
THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of the Offer, this Composite Document and/or the accompanying Acceptance Form or as to the action to be taken, you should consult a licensed securities dealer or registered institution in securities, a bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Chanco International Group Limited, you should at once hand this Composite Document, together with the accompanying Acceptance Form, to the purchaser(s) or transferee(s) or to the bank, licensed securities dealer or registered institution in securities, or other agent through whom the sale or the transfer was effected for onward transmission to the purchaser(s) or transferee(s).

This Composite Document should be read in conjunction with the accompanying Acceptance Form, the contents of which form part of the terms and conditions of the Offer contained herein.

Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this Composite Document and the accompanying Acceptance Form, make no representation as to their accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Composite Document and the accompanying Acceptance Form.

ZHURONG GLOBAL LIMITED

著融環球有限公司

(Incorporated in the British Virgin Islands with limited liability)



(Stock Code: 264)

**COMPOSITE DOCUMENT IN RELATION TO
UNCONDITIONAL MANDATORY CASH OFFER FOR ALL THE
ISSUED SHARES IN CHANCO INTERNATIONAL GROUP LIMITED
(OTHER THAN THOSE ALREADY OWNED OR AGREED TO BE ACQUIRED
BY ZHURONG GLOBAL LIMITED AND/OR PARTIES ACTING IN
CONCERT WITH IT) BY CHINA INTERNATIONAL CAPITAL CORPORATION
HONG KONG SECURITIES LIMITED AND
SOUTHWEST SECURITIES (HK) CAPITAL LIMITED
ON BEHALF OF ZHURONG GLOBAL LIMITED**

Joint financial advisers to Zhurong Global Limited



**Independent Financial Adviser to the
Independent Board Committee of Chanco International Group Limited**



Capitalised terms used in this cover page shall have the same meanings as those defined in the section headed "Definitions" in this Composite Document.

A letter from CICC and Southwest Securities HK containing, among other things, the principal terms of the Offer is set out on pages 7 to 15 of this Composite Document. A letter from the Board is set out on pages 16 to 26 of this Composite Document.

A letter from the Independent Board Committee to the Independent Shareholders containing its recommendation in respect of the Offer is set out on pages 27 to 28 of this Composite Document. A letter from Messis Capital to the Independent Board Committee in respect of the Offer and the principal factors considered by it in arriving at its advice is set out on pages 29 to 50 of this Composite Document.

The procedures for acceptance and settlement and the acceptance period of the Offer are set out in Appendix I to this Composite Document and in the accompanying Acceptance Form. Acceptances of the Offer must be received by the Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong as soon as possible and in any event no later than 4:00 p.m. on 23 December 2015, or such later time and/or date as the Offeror may determine and announce in compliance with the Takeovers Code.

Persons including, without limitation, custodians, nominees and trustees who would, or otherwise intend to, forward this Composite Document and/or the accompanying Acceptance Form to any jurisdiction outside Hong Kong should read the details in this regard which are contained in the section headed "Important notice" in this Composite Document before taking any action. It is the responsibility of each Overseas Shareholder wishing to accept the Offer to satisfy himself, herself or itself as to the full observance of the laws and regulations of the relevant jurisdictions in connection therewith, including the obtaining of any governmental, exchange control or other consents which may be required and the compliance with other necessary formalities or legal requirements and the payment of any transfer or other taxes due in respect of such jurisdiction. Overseas Shareholders are advised to seek professional advice on deciding whether to accept the Offer.

This Composite Document will remain on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.irasia.com/listco/hk/chanco/index.htm>) as long as the Offer remains open.

2 December 2015

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EXPECTED TIMETABLE

The timetable set out below is indicative only and is subject to change. Any changes to the timetable will be jointly announced by the Offeror and the Company as and when appropriate. Unless otherwise specified, all times and dates contained in this Composite Document refer to Hong Kong local times and dates.

Despatch date of this Composite Document and the accompanying Acceptance Form and the Offer opens for acceptance (<i>Note 1</i>)	Wednesday, 2 December 2015
Latest time and date for acceptance of the Offer (<i>Note 2</i>)	4:00 p.m. on Wednesday, 23 December 2015
Closing Date of the Offer (<i>Note 2</i>)	Wednesday, 23 December 2015
Announcement of the results of the Offer or as to whether the Offer has been revised or extended to be posted on the website of the Stock Exchange (<i>Note 2</i>)	no later than 7:00 p.m. on Wednesday, 23 December 2015
Latest date for posting of remittances in respect of valid acceptances received under the Offer (<i>Note 3</i>)	Tuesday, 5 January 2016

Notes:

