes of the Company.

Subject to the granting of the listing of, and permission to deal in, the New Shares on the Stock Exchange, the New Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the New Shares on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

The New Shares will be identical in all respects and rank *pari passu* in all respects with each other. All necessary arrangements will be made for the New Shares to be admitted into CCASS.

No part of the securities of the Company is listed or dealt in on any stock exchange other than the Stock Exchange, and no application for listing or permission to deal in any securities of the Company is being or is proposed to be sought on other stock exchanges.

### **Fractional shares**

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

### **Free exchange of share certificates**

Subject to the Capital Reorganisation becoming effective, Shareholders may from Thursday, 13 November 2014 to Friday, 19 December 2014 submit share certificates of the Existing Shares to the Company's branch share registrar in Hong Kong, Tricor Standard Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong in exchange, at the expense of the Company, for new share certificates of New Shares. Thereafter, share certificates of the Existing Shares will be accepted for exchange only on payment of a fee of HK\$2.50 (or such higher amount as may be allowed by the Stock Exchange from time to time) for each share certificate of the Existing Shares cancelled or each new share certificate issued for the New Shares, whichever number of certificates cancelled/issued is higher. It is expected that the share certificates of the New Shares will be available for collection within a period of 10 Business Days after the date of submission of the share certificates of the Existing Shares to the Company's branch share registrar in Hong Kong. The existing share certificates will only be valid for trading and settlement purposes for the period up to 4:00 p.m. on Wednesday, 17 December 2014 (or such other date which may be announced by the Company) and will continue to be good evidence of legal title and may be exchanged for share certificates of the New Shares at any time in accordance with the foregoing.

The new share certificates of the New Shares will be issued in blue colour in order to distinguish them from the existing green colour.

### **Arrangement on odd lot trading**

In order to facilitate the trading of odd lots (if any) of the New Shares arising from the Capital Reorganisation and the Change in Board Lot Size (as detailed below), the Company has appointed Halcyon Securities Limited as an agent to provide matching service, on a best effort basis, to those Shareholders who wish to acquire odd lots of the New Shares to make up a full board lot, or to dispose of their holding of odd lots of the New Shares during the period from 9:00 a.m. on Thursday, 27 November 2014 to 4:00 p.m. on Wednesday, 17 December 2014 (both days inclusive). Shareholders who wish to take advantage of this facility either to dispose of their odd lots of the New Shares or to top up their odd lots of the New Shares to a full new board lot may directly or through their broker contact Mr. Gilbert Lam of Halcyon Securities Limited at 11th Floor, 8 Wyndham Street, Hong Kong (telephone: (852) 3970 0990 and facsimile: (852) 3970 0998) in the aforesaid period.

The Shareholders should note that successful matching of the sale and purchase of odd lots of the New Shares is not guaranteed. The Shareholders are recommended to consult their

## **Adjustment in relation to other securities of the Company**

As at the Latest Practicable Date, the Company had 86,800,000 outstanding Share Options, the Existing 5% CTF Convertible Note and the Existing 5% GI Convertible Note. The Existing 5% CTF Convertible Note and the Existing 5% GI Convertible Note will be fully redeemed subject to the satisfaction of the conditions as set out in this circular below. Further announcement will be made by the Company as and when appropriate in respect of any adjustment to be made as a result of the Capital Reorganisation to the exercise price of those outstanding Share Options and the aggregate number of Shares to be allotted and issued upon exercise of the subscription rights attaching to those outstanding Share Options.

Save as aforesaid, the Company had no other outstanding convertible securities, options or warrants in issue which confer any right to subscribe for, convert or exchange into Shares as at the Latest Practicable Date.

## **CHANGE IN BOARD LOT SIZE**

The Existing Shares are currently traded in board lots of 1,000. The Board proposes to change the board lot size for trading on the Stock Exchange from 1,000 Existing Shares to 3,000 New Shares upon the Capital Reorganisation becoming effective.

Based on the closing price of the Existing Share of HK\$0.168 as at the Latest Practicable Date and the existing board lot size of 1,000 Existing Shares, the prevailing board lot value is HK\$168 (equivalent to HK\$672 upon the Capital Reorganisation becoming effective). On the basis of the aforesaid closing price and the new board lot size of 3,000 New Shares, the new board lot value would be HK\$2,016. The Change in Board Lot Size is expected to result in New Shares being traded in a more reasonable board lot size and value.

## **THE SUBSCRIPTIONS**

Reference is made to the announcements of the Company dated 6 September 2013, 29 October 2013, 12 November 2013, 18 November 2013, 12 May 2014, 14 May 2014, 16 June 2014, 12 August 2014 and 12 September 2014 in relation to, among other things, (i) the expiry of the Existing 3.5% GI Convertible Note and the agreement to a moratorium on repayment of the outstanding principal and interest thereunder to 19 September 2014 by the GI Subscriber; (ii) the expiry of the Existing SF Convertible Notes and the agreement to a moratorium on repayment of the aggregate outstanding principal and interest thereunder to 19 September 2014 by the SF Subscribers; and (iii) the expiry of the Existing 3% CTF Convertible Note and the agreement to a moratorium on repayment of the outstanding principal and interest thereunder to 19 September 2014 by the CTF Subscriber.

On 19 September 2014, the Company entered into (i) the 2014 GI Subscription Agreement with the GI Subscriber pursuant to which the Company conditionally agreed to issue and the GI Subscriber conditionally agreed to subscribe for the 2014 GI Convertible Note; (ii) the 2014 CTF Subscription Agreement with the CTF Subscriber pursuant to which the Company conditionally agreed to issue and the CTF Subscriber conditionally agreed to subscribe for the 2014 CTF Convertible Note; and (iii) the 2014 SF Subscription

Agreement with the SF Subscribers pursuant to which the Company conditionally agreed to issue and the SF Subscribers conditionally agreed to subscribe for the 2014 SF Convertible Notes. The principal terms of each of the Subscription Agreements are set out below.

### **2014 GI Subscription Agreement**

**Date:** 19 September 2014

**Parties:** The Company, as issuer  
The GI Subscriber, as subscriber

The GI Subscriber is an investment holding company wholly and beneficially owned by Mr. Lo and is a substantial Shareholder. As at the Latest Practicable Date, the GI Subscriber and its concert parties (excluding the CTF Subscriber, Dragon Noble Group Limited and their respective concert parties) held 1,212,788,301 Existing Shares, representing approximately 17.95% of the existing issued share capital of the Company.

### **Subject**

The Company conditionally agreed to issue and the GI Subscriber conditionally agreed to subscribe for the 2014 GI Convertible Note at the subscription price which will be used for full settlement of the outstanding principal amount and accrued interest of the Existing 3.5% GI Convertible Note due and owing by the Company to the GI Subscriber on the GI Completion Date and for early redemption of the outstanding principal amount and accrued interest of the Existing 5% GI Convertible Note on the GI Completion Date. The GI Subscriber has, subject to the terms and conditions of the 2014 GI Subscription Agreement, agreed to extend the date of repayment of the aggregate outstanding amount owing under the Existing 3.5% GI Convertible Note to the GI Completion Date. Furthermore, redemption of the Existing 5% GI Convertible Note will be made pursuant to its terms and conditions which permit such early redemption without the prior agreement of the GI Subscriber, and therefore, constitutes an exempt share buy-back under the Share Buy-Backs Code. The GI Subscriber agrees not to exercise the conversion right under the Existing 5% GI Convertible Note until the GI Completion Date. The aggregate outstanding amount under the Existing 3.5% GI Convertible Note and the Existing 5% GI Convertible Note was HK\$538,770,637 as at the date of the 2014 GI Subscription Agreement and will be HK\$542,886,966 as at the Long Stop Date.