1. The Offer, which is unconditional in all respects, is made on the date of posting of this Composite Document, and is capable of acceptance on and from that date until the Closing Date. Acceptances of the Offer shall be irrevocable and not capable of being withdrawn, except in the circumstances as set out in the section headed "Right of withdrawal" in Appendix I to this Composite Document.
2. The Offer will be closed on the Closing Date. The latest time for acceptance is 4:00 p.m. on Wednesday, 23 December 2015 unless the Offeror revises or extends the Offer in accordance with the Takeovers Code. An announcement will be issued through the Stock Exchange website by 7:00 p.m. on Wednesday, 23 December 2015 stating whether the Offer has been revised or extended or has closed.
3. Remittances in respect of the cash consideration (after deducting the seller's ad valorem stamp duty) payable for the Offer Shares tendered under the Offer will be made to the Independent Shareholders accepting the Offer by ordinary post at their own risk as soon as possible, but in any event within seven Stock Exchange Business Days following the date of receipt by the Registrar of the duly completed Acceptance Form together with all the valid requisite documents from the Independent Shareholders accepting the Offer in compliance with Note 1 to Rule 30.2 of the Takeovers Code.
4. In accordance with the Takeovers Code, an announcement will be issued on the website of the Stock Exchange by 7:00 p.m. on the Closing Date stating the results of the Offer and whether the Offer has been extended, revised or closed.
5. If there is a tropical cyclone warning signal no. 8 or above, or a black rainstorm warning:
 - (a) in force in Hong Kong at any local time before 12:00 noon but no longer in force after 12:00 noon on the latest date for acceptance of the Offer or the latest date for posting of remittances for the amounts due under the Offer in respect of valid acceptances, the latest time for acceptance of the Offer or the posting of remittances, as the case may be, will remain at 4:00 p.m. on the same Stock Exchange Business Day; or
 - (b) in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on the latest date for acceptance of the Offer or the latest date for posting of remittances for the amounts due under the Offer in respect of valid acceptances, the latest time for acceptance of the Offer or the posting of remittances, as the case may be, will be rescheduled to 4:00 p.m. on the following Stock Exchange Business Day which does not have either of those warnings in force at any time between 9:00 a.m. and 4:00 p.m. or such other day as the Executive may approve in accordance with the Takeovers Code.

IMPORTANT NOTICE

NOTICE TO SHAREHOLDERS OUTSIDE HONG KONG

The making of the Offer to persons outside Hong Kong may be prohibited or affected by the laws and regulations of the relevant jurisdictions. Overseas Shareholders should observe any applicable legal requirements and, where necessary, seek independent legal advice. It is the responsibility of any such person who wishes to accept the Offer to satisfy himself/herself/itself as to the full observance of the laws and regulations of the relevant jurisdictions in connection therewith, including the obtaining of any governmental, exchange control or other consents which may be required or the compliance with other necessary formalities or legal requirements and the payment of any transfer or other taxes or other required payments due in respect of such jurisdiction. The Offeror, the Company, CICC, Southwest Securities HK, Messis Capital and the Registrar, their respective ultimate beneficial owners, directors, officers, agents, advisers and associates and any other person involved in the Offer shall be entitled to be fully indemnified and held harmless by such person for any taxes as such person may be required to pay. Please see the paragraph headed "Taxation advice" set out in the letter from CICC and Southwest Securities HK in this Composite Document.

DEFINITIONS

In this Composite Document, the following expressions have the meanings set out below unless the context requires otherwise.

“Acceptance Form”	the form of acceptance and transfer in respect of the Offer
“acting in concert”	has the meaning ascribed to it in the Takeovers Code
“Agreement”	the unconditional sale and purchase agreement dated 30 October 2015 entered into between the Offeror, Green Parade and Mr. Pong in relation to the sale and purchase of the Sale Shares
“associates”	has the meaning ascribed to it in the Takeovers Code
“Board”	the board of Directors
“BVI”	the British Virgin Islands
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“China International Capital Corporation” or “CICC”	China International Capital Corporation Hong Kong Securities Limited, a corporation licensed under the SFO to carry out Type 6 (advising on corporate finance) regulated activity under the SFO and one of the joint financial advisers to the Offeror in respect of the Offer
“Closing Date”	23 December 2015, being the closing date of the Offer as stated in the section headed “Expected Timetable” in this Composite Document, or any subsequent closing date as may be announced by the Offeror in accordance with the Takeovers Code
“Company”	Chanco International Group Limited, a company incorporated in the Cayman Islands on 12 April 2002 with limited liability, the issued Shares of which have been listed on the Main Board of the Stock Exchange since 12 March 2003
“Company’s MOU Announcement”	the announcement of the Company dated 12 October 2015 and published on the Stock Exchange website on 12 October 2015 in relation to the entering into of the MOU

DEFINITIONS

“Completion”	completion of the sale and purchase of the Sale Shares under the Agreement
“Completion Date”	2 November 2015, being the date on which Completion took place
“Composite Document”	this composite offer and response document jointly issued by the Offeror and the Company to the Shareholders in connection with the Offer
“Consideration”	the consideration under the Agreement for the Sale Shares
“Director(s)”	director(s) of the Company from time to time
“Executive”	the Executive Director of the Corporate Finance Division of the SFC from time to time or any delegate of such Executive Director
“Green Parade” or “Vendor”	Green Parade Limited, a company incorporated in the British Virgin Islands with limited liability and the controlling shareholder (as defined under the Listing Rules) of the Company prior to Completion
“Group”	the Company and its subsidiaries
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	an independent committee of the Board comprising all the independent non-executive Directors established in accordance with the Takeovers Code to give recommendations to the Independent Shareholders in respect of the Offer
“Independent Financial Adviser” or “Messis Capital”	Messis Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities as defined under the SFO, being the independent financial adviser to the Independent Board Committee in respect of the Offer
“Independent Shareholders”	Shareholders other than the Offeror and parties acting in concert with it