### **Conditions precedent**

Completion of the 2014 GI Subscription Agreement is conditional upon, among others:

- (a) the Listing Committee granting or agreeing to grant the listing of, and permission to deal in, the 2014 GI Conversion Shares issuable under the 2014 GI Convertible Note and such grant remaining in full force and effect;



- (b) all necessary consents, approvals (or waivers), authorisation, permission or exemption from any third parties, including but not limited to government or regulatory authorities, having been obtained by the Company in connection with the 2014 GI Subscription and the issue of the 2014 GI Convertible Note and the 2014 GI Conversion Shares and such consents, approvals (or waivers), authorisation, permission or exemption remaining in full force and effect;
- (c) the compliance by the Company with all legal and other requirements under the Listing Rules, the Takeovers Code and the laws of Bermuda applicable to the transactions contemplated under the 2014 GI Subscription Agreement;
- (d) the passing of the requisite respective resolutions by the Board and the Shareholders at the SGM (other than those persons who are precluded from voting under the Listing Rules and the Takeovers Code) approving the transactions contemplated under the 2014 GI Subscription Agreement, the 2014 CTF Subscription, the 2014 SF Subscription (including but not limited to the issue of the 2014 GI Convertible Note, the 2014 CTF Convertible Note and the 2014 SF Convertible Notes and the allotment and issue of new Shares upon exercise of the Conversion Rights) and the Whitewash Waiver;
- (e) up to the GI Completion Date, there shall not have occurred any change (nor any development or event involving a prospective change), which is materially adverse to the financial condition or results of operations of the Company and the Group taken as a whole;
- (f) the granting of the Whitewash Waiver by the Executive and all conditions (if any) attached thereto having been fulfilled; and
- (g) the 2014 CTF Subscription Agreement and the 2014 SF Subscription Agreement having become unconditional in all respects except for the condition therein relating to the 2014 GI Subscription Agreement having become unconditional.

The GI Subscriber may waive fulfilment of the whole or any part of the conditions precedent set out in the 2014 GI Subscription Agreement (except conditions (a), (b), (c), (d) and (f) above). As at the Latest Practicable Date, none of the conditions precedent set out in the 2014 GI Subscription Agreement had been waived or fulfilled.

### **Completion**

Completion of the 2014 GI Subscription shall take place simultaneously with the completion of the 2014 CTF Subscription and the 2014 SF Subscription and on the GI Completion Date.

## Rescission

If any of the following events occurs at any time prior to completion of the 2014 GI Convertible Note, the GI Subscriber may, by giving a written notice to the Company, rescind the 2014 GI Subscription Agreement if:

- (a) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the reasonable opinion of the GI Subscriber materially and adversely affect the business or the financial position of the Group as a whole;
- (b) the occurrence of any local, national or international event or change, whether or not forming part of a series of events or changes occurring or continuing before and/or after the date of the 2014 GI Subscription Agreement, of a political, military, financial, economic or other nature (whether or not *ejusdem generis* with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the reasonable opinion of the GI Subscriber, materially and adversely affect the business or the financial position of the Group as a whole;
- (c) in the reasonable opinion of the GI Subscriber, there shall have occurred any of the following: (i) a suspension or material limitation in trading in securities generally on the New York Stock Exchange, the Nasdaq Stock Market, Inc., the London Stock Exchange plc and/or the Stock Exchange; (ii) a suspension or material limitation in trading in the Company's securities or the Shares on the Stock Exchange (other than any temporary suspension for clearance of announcement for no more than five consecutive trading days); (iii) a general moratorium on commercial banking activities in New York, London or Hong Kong declared by the relevant authorities, or a material disruption in commercial banking or securities settlement or clearance services in the United States, the United Kingdom or Hong Kong; (iv) a change or development involving a prospective material change in taxation in Bermuda or Hong Kong affecting the Company, the Shares, the 2014 GI Convertible Note or the transfer thereof; (v) the outbreak or escalation of hostilities involving the United States, the United Kingdom or Hong Kong or the declaration by the United States, the United Kingdom or Hong Kong of a national emergency or war; or (vi) the occurrence of any other calamity or crisis or any change in financial, political or economic conditions or currency exchange rates or controls;
- (d) any breach of the representations and warranties given by the Company under the 2014 GI Subscription Agreement or any failure by the Company to perform any of the agreements set forth in the 2014 GI Subscription Agreement or any change which would render such representations and warranties given by the Company inaccurate if they were to be repeated immediately thereafter comes to the notice of the GI Subscriber and not waived by the GI Subscriber; or

- (e) in connection with the 2014 GI Subscription, any of the conditions precedent set out in the 2014 GI Subscription Agreement has not been satisfied or waived by the GI Subscriber by the Long Stop Date.

Upon the giving of such notice by the GI Subscriber, all obligations of the Company and the GI Subscriber under the 2014 GI Subscription Agreement shall cease and determine and no party to the 2014 GI Subscription Agreement shall have any claim against the other in respect of any matter or thing arising out of or in connection with the 2014 GI Subscription Agreement.

#### **2014 CTF Subscription Agreement**

**Date:** 19 September 2014

**Parties:** The Company, as issuer  
The CTF Subscriber, as subscriber

The CTF Subscriber is an investment holding company wholly and beneficially owned by Dato' Dr. Cheng Yu Tung. As at the Latest Practicable Date, the CTF Subscriber and its concert parties (including Dragon Noble Group Limited and its concert parties but excluding the GI Subscriber and its concert parties) held 619,670,000 Existing Shares, representing approximately 9.17 % of the existing issued share capital of the Company. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the CTF Subscriber and its ultimate beneficial owner are not connected with the Company under the meaning of the Listing Rules.

#### **Subject**

The Company conditionally agreed to issue and the CTF Subscriber conditionally agreed to subscribe for the 2014 CTF Convertible Note at the subscription price which will be used for full settlement of the outstanding principal amount and accrued interest of the Existing 3% CTF Convertible Note due and owing by the Company to the CTF Subscriber on the CTF Completion Date and for early redemption of the outstanding principal amount and accrued interest of the Existing 5% CTF Convertible Note on the CTF Completion Date. The CTF Subscriber has, subject to the terms and conditions of the 2014 CTF Subscription Agreement, agreed to extend the date of repayment of the aggregate outstanding amount owing under the Existing 3% CTF Convertible Note to the CTF Completion Date. Furthermore, redemption of the Existing 5% CTF Convertible Note will be made pursuant to its terms and conditions which permit such early redemption without the prior agreement of the CTF Subscriber, and therefore, constitutes an exempt share buy-back under the Share Buy-Backs Code. The CTF Subscriber agrees not to exercise the conversion right under the Existing 5% CTF Convertible Note until the CTF Completion Date. The aggregate outstanding amount under the Existing 3% CTF Convertible Note and the Existing 5% CTF Convertible Note was HK\$2,413,095,890 as at the date of the 2014 CTF Subscription Agreement and will be HK\$2,426,904,109 as at the Long Stop Date.

## Conditions precedent

Completion of the 2014 CTF Subscription Agreement is conditional upon, among others:

- (a) the Listing Committee granting or agreeing to grant the listing of, and permission to deal in, the 2014 CTF Conversion Shares issuable under the 2014 CTF Convertible Note and such grant remaining in full force and effect;
- (b) all necessary consents, approvals (or waivers), authorisation, permission or exemption from any third parties, including but not limited to government or regulatory authorities, having been obtained by the Company in connection with the 2014 CTF Subscription and the issue of the 2014 CTF Convertible Note and the 2014 CTF Conversion Shares and such consents, approvals (or waivers), authorisation, permission or exemption remaining in full force and effect;
- (c) the compliance by the Company with all legal and other requirements under the Listing Rules, the Takeovers Code and the laws of Bermuda applicable to the transactions contemplated under the 2014 CTF Subscription Agreement;
- (d) the passing of the requisite respective resolutions by the Board and the Shareholders at the SGM (other than those persons who are precluded from voting under the Listing Rules and the Takeovers Code) approving the transactions contemplated under the 2014 CTF Subscription Agreement, the 2014 GI Subscription, the 2014 SF Subscription (including but not limited to the issue of the 2014 CTF Convertible Note, the 2014 GI Convertible Note and the 2014 SF Convertible Notes and the allotment and issue of new Shares upon exercise of the Conversion Rights) and the Whitewash Waiver;
- (e) up to the CTF Completion Date, there shall not have occurred any change (nor any development or event involving a prospective change), which is materially adverse to the financial condition or results of operations of the Company and the Group taken as a whole;
- (f) the granting of the Whitewash Waiver by the Executive and all conditions (if any) attached thereto having been fulfilled; and
- (g) the 2014 GI Subscription Agreement and the 2014 SF Subscription Agreement having become unconditional in all respects except for the condition therein relating to the 2014 CTF Subscription Agreement having become unconditional.

The CTF Subscriber may waive fulfilment of the whole or any part of the conditions precedent set out in the 2014 CTF Subscription Agreement (except conditions (a), (b), (c), (d) and (f) above). As at the Latest Practicable Date, none of the conditions precedent set out in the 2014 CTF Subscription Agreement had been waived or fulfilled.

## **Completion**

Completion of the 2014 CTF Subscription shall take place simultaneously with the completion of the 2014 GI Subscription and the 2014 SF Subscription and on the CTF Completion Date.

## **Rescission**

If any of the following events occurs at any time prior to completion of the 2014 CTF Convertible Note, the CTF Subscriber may, by giving a written notice to the Company, rescind the 2014 CTF Subscription Agreement if:

- (a) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the reasonable opinion of the CTF Subscriber materially and adversely affect the business or the financial position of the Group as a whole;
- (b) the occurrence of any local, national or international event or change, whether or not forming part of a series of events or changes occurring or continuing before and/or after the date of the 2014 CTF Subscription Agreement, of a political, military, financial, economic or other nature (whether or not *ejusdem generis* with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the reasonable opinion of the CTF Subscriber, materially and adversely affect the business or the financial position of the Group as a whole;
- (c) in the reasonable opinion of the CTF Subscriber, there shall have occurred any of the following: (i) a suspension or material limitation in trading in securities generally on the New York Stock Exchange, the Nasdaq Stock Market, Inc., the London Stock Exchange plc and/or the Stock Exchange; (ii) a suspension or material limitation in trading in the Company's securities or the Shares on the Stock Exchange (other than any temporary suspension for clearance of announcement for no more than five consecutive trading days); (iii) a general moratorium on commercial banking activities in New York, London or Hong Kong declared by the relevant authorities, or a material disruption in commercial banking or securities settlement or clearance services in the United States, the United Kingdom or Hong Kong; (iv) a change or development involving a prospective material change in taxation in Bermuda or Hong Kong affecting the Company, the Shares, the 2014 CTF Convertible Note or the transfer thereof; (v) the outbreak or escalation of hostilities involving the United States, the United Kingdom or Hong Kong or the declaration by the United States, the United Kingdom or Hong Kong of a national emergency or war; or (vi) the occurrence of any other calamity or crisis or any change in financial, political or economic conditions or currency exchange rates or controls;

- (d) any breach of the representations and warranties given by the Company under the 2014 CTF Subscription Agreement or any failure by the Company to perform any of the agreements set forth in the 2014 CTF Subscription Agreement or any change which would render such representations and warranties given by the Company inaccurate if they were to be repeated immediately thereafter comes to the notice of the CTF Subscriber and not waived by the CTF Subscriber; or
- (e) in connection with the 2014 CTF Subscription, any of the conditions precedent set out in the 2014 CTF Subscription Agreement has not been satisfied or waived by the CTF Subscriber by the Long Stop Date.

Upon the giving of such notice by the CTF Subscriber, all obligations of the Company and the CTF Subscriber under the 2014 CTF Subscription Agreement shall cease and determine and no party to the 2014 CTF Subscription Agreement shall have any claim against the other in respect of any matter or thing arising out of or in connection with the 2014 CTF Subscription Agreement.

#### **2014 SF Subscription Agreement**

**Date:** 19 September 2014

**Parties:** The Company, as issuer  
The SF Subscribers, as subscribers

The SF Subscribers are investment funds incorporated in Ireland in 2006 and are managed by OZ Management LP, an operating entity of Och-Ziff Capital Management Group LLC. Och-Ziff Capital Management Group LLC is a leading global alternative asset management firm with approximately US\$46.1 billion of assets under management as of 1 September 2014.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the SF Subscribers and their ultimate beneficial owners are third parties independent of the Group and its connected persons.

#### **Subject**

The Company conditionally agreed to issue and the SF Subscribers conditionally agreed to subscribe for the 2014 SF Convertible Notes at the subscription price which will be used for full settlement of all outstanding principal amount and accrued interest of the Existing SF Convertible Notes due and owing by the Company to the SF Subscribers on the SF Completion Date. The SF Subscribers have, subject to the terms and conditions of the 2014 SF Subscription Agreement, agreed to extend the date of repayment of the aggregate outstanding amount owing under the Existing SF Convertible Notes to the SF Completion Date. The aggregate outstanding amount under the Existing SF Convertible Notes was HK\$497,103,633 as at the date of the 2014 SF Subscription Agreement and will be HK\$500,326,472 as at the Long Stop Date.

The respective principal amounts of the 2014 SF Convertible Notes to be subscribed by the SF Subscribers will be the respective aggregate outstanding amounts (including the outstanding principal amount and the accrued interest thereon up to the SF Completion Date) owing by the Company to the SF Subscribers under the Existing SF Convertible Notes.

The SF Subscribers	Aggregate outstanding amounts under the Existing SF Convertible Notes	
	As at the date of the 2014 SF Subscription Agreement (HK\$)	As at the Long Stop Date (HK\$)
Sculptor Finance (MD) Ireland Limited	331,021,181	333,167,269
Sculptor Finance (AS) Ireland Limited	151,467,520	152,449,519
Sculptor Finance (SI) Ireland Limited	14,614,932	14,709,684

### Conditions precedent

Completion of the 2014 SF Subscription Agreement is conditional upon, among others:

- (a) the Listing Committee granting or agreeing to grant the listing of, and permission to deal in, the 2014 SF Conversion Shares issuable under the 2014 SF Convertible Notes and such grant remaining in full force and effect;
- (b) all necessary consents, approvals (or waivers), authorisation, permission or exemption from any third parties, including but not limited to government or regulatory authorities, having been obtained by the Company in connection with the 2014 SF Subscription and the issue of the 2014 SF Convertible Notes and the 2014 SF Conversion Shares and such consents, approvals (or waivers), authorisation, permission or exemption remaining in full force and effect;
- (c) the compliance by the Company with all legal and other requirements under the Listing Rules and the laws of Bermuda applicable to the transactions contemplated under the 2014 SF Subscription Agreement;
- (d) the passing of the requisite respective resolutions by the Board and the Shareholders at the SGM (other than those persons who are precluded from voting under the Listing Rules and the Takeovers Code) approving the transactions contemplated under the 2014 SF Subscription Agreement, the 2014 CTF Subscription and the 2014 GI Subscription (including but not limited to the issue of the 2014 SF Convertible Notes, the 2014 GI Convertible Note and the 2014 CTF Convertible Note and the allotment and issue of new Shares upon exercise of the Conversion Rights);

- (e) up to the SF Completion Date, there shall not have occurred any change (nor any development or event involving a prospective change), which is materially adverse to the financial condition or results of operations of the Company and the Group taken as a whole; and
- (f) the 2014 GI Subscription Agreement and the 2014 CTF Subscription Agreement having become unconditional in all respects except for the condition therein relating to the 2014 SF Subscription Agreement having become unconditional.

The SF Majority Subscribers may waive fulfilment of the whole or any part of the conditions precedent set out in the 2014 SF Subscription Agreement (except conditions (a), (b), (c) and (d) above). As at the Latest Practicable Date, none of the conditions precedent set out in the 2014 SF Subscription Agreement had been waived or fulfilled.

### **Completion**

Completion of the 2014 SF Subscription shall take place simultaneously with the completion of the 2014 GI Subscription and the 2014 CTF Subscription and on the SF Completion Date.