DEFINITIONS

“Joint Announcement”	the joint announcement dated 12 November 2015 jointly issued by the Offeror and the Company in relation to the Agreement, the Offer and the transactions contemplated thereunder
“Last Trading Day”	30 October 2015, being the last trading day of the Shares preceding the date of the Joint Announcement
“Latest Practicable Date”	30 November 2015, being the latest practicable date prior to the printing of this Composite Document for the purpose of ascertaining information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Loan Facility”	the HK\$494,000,000 loan facility under the loan agreement dated 30 October 2015 between Southwest Securities (HK) Brokerage and the Offeror
“MOU”	the memorandum of understanding dated 8 October 2015 and entered into among Green Parade, Mr. Pong and Zhu Rong Hong Kong regarding the sale of 229,948,000 Sale Shares by Green Parade and Mr. Pong to Zhu Rong Hong Kong or such other company as designated by Zhu Rong Hong Kong
“Mr. Pong” or “Guarantor”	Mr. Pong Wilson Wai San, being a director and the sole beneficial owner of Green Parade
“Offer”	the unconditional mandatory cash offer made by China International Capital Corporation and Southwest Securities HK on behalf of the Offeror to acquire the Offer Shares
“Offer Period”	the period from 12 October 2015, being the date of the Company’s MOU Announcement, up to the Closing Date
“Offer Price”	HK\$1.994 per Offer Share, being the price for each Offer Share payable by the Offeror to the Independent Shareholders accepting the Offer

DEFINITIONS

“Offer Shares”	all the issued Shares other than those already owned or agreed to be acquired by the Offeror and parties acting in concert with it and those in respect of which Green Parade and Mr. Pong have undertaken not to accept the Offer
“Offeror”	Zhurong Global Limited, a special purpose vehicle incorporated in the British Virgin Islands with limited liability on 11 September 2015 and is indirectly wholly-owned by Zhonghong
“Overseas Shareholders”	Independent Shareholders who are outside Hong Kong
“PRC”	the People’s Republic of China which, for the purpose of this Composite Document, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
“Registrar”	Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong, the branch registrar of the Company in Hong Kong
“Relevant Period”	the period commencing from 12 April 2015, being the date falling six months preceding the date of the Company’s MOU Announcement, up to and including the Latest Practicable Date
“Relevant Securities”	relevant securities as defined in Note 4 to Rule 22 of the Takeovers Code
“Remaining Shares”	17,360,000 Shares which Green Parade and Mr. Pong held in aggregate immediately after Completion
“Sale Shares”	229,948,000 Shares acquired by the Offeror pursuant to the terms of the Agreement, representing approximately 66.10% of the issued share capital of the Company as at the date of the Agreement
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
“Share(s)”	the ordinary share(s) of HK\$0.01 each in the share capital of the Company

DEFINITIONS

“Shareholder(s)”	holder(s) of the issued Share(s)
“Share Option(s)”	the share option(s) granted by the Company under its share option scheme adopted on 18 February 2003
“Southwest Securities HK”	Southwest Securities (HK) Capital Limited, a corporation licensed under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO and one of the joint financial advisers to the Offeror in respect of the Offer
“Southwest Securities (HK) Brokerage”	Southwest Securities (HK) Brokerage Limited, a corporation licensed under the SFO to carry out Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities as defined under the SFO
“SSE”	Shenzhen Stock Exchange
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Stock Exchange Business Day(s)”	(a) day(s) on which the Stock Exchange is open for the transaction of business
“Takeovers Code”	The Hong Kong Code on Takeovers and Mergers
“Undertaking”	the undertaking given by the Vendor and the Guarantor under the Agreement not to accept the Offer in respect of the Remaining Shares and, before the final closing of the Offer, not to transfer or sell or otherwise dispose of any of the Remaining Shares or any interests in the Remaining Shares
“Zhonghong”	中弘控股股份有限公司 (Zhonghong Holding Co., Ltd.), the shares of which are listed on the SSE (stock code: 000979)
“Zhonghong’s MOU Announcement”	the announcement of Zhonghong dated 12 October 2015 in relation to the entering into of the MOU by Zhu Rong Hong Kong made pursuant to the 《上市公司信息披露管理辦法》 (Administration Measures on Information Disclosure of Listed Companies) of the PRC which was published on the website of the SSE on 2 November 2015

DEFINITIONS

“Zhonghong’s SPA Announcement”	the announcement of Zhonghong dated 30 October 2015 in relation to the entering into of the Agreement by the Offeror and Green Parade made pursuant to the 《上市公司信息披露管理辦法》 (Administration Measures on Information Disclosure of Listed Companies) of the PRC and 《深圳證券交易所股票上市規則(2014年修訂)》 (the Stock Listing Rules of the SSE (2014 Revision)) which was published on the website of the SSE on 2 November 2015
“Zhu Rong Hong Kong”	著融香港投資有限公司 (Zhu Rong Hong Kong Investment Limited), a company incorporated in Hong Kong with limited liability
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.

* *For identification purposes only*



29/F One International Financial Centre
Harbour View Street, Central
Hong Kong



Rooms 1601, 1606–1608
16/F Central Plaza
18 Harbour Road, Wanchai
Hong Kong

2 December 2015

To the Independent Shareholders

Dear Sir or Madam,

**UNCONDITIONAL MANDATORY CASH OFFER FOR ALL THE
ISSUED SHARES IN CHANCO INTERNATIONAL GROUP LIMITED
(OTHER THAN THOSE ALREADY OWNED OR AGREED TO BE ACQUIRED
BY ZHURONG GLOBAL LIMITED AND/OR PARTIES ACTING IN
CONCERT WITH IT) BY CHINA INTERNATIONAL CAPITAL CORPORATION
HONG KONG SECURITIES LIMITED AND
SOUTHWEST SECURITIES (HK) CAPITAL LIMITED
ON BEHALF OF ZHURONG GLOBAL LIMITED**

INTRODUCTION

It was announced in the Joint Announcement that, after the Stock Exchange trading hours on 30 October 2015, Green Parade as vendor, Mr. Pong as guarantor and the Offeror as purchaser entered into the Agreement, pursuant to which Green Parade agreed to sell and the Offeror agreed to acquire the Sale Shares, representing approximately 66.10% of the total issued share capital of the Company. Completion of such sale and purchase took place on 2 November 2015. The Consideration for the Sale Shares is HK\$458,516,312, equivalent to HK\$1.994 per Sale Share, which was paid by the Offeror in full upon Completion.

Prior to Completion, Green Parade and Mr. Pong owned a total of 247,308,000 Shares, representing approximately 71.09% of the total issued share capital of the Company. Immediately after Completion, Green Parade and Mr. Pong held in aggregate 17,360,000 Shares and the Offeror was beneficially interested in 229,948,000 Shares, representing approximately 4.99% and 66.10%, respectively, of the total 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 the Offer for all the issued Shares other than those Shares already owned by the Offeror and parties acting in concert with it.

LETTER FROM CICC AND SOUTHWEST SECURITIES HK

This letter sets out, among other things, the details of the Offers, information on the Offeror and the intention of the Offeror regarding the Group. The terms of the Offers and procedures of acceptance of the Offers are set out in this letter, Appendix I to this Composite Document, and the accompanying Acceptance Form. Unless the context requires otherwise, terms defined in the Composite Document of which this letter forms part have the same meanings when used in this letter.

The Independent Shareholders are strongly advised to consider carefully the information contained in the "Letter from the Board", "Letter from the Independent Board Committee" and "Letter from Messis Capital" as set out in the Composite Document.

UNCONDITIONAL OFFER

The Offer is unconditional in all respects and is therefore not conditional upon any minimum level of acceptances being received or subject to any other condition.

THE OFFER

On behalf of the Offeror, we hereby unconditionally make the Offer to acquire all the issued Shares in the Company not already owned or agreed to be acquired by the Offeror or the parties acting in concert with it on the following basis:

Offer Price

For each Offer Share HK\$1.994 in cash

The Offer Price is the same as the price per Sale Share paid by the Offeror under the Agreement.

Undertaking not to accept the Offer

Immediately after Completion, Green Parade and Mr. Pong held in aggregate 17,360,000 Shares (being the Remaining Shares), representing approximately 4.99% of the total issued share capital of the Company as at the Latest Practicable Date. Green Parade and Mr. Pong have irrevocably undertaken in the Agreement not to accept the Offer in respect of the Remaining Shares and, before the final closing of the Offer, not to transfer or sell or otherwise dispose of any of the Remaining Shares or any interests in the Remaining Shares.

Comparisons of Value

The Offer Price of HK\$1.994 per Offer Share represents:

- (i) a premium of approximately 20.1% over the closing price of HK\$1.66 per Share as quoted on the Stock Exchange on 8 October 2015, being the last trading day prior to the commencement of the Offer Period;

LETTER FROM CICC AND SOUTHWEST SECURITIES HK

- (ii) a premium of approximately 7.2% over the closing price of HK\$1.860 per Share as quoted on the Stock Exchange on 30 October 2015, being the Last Trading Day;
- (iii) a premium of approximately 3.5% over the average of the closing prices of the Shares as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;
- (iv) a premium of approximately 11.3% over the average of the closing prices of the Shares as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day;
- (v) a premium of approximately 23.4% over the average of the closing prices of the Shares as quoted on the Stock Exchange for the last thirty consecutive trading days up to and including the Last Trading Day;
- (vi) a discount of approximately 3.2% to the closing price of HK\$2.06 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- (vii) a premium of approximately 785.4% over the audited consolidated net asset value of the Company of approximately HK\$0.2252 per Share as at 31 March 2015 (calculated based on the audited consolidated net asset value of the Company as at 31 March 2015 of approximately HK\$226,356,000 and 347,904,000 Shares in issue as at the date of the Latest Practicable Date) and taking into account the special dividend of HK\$0.4254 per Share paid on 31 August 2015.