### **Rescission**

If any of the following events occurs at any time prior to completion of the 2014 SF Convertible Notes, the SF Majority Subscribers may, by giving a written notice to the Company, rescind the 2014 SF Subscription Agreement:

- (a) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the reasonable opinion of the SF Majority Subscribers materially and adversely affect the business or the financial position of the Group as a whole;
- (b) the occurrence of any local, national or international event or change, whether or not forming part of a series of events or changes occurring or continuing before and/or after the date of the 2014 SF Subscription Agreement, of a political, military, financial, economic or other nature (whether or not *ejusdem generis* with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the reasonable opinion of the SF Majority Subscribers, materially and adversely affect the business or the financial position of the Group as a whole;
- (c) in the reasonable opinion of the SF Majority Subscribers, there shall have occurred any of the following: (i) a suspension or material limitation in trading in securities generally on the New York Stock Exchange, the Nasdaq Stock Market, Inc., the London Stock Exchange plc and/or the Stock Exchange; (ii) a suspension or material limitation in trading in the Company's securities or the Shares on the Stock Exchange (other than any temporary suspension for clearance of announcement for no more than five consecutive trading days); (iii) a general moratorium on commercial banking activities in New York, London or Hong Kong



declared by the relevant authorities, or a material disruption in commercial banking or securities settlement or clearance services in the United States, the United Kingdom or Hong Kong; (iv) a change or development involving a prospective material change in taxation in Bermuda or Hong Kong affecting the Company, the Shares, the 2014 SF Convertible Notes or the transfer thereof; (v) the outbreak or escalation of hostilities involving the United States, the United Kingdom or Hong Kong or the declaration by the United States, the United Kingdom or Hong Kong of a national emergency or war; or (vi) the occurrence of any other calamity or crisis or any change in financial, political or economic conditions or currency exchange rates or controls;

- (d) any breach of the representations and warranties given by the Company under the 2014 SF Subscription Agreement or any failure by the Company to perform any of the agreements set forth in the 2014 SF Subscription Agreement or any change which would render such representations and warranties given by the Company inaccurate if they were to be repeated immediately thereafter comes to the notice of any of the SF Subscribers and not waived by the SF Majority Subscribers; or
- (e) in connection with the 2014 SF Subscription, any of the conditions precedent set out in the 2014 SF Subscription Agreement has not been satisfied or waived by the SF Majority Subscribers by the Long Stop Date.

Upon the giving of such notice by the SF Subscribers, all obligations of the Company and the SF Subscribers under the 2014 SF Subscription Agreement shall cease and determine and no party to the 2014 SF Subscription Agreement shall have any claim against the other in respect of any matter or thing arising out of or in connection with the 2014 SF Subscription Agreement.

#### **PRINCIPAL TERMS OF THE 2014 CONVERTIBLE NOTES**

Principal amount	2014 GI Convertible Note:	equivalent to the aggregate outstanding amount (including the principal amount and any outstanding accrued interest up to the GI Completion Date) owing by the Company to the GI Subscriber under the Existing 3.5% GI Convertible Note and the Existing 5% GI Convertible Note, which is expected to be not more than HK\$542,886,966 (being the aggregate outstanding amount calculated up to the Long Stop Date)
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2014 CTF Convertible Note:	equivalent to the aggregate outstanding amount (including the principal amount and any outstanding accrued interest up to the CTF Completion Date) owing by the Company to the CTF Subscriber under the Existing 3% CTF Convertible Note and the Existing 5% CTF Convertible Note, which is expected to be not more than HK\$2,426,904,109 (being the aggregate outstanding amount calculated up to the Long Stop Date)
2014 SF Convertible Notes:	equivalent to the aggregate outstanding amount (including the principal amount and any outstanding accrued interest up to the SF Completion Date) owing by the Company to the SF Subscribers under the Existing SF Convertible Notes, which is expected to be not more than HK\$500,326,472 (being the aggregate outstanding amount calculated up to the Long Stop Date)
Maturity	The fifth anniversary of the date of issue of the 2014 Convertible Notes (or such later date as consented by the holders of the 2014 Convertible Notes (in the case of the 2014 SF Convertible Notes, such consent has to be given by holders of the 2014 SF Convertible Notes holding at least 50.1% of the then outstanding principal amount of the 2014 SF Convertible Notes))
Interest rate	3% per annum on the principal amount from time to time outstanding, and, unless previously redeemed (not applicable to the 2014 SF Convertible Notes), repaid or converted into Shares, payable in arrears on the maturity date of the 2014 Convertible Notes (as the case may be)
Denomination for conversion	With a minimum aggregate amount of HK\$1,000,000 and HK\$1,000 integral multiples thereof (save that if at any time the aggregate outstanding amount held by a holder of the 2014 Convertible Note is less than HK\$1,000,000, the whole (but not part only) of such aggregate outstanding amount may be converted)
Conversion rights	A holder of the 2014 Convertible Note shall have the right to convert all or any part (comprising the outstanding principal amount and any accrued but unpaid interest thereon and in the denomination as stated above) of the 2014 Convertible Note into Conversion Shares at the Conversion Price (subject to adjustments) on any Business Day from the date of issue of the 2014 Convertible Note and up to the Business Day immediately prior to the maturity date of the 2014 Convertible Note.

Conversion price Initially, HK\$0.230 per Conversion Share, subject to adjustments for share consolidation, share subdivision, share reclassification, issue of Shares by way of scrip dividend, capitalisation issues, capital distribution, rights issue of Shares or options (other than share options of the Company under its share option schemes) or warrants or other rights over Shares, issue of Shares or options or warrants or other rights over Shares at a price per Share which is less than 90% of the then prevailing market price of the Share, issue of any securities (“Other Securities”) convertible into or exchangeable for or carry rights of subscription for new Shares and following such issue the consideration per Share receivable is less than 90% of the then prevailing market price of the Share, modification of rights of conversion, exchange or subscription attached to any of the 2014 Convertible Notes or any Other Securities so that following such modification the consideration per Share receivable is less than 90% of the then prevailing market price of the Share, and for other offers by the Company, its subsidiaries or any other company, person or entity to Shareholders of any securities in connection with which Shareholders as a class are entitled to participate in arrangements whereby such securities may be acquired by them. All adjustment provisions under the 2014 Convertible Notes are the same.

Transferability Freely transferrable, in whole or in part (in authorised denomination of HK\$1,000 or its multiples) of the outstanding principal amount, to any person, subject to the terms of the 2014 Convertible Notes (as the case may be), the Listing Rules and all applicable laws and regulations

Listing No application will be made for the listing of the 2014 Convertible Notes on the Stock Exchange or any other stock exchange.

Application will be made by the Company to the Listing Committee for the listing of, and permission to deal in, the Conversion Shares to be issued upon the exercise of the Conversion Rights.

Ranking Obligations of the Company under the 2014 Convertible Notes are unsecured.

The Conversion Shares to be issued upon the exercise of the Conversion Rights will be credited as fully paid and will rank *pari passu* in all respects with all other Shares outstanding at the date of exercise of the Conversion Rights and be entitled to all dividends and other distributions the record date for which falls on a date on or after the date of exercise of the Conversion Rights.

Voting A holder of the 2014 Convertible Note will not be entitled to receive notices of, attend or vote at any meetings of the Company by reason only of it being a holder of the 2014 Convertible Note.

Redemption and repurchase The Company shall redeem at 100% of the outstanding principal amounts of the 2014 Convertible Notes (as the case may be) on the maturity date.

The Company or any of its subsidiaries may at any time and from time to time repurchase the 2014 Convertible Notes or any part thereof at any price, in the open market or otherwise, as may be agreed between the Company or such subsidiary and the holder(s) of the 2014 Convertible Note(s) (as the case may be). The 2014 Convertible Note(s) or any part thereof so purchased shall forthwith be cancelled by the Company.

2014 GI Convertible Note and 2014 CTF Convertible Note: The Company may, at any time after the issue date of the 2014 GI Convertible Note or the 2014 CTF Convertible Note (as the case may be) on giving not less than ten (10) Business Days' prior written notice to the holder of the 2014 GI Convertible Note or the 2014 CTF Convertible Note (as the case may be), redeem the whole or any part (in denomination of HK\$1,000) of the outstanding principal amount of the 2014 GI Convertible Note or the 2014 CTF Convertible Note (as the case may be) together with all interest accrued thereon.