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\$2.28 per Share on 4 August 2015 and HK\$0.78 per Share on 13 April and 14 April 2015 respectively.

CONFIRMATION OF FINANCIAL RESOURCES FOR THE OFFER

Total value of the Offer

As at the date of the Latest Practicable Date, there were 347,904,000 Shares in issue. Based on the Offer Price of HK\$1.994 per Offer Share, the entire issued share capital of the Company would be valued at HK\$693,720,576.

Assuming that there is no change in the issued share capital of the Company and taking into account the irrevocable undertaking given by Green Parade and Mr. Pong not to accept the Offer in respect of the Remaining Shares, there are 100,596,000 Shares subject to the Offer and the value of the Offer is HK\$200,588,424.

Financial resources available to the Offeror

The Offeror intends to finance and satisfy the consideration payable under the Offer by a Loan Facility granted by Southwest Securities (HK) Brokerage, which is secured by a charge over the Shares which the Offeror has acquired under the Agreement and any Shares it may acquire under the Offer. China International Capital Corporation and Southwest Securities HK, the financial advisers to the Offeror, are satisfied that there are sufficient financial resources available to the Offeror to satisfy the consideration payable upon full acceptance of the Offer.

INFORMATION ON THE OFFEROR

The Offeror is a special purpose vehicle incorporated in the British Virgin Islands with limited liability on 11 September 2015 and is directly wholly owned by Zhu Rong Hong Kong, which is a company incorporated in Hong Kong and is principally engaged in investment holding activities. The Offeror, through Zhu Rong Hong Kong and other intermediate holding companies, is indirectly wholly owned by Zhonghong. Zhonghong is established in the PRC with its headquarters in Beijing and is primarily engaged in the business of real estate development in the PRC including Beijing, Jilin, Shandong and Hainan. As a leader in the PRC property industry, Zhonghong has a diverse portfolio of property businesses which primarily focus on the development, sale and management of commercial properties including offices, residential properties, hotels and shopping complexes. Its long term strategy includes the development and operation of travel destinations and it currently operates and manages a number of cultural and leisure resort destinations in Beijing, Jilin, Shandong and Hainan. The shares of Zhonghong was first listed on the SSE in 2010 (stock code: 000979). As at 30 September 2015, Zhonghong's total asset value was approximately RMB19 billion and as at 10 November 2015, its total market capitalisation was approximately RMB21.1 billion. As at the Latest Practicable Date, Mr. Wang Yonghong, through one of his wholly-owned companies, 中弘卓業集團有限公司 (Zhonghong Zhuoye Group Company Limited), was the controlling shareholder of Zhonghong and holds approximately 34.51% of the issued shares of Zhonghong. The board of directors of the Offeror comprises one director, namely Ms. Jia Dai. The board of directors of Zhonghong comprises seven directors, namely Mr. Wang Yonghong, Mr. Cui Wei, Mr. Jin Jie, Mr. Liu Zuming, Mr. Lin Yingshi, Mr. Li Yaping and Mr. Lan Qingxin.

The Offeror and its ultimate beneficial owners are third parties independent of, and not acting in concert with, Green Parade. Immediately preceding Completion, none of the Offeror, its intermediate holding companies or its ultimate beneficial owners owned any Shares. Immediately before Completion, the Offeror and its concert parties were not interested in any Shares of the Company. Immediately after Completion and as at the Latest Practicable Date, the Offeror was interested in 229,948,000 Shares, representing approximately 66.10% of the total issued share capital of the Company.

INTENTION OF THE OFFEROR IN RELATION TO THE GROUP

It is the intention of the Offeror to continue with the Group's existing principal business following the close of the Offer. While neither the Offeror nor Zhonghong has operated in the same industry as the business of the Group, they understand that Mr.

LETTER FROM CICC AND SOUTHWEST SECURITIES HK

Edwin Chan and Mr. Stanley Chan intend to remain as directors of the operating subsidiaries of the Company and Ms. Rebecca Chan intends to remain as a director of certain operating subsidiaries of the Company after the close of the Offer to ensure that the business of the Group will be able to operate smoothly following the change of the Board composition. The Offeror and Zhonghong believe that these three directors' continued involvement will ensure that the boards of the relevant subsidiaries can continue to enjoy the benefit of their experience in the industry and in the relevant subsidiaries, and the staff and customers of the relevant subsidiaries will have greater comfort that those subsidiaries will continue to operate as usual.

The Offeror and Zhonghong do not have any intention, and have no arrangement or agreement, and no understanding or negotiation (concluded or otherwise) for any arrangement or agreement with any person, to dispose of, terminate or scale-down the Company's existing business, to inject any new business from the Zhonghong group into the Company or to change the Offeror's status as a holding company of the Company.