Status	The obligations of the Company arising under the 2014 Convertible Notes constitute general, unconditional, unsubordinated obligations of the Company and rank, and shall rank equally among themselves and pari passu with all other present and future unsecured and unsubordinated obligations of the Company except for obligations accorded preference by mandatory provisions of applicable laws.
Restriction on the exercise of the Conversion Rights	If the issue of the Conversion Shares pursuant to the exercise of the Conversion Right would result in the Company failing to meet its obligation under the Listing Rules to maintain the minimum prescribed percentage of the Shares which must at all times remain in public hands (as defined in the Listing Rules) (the "Public Float Requirement"), then such Conversion Right shall be deemed to have been exercised pursuant to such conversion notice such that the Company shall issue the maximum number of Conversion Shares under such conversion notice without breaching the Public Float Requirement. Any limitation on a Conversion Right with respect to a conversion notice shall be without prejudice whatsoever to any later exercise of the Conversion Rights pursuant to a subsequent conversion notice. The restriction provision on exercise of the Conversion Rights under the 2014 Convertible Notes are all the same. Under such restriction provision on exercise of the Conversion Rights, the Company will at all times maintain the public float requirement under the Listing Rules.
Provision only applicable to the holders of the 2014 SF Convertible Notes	Upon receipt of any irrevocable conversion notice by the Company from any of the holders of the 2014 GI Convertible Note and the 2014 CTF Convertible Note, the Company shall forthwith give written notice to the holders of the 2014 SF Convertible Notes of such receipt (the "Receipt Notice") who shall be entitled to issue a conversion notice to the Company within seven (7) Business Days following delivery of the Receipt Notice. The Company shall, subject to the compliance with the Public Float Requirement as stated above, issue Conversion Shares to the holders of the 2014 SF Convertible Notes in accordance with the conversion notice in priority to the issue of the Conversion Shares pursuant to the conversion notice served by such holder of the 2014 GI Convertible Note or the 2014 CTF Convertible Note. The right of holders of the 2014 SF Convertible Notes shall be waived or deem to have been waived if the Company does not receive the conversion notice from the holder(s) of the 2014 SF Convertible Notes within the said seven (7) Business Days following delivery of the Receipt Notice. The holders of the 2014 GI Convertible Note and the 2014 CTF Convertible Note agree and acknowledge such arrangement.

Events of default Any holder of the 2014 Convertible Notes (in the case of the 2014 SF Convertible Notes, holder(s) of the 2014 SF Convertible Notes holding or together holding at least 50.1% of the then outstanding principal amount of the 2014 SF Convertible Notes) may give notice in writing that the relevant 2014 Convertible Note shall be immediately due and payable at its principal amount then outstanding together with any accrued and unpaid interest calculated up to and excluding the date of payment upon the occurrence of any of the events including, inter alia, (1) ceasing permanently or suspension for a continuous period of 21 Business Days (on each of which the Stock Exchange is generally open for trading) (due to default of the Company or any of its Directors, officers or employees) of trading of the Shares on the Stock Exchange; (2) change of control of the Company; (3) failure of the Company to pay under the 2014 Convertible Notes and is not remedied for 7 Business Days after written notice from such holder of the 2014 Convertible Note has been given; (4) the passing of an effective resolution for the winding up, or dissolution, judicial management or administration of the Company or any of its material subsidiaries (except for member's voluntary solvent winding up) or any ceasing of business and other insolvency related events; (5) inability of the Company or its material subsidiaries to pay debts as they fall due or entering into any composition, arrangement with or assignment for the benefit of its creditors generally; (6) any consent, license, approval or authorisation for the execution, delivery, performance, legality, validity, enforceability or admissibility in evidence of the relevant 2014 Convertible Note is revoked or withheld or materially modified in a manner which shall materially and adversely affect the Company's ability to perform its obligations thereunder, or ceases to be in full force and effect; (7) it being impossible or unlawful in Hong Kong to pay the relevant 2014 Convertible Note; (8) failure to deliver any Shares under the relevant 2014 Convertible Note; (9) failure to perform or comply with any obligations under the relevant 2014 Convertible Note (other than the event of default of (3) or (8) above) which default is incapable of remedy or, if capable of remedy, is not remedied within 45 days of written notice by such holder of the relevant 2014 Convertible Note; (10) cross default after applicable grace period under any other indebtedness by the Company or any of its material subsidiaries which equals or exceeds HK\$50 million or its equivalent; (11) undischarged levied executions and the like for 60 days; (12) any mortgage, charge, pledge, lien or encumbrance becomes enforceable and any step is taken to enforce it (including appointment of a receiver, manager or other similar person) and such enforcement is not discharged or stayed within 60 days; and (13) failure of the Company to perform or comply with its obligations under the relevant Subscription Agreement or breach by the Company of certain representations and warranties given by it in the relevant Subscription Agreement. The holder(s) of the 2014 Convertible Note(s) shall where there is failure to issue the Conversion Shares be entitled to bring an action against the Company for specific performance.

Negative pledge So long as any of the 2014 Convertible Notes remains outstanding, the Group will not create, or have outstanding, any mortgage, charge, lien, pledge or other security interest upon the whole or any part of its present or future undertaking, assets or revenues (including any uncalled capital) to secure any indebtedness which is in the form of bonds, notes, debentures, loan stock, depositary receipts, certificates of deposit or other similar securities or instruments which for the time being are, or are intended to be or are capable of being, quoted, listed, dealt in or traded on any stock exchange or over-the-counter or other securities market, or any guarantee or indemnity in respect of any such indebtedness, without at the same time or prior thereto according to the 2014 Convertible Notes the same security as is created or subsisting to secure any such indebtedness, guarantee or indemnity or such other security as shall be approved (such approval not to be unreasonably withheld or delayed) by the holders of the 2014 Convertible Notes (in the case of the 2014 SF Convertible Notes, such approval has to be given by holder(s) of the 2014 SF Convertible Notes holding at least 50.1% of the then outstanding principal amount of the 2014 SF Convertible Notes). The negative pledge provision under the 2014 Convertible Notes are all the same.

Most favoured treatment The Company shall not amend the pari passu ranking tenor, interest rate, conversion price, adjustment provisions to the conversion price, the conversion right, negative pledge and the events of default provisions under any of the 2014 Convertible Notes or insert any additional provisions which are, in the opinion of any holder of the other 2014 Convertible Notes (in the case of the 2014 SF Convertible Notes, holders holding 50.1% of the then outstanding principal amount of the 2014 SF Convertible Notes) on terms and conditions more favourable to that holder of the 2014 Convertible Note unless at the same time: (a) the Company offers to amend the other 2014 Convertible Notes the effect of which is to give the benefit of such more favourable terms and conditions to the holders of the other 2014 Convertible Notes; and (b) to the extent that the holders of the other 2014 Convertible Notes accept such offer.

Upon full conversion of the principal amount of the 2014 GI Convertible Note of HK\$542,886,966 (being the maximum amount equivalent to the aggregate outstanding amount of the principal and accrued interest thereon under the Existing 3.5% GI Convertible Note and the Existing 5% GI Convertible Note calculated up to the Long Stop Date) and the accrued interest thereon of HK\$81,433,045 (calculated from the date of issue of the 2014 GI Convertible Note until its maturity) at the initial Conversion Price, a total of maximum 678,608,707 New Shares will be issued, representing approximately 40.17% of the total existing issued share capital of the Company (after adjustment for the Share Consolidation), approximately 28.66% of the Company's total issued share capital as enlarged by the issue of the 2014 GI Conversion Shares and approximately 11.26% of the Company's total issued share capital as enlarged by the issue of the 2014 GI Conversion Shares, the 2014 CTF Conversion Shares and the 2014 SF Conversion Shares.