As disclosed in the Zhonghong's SPA Announcement, according to the strategic planning of Zhonghong and the current development trend of the industry, the acquisition of Sale Shares fulfils the future development strategy of Zhonghong. After Completion, the Company is intended to be developed as a brand management company, which will provide property management services for a range of recreational properties, including hotels, resorts and theme parks under brands which the brand management company will establish, develop and manage as it develops its property management businesses for such properties. The brand management company will be asset-light as opposed to asset-heavy as it will be providing property management services under its property management brands for properties as opposed to developing and holding the real properties themselves. The brand management company will aim at operating business properties including for travel and resort, healthcare, cultural innovation. The planning management of the brand management company will cover a number of commercial activities including theme parks, performance venues, entertainment, sports, races, hotels, medical care, elderly care, commercial and education to achieve the integration between different commercial activities and connections between different locations. As at the Latest Practicable Date, the Offeror and Zhonghong had no concrete plans, agreements or arrangements in respect of any specific properties to be managed by the brand management company or any specific brands under which the brand management company will operate. By leveraging on Hong Kong's international market, the brand management company will draw on the management experience of international advanced brands and recruit talented people in high-end brand management to build a professional team and undertake the team development and the resource integration. This is expected to further promote and enhance the brand value and influence of Zhonghong in tourism and culture property projects, strengthen its competitiveness and consolidate and improve its leading position in the industry.

The acquisition of Shares and the plan to develop the Company as a brand management company are in line with the long-term development strategy of Zhonghong and will fulfill its asset-light strategy. Such brand management company is expected to contribute to the performance of Zhonghong and its expansion in the cultural tourism industry.

LETTER FROM CICC AND SOUTHWEST SECURITIES HK

As at the Latest Practicable Date, the Offeror had no intention to discontinue the employment of the employees (save for the proposed changes to the composition of the Board as detailed below) or to dispose of or re-deploy the assets of the Group.

PROPOSED CHANGE TO THE BOARD COMPOSITION

The Board is currently made up of five members, comprising two executive Directors, namely Mr. Lee Wing Yin and Mr. Ngan Man Ho; and three independent non-executive Directors, namely Mr. Lung Hung Cheuk, Mr. Leung Ka Tin and Mr. Li Wai Ming. Pursuant to the terms of the Agreement, Green Parade and Mr. Pong had, at the request of the Offeror, delivered the undated written resignations of all Directors to the Offeror at Completion and such resignation shall be effective from the earliest time permitted under the Takeovers Code, the Listing Rules or other applicable rules or regulations or such later date as the Offeror may determine.

In addition, pursuant to the terms of the Agreement, Green Parade and Mr. Pong shall, if so required by the Offeror, cause such persons as the Offeror may nominate to be validly appointed as the Directors and such appointment(s) shall be effective from the date falling one day after the date on which the Composite Document is despatched or such later date as the Offeror may determine, provided that such date shall not be earlier than such earliest date as may be permitted under the Takeovers Code or the SFC. Any changes to the Board composition will be announced by the Company and made in compliance with the Takeovers Code and the Listing Rules.

INTENTION OF THE OFFEROR TO MAINTAIN THE LISTING OF THE COMPANY

The Offeror intends to maintain the listing status of the Company on the Main Board of the Stock Exchange following the close of the Offer.

The Offeror and the proposed Directors who would be nominated by the Offeror and appointed as Directors will jointly and severally undertake to the Stock Exchange to take appropriate steps as soon as possible following the close of the Offer to ensure that a sufficient public float exists for the Shares if the public float of the Company falls below 25% following the close of the Offer.

The Stock Exchange has stated that if, upon closing of the Offer, less than the minimum prescribed percentage applicable to the Company, being 25% of the 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, it will consider exercising its discretion to suspend trading in the Shares until the prescribed level of public float is restored.

COMPULSORY ACQUISITION

The Offeror does not intend to exercise any right which may be available to it to compulsorily acquire any outstanding Offer Shares not acquired under the Offer after the close of the Offer.

ACCEPTANCE AND SETTLEMENT

Your attention is drawn to the section headed “Procedures for Acceptance of the Offer” as set out in Appendix I to the Composite Document of which this letter forms part and the accompanying Acceptance Form.

Acceptance

To accept the Offer, you must complete and sign the accompanying Acceptance Form in accordance with the instructions printed thereon, which form part of the terms and conditions of the Offer.

The completed Acceptance Form should then be forwarded, together with the relevant Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) for the whole of your holding of the Shares or, if applicable, for not less than the number of Shares in respect of which you intend to accept the Offer, by post or by hand to the Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17/F, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong, marked “**Chanco International Group Limited – Offer**” on the envelope, not later than 4:00 p.m. on Wednesday, 23 December 2015, being the Closing Date (or such later time and/or date as the Offeror may decide and announce in compliance with the Takeovers Code). No acknowledgement of receipt of any Acceptance Form(s), Share certificate(s), transfer receipt(s) or other document(s) of title (and/or any indemnity or indemnities required in respect thereof) will be given.

Effect of accepting the Offer

By accepting the Offer, the Independent Shareholders will sell their Shares to the Offeror free from all encumbrances together with all rights attached thereto, including but not limited to all rights to any dividend or other distribution declared, made or paid on or after the date on which the Offer is made, being the date of the despatch of this Composite Document.

Acceptance of the Offer by any Independent Shareholder will be deemed to constitute a warranty by such person that all Shares sold by such person under the Offer are free from all encumbrances whatsoever together with all rights attached thereto, including but not limited to all rights to any dividend or other distribution declared, made or paid on or after the date on which the Offer is made.

Acceptance of the Offer is irrevocable and would not be capable of being withdrawn, subject to the provisions of the Takeovers Code.

Please also refer to Appendix I to the Composite Document of which this letter forms part and the accompanying Acceptance Form for further terms of the Offer.

Settlement

Provided that a valid Acceptance Form and the relevant documents required to tender the relevant acceptance under the Offer are complete and in good order in all

LETTER FROM CICC AND SOUTHWEST SECURITIES HK

respects and have been received by the Registrar no later than 4:00 p.m. on Wednesday, 23 December 2015, being the latest time for acceptance of the Offer unless the Offer is extended by the Offeror in accordance with the Takeovers Code and applicable laws, a cheque for the amount due to the relevant accepting Independent Shareholder less seller's *ad valorem* stamp duty payable by the relevant accepting Independent Shareholder will be despatched to the relevant accepting Independent Shareholder at the Independent Shareholder's address as it appears on the register of members of the Offeror or, in the case of joint Independent Shareholders, at the address of the Independent Shareholder whose name stands first in the register of members of the Offeror by ordinary post at the Independent Shareholder's own risk as soon as possible, but in any event within seven (7) Stock Exchange Business Days from the date on which all relevant documents are received by the Registrar to render such acceptance complete and valid.

No fractions of a cent will be payable and the amount of the consideration payable to an Independent Shareholder who accepts the Offer will be rounded up to the nearest cent.

Hong Kong stamp duty

The seller's Hong Kong *ad valorem* stamp duty on acceptance of the Offer at a rate of 0.1% of the consideration payable in respect of the acceptances by the relevant Independent Shareholders or if higher, the value of the Offer Shares, will be deducted from the amount payable to those Shareholders who accept the Offer.

The Offeror will bear the buyer's Hong Kong *ad valorem* stamp duty at the rate of 0.1% of the amount payable in respect of the relevant acceptance, or if higher, the value of the Shares.

TAXATION ADVICE

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 the Offeror, the Company, China International Capital Corporation, Southwest Securities HK and their respective ultimate beneficial owners, directors, officers, agents, advisers or associates or any other person involved in the Offer accepts any responsibility for any taxation effects on, or liabilities of, any persons as a result of their acceptance or rejection of the Offer.

OVERSEAS SHAREHOLDERS

The Composite Document will not be filed under any laws or rules of any jurisdiction other than Hong Kong.

As the Offer to persons outside Hong Kong might be affected by the laws of the relevant jurisdictions, Overseas Shareholders should obtain information about and observe any applicable legal or regulatory requirements and, where necessary, seek legal advice in respect of the Offer. 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

LETTER FROM CICC AND SOUTHWEST SECURITIES HK

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 jurisdictions).

Any acceptance by any Overseas Shareholders will be deemed to constitute a representation and warranty from such Overseas Shareholders to the Offeror that the local laws and requirements have been complied with. Overseas Shareholders should consult their professional advisers if in doubt.

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 Acceptance Form, 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 Messis Capital” contained in the Composite Document.

Yours faithfully,
For and on behalf of
China International Capital Corporation
Hong Kong Securities Limited
Yongren Chen
Executive Director

Yours faithfully,
For and on behalf of
Southwest Securities (HK)
Capital Limited
Maurice Ying
Executive Director-Investment Banking

LETTER FROM THE BOARD



CHANCO INTERNATIONAL GROUP LIMITED

卓高國際集團有限公司
(Incorporated in the Cayman Islands with limited liability)

(Stock code: 264)

Executive Directors

Mr. Lee Wing Yin
Mr. Ngan Man Ho

Independent Non-Executive Directors

Mr. Lung Hung Cheuk
Mr. Leung Ka Tin
Mr. Li Wai Ming

Registered Office

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

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

3rd Floor, Victory Industrial Building
Nos. 151–157 Wo Yi Hop Road
Kwai Chung
New Territories
Hong Kong

2 December 2015

To the Independent Shareholders

Dear Sir or Madam,

**UNCONDITIONAL MANDATORY CASH OFFER FOR ALL THE
ISSUED SHARES IN CHANCO INTERNATIONAL GROUP LIMITED
(OTHER THAN THOSE ALREADY OWNED OR AGREED TO BE ACQUIRED
BY ZHURONG GLOBAL LIMITED AND/OR PARTIES ACTING IN
CONCERT WITH IT) BY CHINA INTERNATIONAL CAPITAL CORPORATION
HONG KONG SECURITIES LIMITED AND
SOUTHWEST SECURITIES (HK) CAPITAL LIMITED
ON BEHALF OF ZHURONG GLOBAL LIMITED**

INTRODUCTION

The Company has been informed that, after the Stock Exchange trading hours on 30 October 2015, Green Parade as vendor, Mr. Pong as guarantor and the Offeror as purchaser entered into the Agreement, pursuant to which Green Parade agreed to sell and the Offeror agreed to acquire the Sale Shares, representing approximately 66.10% of the total issued share capital of the Company as at the date of the Agreement and the date of the Joint Announcement. Completion took place on 2 November 2015.