Upon full conversion of the principal amount of the 2014 CTF Convertible Note of HK\$2,426,904,109 (being the maximum amount equivalent to the aggregate outstanding amount of the principal and accrued interest thereon under the Existing 3% CTF Convertible Note and the Existing 5% CTF Convertible Note calculated up to the Long Stop Date) and the accrued interest thereon of HK\$364,035,617 (calculated from the date of issue of the 2014 CTF Convertible Note until its maturity) at the initial Conversion Price, a total of maximum 3,033,630,136 New Shares will be issued, representing approximately 179.60% of the total existing issued share capital of the Company (after adjustment for the Share Consolidation), approximately 64.23% of the Company's total issued share capital as

enlarged by the issue of the 2014 CTF Conversion Shares and approximately 50.34% of the Company's total issued share capital as enlarged by the issue of the 2014 GI Conversion Shares, the 2014 CTF Conversion Shares and the 2014 SF Conversion Shares.

Upon full conversion of the aggregate principal amount of the 2014 SF Convertible Notes of HK\$500,326,472 (being the maximum amount equivalent to the aggregate outstanding amount of the principal and accrued interest thereon under the Existing SF Convertible Notes calculated up to the Long Stop Date) and the accrued interest thereon of HK\$75,048,971 (calculated from the date of issue of the 2014 SF Convertible Notes until their maturity) at the initial Conversion Price, a total of maximum 625,408,090 New Shares will be issued, representing approximately 37.03% of the total existing issued share capital of the Company (after adjustment for the Share Consolidation), approximately 27.02% of the Company's total issued share capital as enlarged by the issue of the 2014 SF Conversion Shares and approximately 10.38% of the Company's total issued share capital as enlarged by the issue of the 2014 GI Conversion Shares, the 2014 CTF Conversion Shares and the 2014 SF Conversion Shares.

### **Conversion Price**

The initial Conversion Price, being HK\$0.230 per Existing Share (for illustration purpose, approximately HK\$0.920 per New Share), represents:

- (i) a premium of approximately 1.3% over the adjusted closing price of HK\$0.908 per New Share (based on the closing price of HK\$0.227 per Existing Share as quoted on the Stock Exchange on the Last Trading Day and adjusted for the effect of the Capital Reorganisation);
- (ii) a premium of approximately 1.8% over the adjusted average closing price of approximately HK\$0.904 per New Share (based on the average closing price of approximately HK\$0.226 per Existing Share as quoted on the Stock Exchange for the 5 consecutive trading days up to and including the Last Trading Day and adjusted for the effect of the Capital Reorganisation);
- (iii) a discount of approximately 1.3% to the adjusted average closing price of approximately HK\$0.932 per New Share (based on the average closing price of HK\$0.233 per Existing Share as quoted on the Stock Exchange for the 10 consecutive trading days up to and including the Last Trading Day and adjusted for the effect of the Capital Reorganisation);
- (iv) a premium of approximately 36.9% over the adjusted closing price of HK\$0.672 per New Share (based on the closing price of HK\$0.168 per Existing Share as quoted on the Stock Exchange on the Latest Practicable Date and adjusted for the effect of the Capital Reorganisation); and
- (v) a discount of approximately 57.2% to the adjusted audited consolidated net asset value of approximately HK\$2.148 per New Share (based on the audited consolidated net asset value of approximately HK\$0.537 per Existing Share (calculated from the audited consolidated net asset value of Company attributable

to the Shareholders of approximately HK\$3,628.0 million as at 31 March 2014 and 6,756,547,828 Existing Shares in issue as at the Latest Practicable Date) and adjusted for the effect of the Capital Reorganisation).

The Conversion Price was arrived at after arm's length negotiation between the Company, the GI Subscriber, the CTF Subscriber and the SF Subscribers after taking into account the prevailing market price of the Existing Shares, the Capital Reorganisation, the operation and financial performance of the Group and the current market conditions.

## **BUSINESS OF THE GROUP**

The Group is an energy and resources developer. The principal project of the Group is the coking coal mining project in Khushuut, Khovd Province, Western Mongolia (the "Khushuut Coking Coal Project", the mine site of which is known as the "Khushuut Coal Mine").

The Khushuut Coking Coal Project has been under a continual production halt since October 2012 principally due to the dispute with the former sole mining contractor and the global economic downturn which had a negative bearing on the coking coal prices in the PRC. Regarding the dispute, the Company received the mediation notices from the former sole mining contractor in September 2013. According to the mediation notices, the former sole mining contractor proposed a stay of proceedings pending the mediation process. Up to the Latest Practicable Date, the mediation has yet to proceed and there is no development so far.

During this period, the Group has remained focused on optimizing its coal production process and enhancing coal quality by the erection of a dry coal processing plant in the Khushuut Coal Mine and building of a coal washing plant in Xinjiang, the PRC. The building of the dry coal processing plant has been completed and it is currently under a test run. The installation of main operative part of the washing plant was completed in September 2014 and it is also under a test run currently. If the test runs are smooth, the Group expects these coal processing facilities to formally operate upon coal production by the fourth quarter of 2014. However, the coal production is subject to a number of factors including the successful test runs of its coal processing infrastructures in the Khushuut Coal Mine and in Xinjiang, satisfaction of the customer on the Group's coal quality, and the market conditions.

The Group appointed an overburden removal contractor in April 2014 and a coal extraction contractor in July 2014 to prepare for its resumption of coal production by the fourth quarter of 2014. The overburden removal contractor is principally required to provide blasting, removal of topsoil and overburden covering the coal to be extracted for the subsequent coal mining to take place. The principal job of the coal extraction contractor is to provide coal extraction services after the coal seam is exposed. The coal extraction contractor also provides loading and haulage of extracted coal services on the mine site. Both contractors are now working at the Khushuut Coal Mine. Apart from the field work contractors, the Group has also appointed external coal trucking companies to provide coal transportation services for its coal export.



As disclosed in the announcement of the Company dated 30 May 2014, the Group has planned to dispose of its deposit in Bayan-Ugii which, according to the Group's preliminary exploration, contains iron resources. The carrying amount of this license was approximately HK\$285.7 million as at 31 March 2014. Up to the Latest Practicable Date, no potential purchaser of this deposit had been identified. The Group will renew this license upon its expiry in October 2014 and continue to look for a potential purchaser. As this exploration license was not disposed of on 30 September 2014, the Group has engaged an independent valuer to determine the recoverable amount on this license. If the recoverable amount is determined to be lesser than the carrying amount, an impairment loss will arise and be recognized in the Group's consolidated financial statements. The impairment amount could not be quantified as at the Latest Practicable Date as the recoverable amount had yet been finalized. In a worst case scenario, the whole carrying amount of this license may be impaired. The impairment is non-cash in nature and will not affect the Group's liquidity, cash flows nor have any impact on future operations.

The Group does not have any plan or negotiation to acquire any business or assets from the Subscribers or other independent third parties.

## **REASONS FOR THE SUBSCRIPTIONS AND USE OF PROCEEDS**

Upon expiry of the Existing 3.5% GI Convertible Note, the Existing 3% CTF Convertible Note and the Existing SF Convertible Notes, the Company has exercised its best endeavor to engage in negotiations with the Subscribers for the refinancing arrangement and finally reached a mutually acceptable debt restructuring plan by entering into the Subscription Agreements with the Subscribers.

The subscription price of the 2014 GI Convertible Note will be used by the Company for full settlement of the outstanding principal amount and accrued interest of the Existing 3.5% GI Convertible Note and for early redemption of the outstanding principal amount and accrued interest of the Existing 5% GI Convertible Note on the GI Completion Date. The subscription price of the 2014 CTF Convertible Note will be used by the Company for full settlement of the outstanding principal amount and accrued interest of the Existing 3% CTF Convertible Note and for early redemption of the outstanding principal amount and accrued interest of the Existing 5% CTF Convertible Note on the CTF Completion Date. The subscription price of the 2014 SF Convertible Notes will be used by the Company for full settlement of the aggregate outstanding principal amount and accrued interest of the Existing SF Convertible Notes on the SF Completion Date. The estimated costs of approximately HK\$2.6 million relating to the issue of the 2014 Convertible Notes will be satisfied by the internal resources of the Group.

After taking into account that: (i) the full settlement of the outstanding principal amounts and accrued interest of the Existing 3.5% GI Convertible Note, the Existing 3% CTF Convertible Note and the Existing SF Convertible Notes with the issue of the 2014 Convertible Notes will not exert immediate cash outflow burden on the Group; (ii) the early redemption of the Existing 5% GI Convertible Note and the Existing 5% CTF Convertible Note with the issue of the 2014 GI Convertible Note and the 2014 CTF Convertible Note bearing interest at 3% per annum will reduce the Group's payable interests; (iii) the

Subscriptions will secure the continuing financial support from the Subscribers to the Group's business development and operation; (iv) the prevailing market prices and trading volume of the Shares and/or the current financial position of the Group may not be favourable to a fund raising exercise for substantial amount by way of issue of new Shares to independent third party(ies) or to existing Shareholders on a pro rata basis (e.g. rights issue and open offer) where considerable discount to the market prices of the Shares would be required after the Company's enquiry of certain brokerage houses with no favourable responses; and (v) the issue of the 2014 Convertible Notes will not lead to immediate dilution on the shareholding interests of the existing Shareholders, the executive Directors consider that the issue of the 2014 Convertible Notes is an appropriate debt restructuring plan for the Company and the terms of the Subscription Agreements are on normal commercial terms and fair and reasonable, and the transactions contemplated under the Subscription Agreements are in the interests of the Group and the Shareholders as a whole.

## **SHAREHOLDING STRUCTURE OF THE COMPANY**

As at the Latest Practicable Date, other than the Existing and 5% GI Convertible Note and the Existing 5% CTF Convertible Note, the Company also had Share Options entitling the holders thereof to subscribe for an aggregate of 86,800,000 Existing Shares (the "Outstanding Share Options"). Save as disclosed above, as at the Latest Practicable Date, there were no other outstanding options, warrants, derivatives, or other securities which carry rights to subscribe for or be converted into Shares.

As disclosed in the section headed "Principal terms of the 2014 Convertible Notes" above, with the restriction provision on exercise of the Conversion Rights, the Company will at all times maintain the public float requirement under the Listing Rules.

The table below illustrates the shareholding structures of the Company as at the Latest Practicable Date, upon the Capital Reorganisation becoming effective and under the following scenarios (assuming that the Capital Reorganisation has become effective and there is no other change in the issued share capital and shareholding structure of the Company from the Latest Practicable Date up to the occurrence of the relevant events mentioned below):

Scenario I:	immediately upon full conversion of the principal amount of the 2014 GI Convertible Note of HK\$542,886,966 (being the maximum amount equivalent to the aggregate outstanding amount of the principal and accrued interest thereon under the Existing 3.5% GI Convertible Note and the Existing 5% GI Convertible Note calculated up to the Long Stop Date) and the accrued interest thereon of HK\$81,433,045 (calculated from the date of issue of the 2014 GI Convertible Note until its maturity) at the initial Conversion Price only;
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- Scenario II: immediately upon full conversion of the principal amount of the 2014 CTF Convertible Note of HK\$2,426,904,109 (being the maximum amount equivalent to the aggregate outstanding amount of the principal and accrued interest thereon under the Existing 3% CTF Convertible Note and the Existing 5% CTF Convertible Note calculated up to the Long Stop Date) and the accrued interest thereon of HK\$364,035,617 (calculated from the date of issue of the 2014 CTF Convertible Note until its maturity) at the initial Conversion Price only;
- Scenario III: immediately upon full conversion of the aggregate principal amount of the 2014 SF Convertible Notes of HK\$500,326,472 (being the maximum amount equivalent to the aggregate outstanding amount of the principal and accrued interest thereon under the Existing SF Convertible Notes calculated up to the Long Stop Date) and the accrued interest thereon of HK\$75,048,971 (calculated from the date of issue of the 2014 SF Convertible Notes until their maturity) at the initial Conversion Price only;
- Scenario IV: for illustration purpose only, occurrence of scenarios I and II above only;
- Scenario V: for illustration purpose only, occurrence of scenarios I, II and III above; and
- Scenario VI: for illustration purpose only, occurrence of scenarios I, II and III above, and exercise of all Outstanding Share Options (assuming the relevant Share Options will be adjusted as a result of the Capital Reorganisation to entitle the holders thereof to subscribe for an aggregate of 21,700,000 New Shares).

	As at the Latest Practicable Date		Upon Capital Reorganisation becoming effective	
	<i>Number of Shares</i>	<i>Approximate %</i>	<i>Number of Shares</i>	<i>Approximate %</i>
The Concert Group				
GI Subscriber and its concert parties	1,212,788,301 <i>(Note 1)</i>	17.95	303,197,075	17.95
CTF Subscriber and its concert parties	225,000,000	3.33	56,250,000	3.33
Dragon Noble Group Limited and its concert parties <i>(Note 2)</i>	<u>394,670,000</u>	<u>5.84</u>	<u>98,667,500</u>	<u>5.84</u>
Subtotal	1,832,458,301	27.12	458,114,575	27.12
SF Subscribers	—	—	—	—
Other directors of the Group <i>(Note 3)</i>	7,283,200	0.11	1,820,800	0.11
Other public Shareholders	<u>4,916,806,327</u>	<u>72.77</u>	<u>1,229,201,582</u>	<u>72.77</u>
Total	<u>6,756,547,828</u>	<u>100.00</u>	<u>1,689,136,957</u>	<u>100.00</u>

	Upon Capital Reorganisation becoming effective and													
	Scenario I		Scenario II		Scenario III			Scenario IV			Scenario V		Scenario VI	
	<i>Number of Shares</i>	<i>Approximate %</i>	<i>Number of Shares</i>	<i>Approximate %</i>	<i>Number of Shares</i>	<i>Approximate %</i>	<i>Number of Shares</i>	<i>Approximate %</i>	<i>Number of Shares</i>	<i>Approximate %</i>	<i>Number of Shares</i>	<i>Approximate %</i>	<i>Number of Shares</i>	<i>Approximate %</i>
					<i>(Note 4)</i>			<i>(Note 4)</i>			<i>(Note 4)</i>			
The Concert Group														
GI Subscriber and its concert parties	981,805,782	41.47	303,197,075	6.42	303,197,075	13.10	981,805,782	18.18	981,805,782	16.29	988,555,782	16.34		
CTF Subscriber and its concert parties	56,250,000	2.38	3,089,880,136	65.42	56,250,000	2.43	3,089,880,136	57.20	3,089,880,136	51.27	3,089,880,136	51.09		
Dragon Noble Group Limited and its concert parties <i>(Note 2)</i>	<u>98,667,500</u>	<u>4.16</u>	<u>98,667,500</u>	<u>2.09</u>	<u>98,667,500</u>	<u>4.26</u>	<u>98,667,500</u>	<u>1.83</u>	<u>98,667,500</u>	<u>1.64</u>	<u>98,667,500</u>	<u>1.63</u>		
Subtotal	1,136,723,282	48.01	3,491,744,711	73.93	458,114,575	19.79	4,170,353,418	77.21	4,170,353,418	69.20	4,177,103,418	69.06		
SF Subscribers	—	—	—	—	625,408,090	27.02	—	—	625,408,090	10.37	625,408,090	10.34		
Other directors of the Group <i>(Note 3)</i>	1,820,800	0.08	1,820,800	0.04	1,820,800	0.08	1,820,800	0.03	1,820,800	0.03	5,320,800	0.09		
Other public Shareholders	<u>1,229,201,582</u>	<u>51.91</u>	<u>1,229,201,582</u>	<u>26.03</u>	<u>1,229,201,582</u>	<u>53.11</u>	<u>1,229,201,582</u>	<u>22.76</u>	<u>1,229,201,582</u>	<u>20.40</u>	<u>1,240,651,382</u>	<u>20.51</u>		
Total	<u>2,367,745,664</u>	<u>100.00</u>	<u>4,722,767,093</u>	<u>100.00</u>	<u>2,314,545,047</u>	<u>100.00</u>	<u>5,401,375,800</u>	<u>100.00</u>	<u>6,026,783,890</u>	<u>100.00</u>	<u>6,048,483,890</u>	<u>100.00</u>		

*Notes:*

- Among the 1,212,788,301 Existing Shares, 4,960,000 Existing Shares represent interest of Mr. Lo on an individual basis; while 1,206,078,301 Existing Shares represent interest of the GI Subscriber. The balance of 1,750,000 Existing Shares represent interest of Ms. Ku Ming Mei, Rouisa, the spouse of Mr. Lo.
- Dragon Noble Group Limited is a company wholly and beneficially owned by Dr. Cheng Kar Shun, Henry.
- Other directors of the Group include Ms. Yvette Ong, Mr. To Hin Tsun, Gerald, Mr. Tsui Hing Chuen, William, Mr. Lau Wai Piu, Mr. Peter Pun and Mr. Tang Chi Kei. Mr. Tang Chi Kei is the Company Secretary of the Company and director of some of the subsidiaries of the Company.

4. Pursuant to the terms of the 2014 Convertible Notes, if the issue of the Conversion Shares pursuant to the exercise of the Conversion Right would result in the Company failing to meet the public float requirements as prescribed under the Listing Rules from time to time, such Conversion Right shall be deemed to have been exercised pursuant to such conversion notice such that the Company shall issue the maximum number of Conversion Shares under such conversion notice without breaching the then public float requirement. Accordingly, scenarios IV, V and VI above are shown for illustrative purpose only.

The Company has not conducted any fund raising activities in the 12 months prior to the date of the Announcement.

## **LISTING RULES IMPLICATIONS**

As at the Latest Practicable Date, the GI Subscriber held 1,206,078,301 Shares, representing approximately 17.85% of the existing issued share capital of the Company. As the GI Subscriber is a substantial Shareholder and its sole beneficial owner is an executive Director, the GI Subscriber is a connected person of the Company and the 2014 GI Subscription constitutes a connected transaction for the Company and is subject to reporting, announcement and Independent Shareholders' approval requirements under the Listing Rules. Mr. Lo, who has a material interest in the 2014 GI Subscription, has abstained from voting on the Board's resolution approving the 2014 GI Subscription.

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Peter Pun, Mr. Tsui Hing Chuen, William and Mr. Lau Wai Piu has been established by the Company to give recommendation to the Independent Shareholders on the Subscriptions and the Whitewash Waiver. Somerley has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

The Conversion Shares to be allotted and issued pursuant to the 2014 Convertible Notes are proposed to be issued pursuant to a specific mandate to be granted by the Independent Shareholders by way of poll at the SGM.

Given that each of the Subscription Agreements is conditional to one another, all the transactions contemplated under the Subscription Agreements will be subject to the approval of the Independent Shareholders by way of poll at the SGM and the GI Subscriber, the CTF Subscriber, the SF Subscribers and their respective associates will abstain from voting on the proposed resolution to approve the Subscriptions at the SGM.

An application will be made to the Listing Committee for the listing of, and permission to deal in, not more than 17,350,587,737 Conversion Shares (before the Capital Reorganisation becoming effective) and 4,337,646,933 Conversion Shares (after the Capital Reorganisation becoming effective). Upon completion of the Subscriptions, an announcement regarding the respective principal amounts of the 2014 Convertible Notes and the number of Conversion Shares issuable thereunder will be made by the Company.

## WHITEWASH WAIVER

The GI Subscriber, Mr. Lo and his spouse, the CTF Subscriber, Dragon Noble Group Limited, Dato' Dr. Cheng Yu Tung, Dr. Cheng Kar Shun, Henry and his spouse are parties acting in concert with each other in respect of the Company.

As at the Latest Practicable Date, the Concert Group held an aggregate of 1,832,458,301 Existing Shares, representing approximately 27.12% of the total voting rights of the Company.

Completion of the 2014 GI Subscription Agreement and the 2014 CTF Subscription Agreement is conditional upon, among other things, the Whitewash Waiver being approved by the Independent Shareholders and granted by the Executive. Upon full conversion of the aggregate amount of the 2014 GI Convertible Note and the 2014 CTF Convertible Note (based on the maximum respective principal amounts thereof to be issued and the accrued interest thereon) at the initial Conversion Price, it is expected that the aggregate voting rights of the Company held by the Concert Group will increase to approximately 77.21%, assuming no other change to the share capital and shareholding structure of the Company. Under Rule 26 of the Takeovers Code, the acquisition of voting rights under such circumstances will trigger a mandatory general offer by the GI Subscriber and/or the CTF Subscriber for all the securities of the Company other than those already owned (or agreed to be acquired) by the Concert Group, unless an appropriate waiver is obtained. An application has been made by the GI Subscriber and the CTF Subscriber to the Executive for the Whitewash Waiver. The Executive has indicated that the Whitewash Waiver will be granted subject to the approval of the Independent Shareholders by way of poll at the SGM. Members of the Concert Group and their respective associates and those Shareholders who are involved in or interested in the Subscriptions or the Whitewash Waiver will abstain from voting on the proposed resolution to approve the Whitewash Waiver at the SGM.

For illustration purpose, upon full conversion of the 2014 GI Convertible Note and the 2014 CTF Convertible Note but before taking into account the conversion of the 2014 SF Convertible Notes, the aggregate voting rights of the GI Subscriber, the CTF Subscriber and their respective concert parties in the Company will exceed 50%. Accordingly, if the Whitewash Waiver is granted by the Executive and is approved by the Independent Shareholders at the SGM, and if, upon any conversion of the 2014 GI Convertible and/or the 2014 CTF Convertible Note by the GI Subscriber and/or the CTF Subscriber, the aggregate voting rights of the GI Subscriber, the CTF Subscriber and their respective concert parties in the Company exceed 50%, any subsequent increase in the voting right by any of them will not result in their incurring any obligation under Rule 26 of the Takeovers Code to make a mandatory general offer.

If the Whitewash Waiver is not granted by the Executive or not approved by the Independent Shareholders, the 2014 GI Subscription Agreement and the 2014 CTF Subscription Agreement will not become unconditional and the Subscriptions will not proceed.

## **SGM**

Set out on pages SGM-1 to SGM-5 is a notice convening the SGM to be held at Unit A, 29/F Admiralty Centre I, 18 Harcourt Road, Hong Kong, on Wednesday, 12 November 2014 at 11 : 00 a.m. which resolutions will be proposed to consider and, if thought fit, to approve the Capital Reorganisation, the transactions contemplated under the Subscription Agreements and the Whitewash Waiver.

A form of proxy for use at the SGM is enclosed with this circular. Whether or not you are able to attend the SGM, you are requested to complete and sign the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Tricor Standard Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof if you so wish.

## **RECOMMENDATIONS**

Your attention is drawn to the letter from the Independent Board Committee to the Independent Shareholders set out on pages 42 to 43 of this circular and the letter from Somerley on pages 44 to 68 of this circular which contains their advice to the Independent Board Committee and the Independent Shareholders regarding the Subscription Agreements and the transactions contemplated thereunder and the Whitewash Waiver as well as the principal factors and reasons taken into consideration in arriving at their advice.

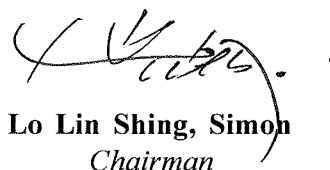
The Directors, excluding the Independent Board Committee, consider that the terms of the Subscription Agreements and the transactions contemplated thereunder and the Whitewash Waiver are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors, excluding the Independent Board Committee, recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the SGM to approve the transactions contemplated under the Subscription Agreements and the Whitewash Waiver. You are advised to read the letter from the Independent Board Committee and the letter from Somerley mentioned above before deciding how to vote at the SGM.

The Directors also consider that the Capital Reorganisation is in the interest of the Company and the Shareholders as a whole and recommend the Shareholders to vote in favour of the resolution approving the Capital Reorganisation at the SGM.

**ADDITIONAL INFORMATION**

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

By order of the Board of  
Mongolia Energy Corporation Limited



**Lo Lin Shing, Simon**  
*Chairman*