LETTER FROM THE BOARD

Pursuant to Rule 26.1 of the Takeovers Code, the Offeror is required to make the Offer for all the issued Shares other than those Shares already owned by the Offeror and parties acting in concert with it.

The purpose of this Composite Document is to provide you with, among other things, (i) information relating to the Group, the Offeror and the Offer; (ii) the “Letter from the Independent Board Committee” containing its recommendation to the Independent Shareholders in respect of the Offer; and (iii) the “Letter from Messis Capital” containing its recommendation to the Independent Board Committee in respect of the Offer.

UNCONDITIONAL MANDATORY CASH OFFER

Prior to Completion, the Offeror and parties acting in concert with it did not own, have control or direction over any Shares or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company. Immediately following Completion and as at the Latest Practicable Date, the Offeror and parties acting in concert with it owned a total of 229,948,000 Shares, representing approximately 66.10% of the total issued share capital of the Company.

Pursuant to Rule 26.1 of the Takeovers Code, immediately upon Completion, the Offeror is required to make an unconditional mandatory general offer in cash for all the issued Shares (other than those already owned or agreed to be acquired by the Offeror and parties acting in concert with it). The Offer is unconditional in all respects.

As at the Latest Practicable Date, the Company had 347,904,000 Shares in issue. The Company did not have any outstanding options, derivatives, warrants or securities which are convertible into or which confer rights to require the issue of Shares and has not entered into any agreement for the issue of such options, derivatives, warrants or securities which are convertible into or which confer rights to require the issue of Shares. Other than the 347,904,000 issued Shares, the Company did not have relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in issue.

Terms of the Offer

China International Capital Corporation and Southwest Securities HK, the financial advisers to the Offeror, hereby make the Offer for and on behalf of the Offeror in compliance with the Takeovers Code on terms as set out herein on the following basis:

For each Offer Share HK\$1.994 in cash

The Offer Price of HK\$1.994 per Offer Share under the Offer is the same as the purchase price per Sale Share paid by the Offeror under the Agreement. The Offer Shares to be acquired under the Offer shall be fully paid and free from all encumbrances together with all rights attached thereto, including but not limited to all rights to any dividend or other distribution declared, made or paid on or after the date on which the Offer is made, being the date of the despatch of this Composite Document.

LETTER FROM THE BOARD

Comparisons of Value

The Offer Price of HK\$1.994 per Offer Share represents:

- (i) a premium of approximately 20.1% over the closing price of HK\$1.66 per Share as quoted on the Stock Exchange on 8 October 2015, being the last trading day prior to the commencement of the Offer Period;
- (ii) a premium of approximately 7.2% over the closing price of HK\$1.860 per Share as quoted on the Stock Exchange on 30 October 2015, being the Last Trading Day;
- (iii) a premium of approximately 3.5% over the average of the closing prices of the Shares as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;
- (iv) a premium of approximately 11.3% over the average of the closing prices of the Shares as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day;
- (v) a premium of approximately 23.4% over the average of the closing prices of the Shares as quoted on the Stock Exchange for the last thirty consecutive trading days up to and including the Last Trading Day;
- (vi) a discount of approximately 3.2% to the closing price of HK\$2.06 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- (vii) a premium of approximately 785.4% over the audited consolidated net asset value of the Company of approximately HK\$0.2252 per Share as at 31 March 2015 (calculated based on the audited consolidated net asset value of the Company as at 31 March 2015 of approximately HK\$226,356,000 and 347,904,000 Shares in issue as at the date of the Latest Practicable Date) and taking into account the special dividend of HK\$0.4254 per Share paid on 31 August 2015.

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\$2.28 per Share on 4 August 2015 and HK\$0.78 per Share on 13 April and 14 April 2015 respectively.

Total value of the Offer

As at the Latest Practicable Date, there were 347,904,000 Shares in issue. Based on the Offer Price of HK\$1.994 per Offer Share, the entire issued share capital of the Company would be valued at HK\$693,720,576.

LETTER FROM THE BOARD

Assuming that there is no change in the issued share capital of the Company and taking into account the irrevocable undertaking given by Green Parade and Mr. Pong not to accept the Offer in respect of the Remaining Shares, there are 100,596,000 Shares subject to the Offer and the value of the Offer is HK\$200,588,424.

Financial resources available to the Offeror

The Offeror intends to finance and satisfy the consideration payable under the Offer by a loan facility granted by Southwest Securities (HK) Brokerage, which is secured by a charge over the Shares which the Offeror has acquired under the Agreement and any Shares it may acquire under the Offer. China International Capital Corporation and Southwest Securities HK, the financial advisers to the Offeror, are satisfied that there are sufficient financial resources available to the Offeror to satisfy the consideration payable upon full acceptance of the Offer.

Effect of accepting the Offer

By accepting the Offer, the Independent Shareholders will sell their Shares to the Offeror free from all encumbrances together with all rights attached thereto, including but not limited to all rights to any dividend or other distribution declared, made or paid on or after the date on which the Offer is made, being the date of the despatch of this Composite Document.

Acceptance of the Offer by any Independent Shareholder will be deemed to constitute a warranty by such person that all Shares sold by such person under the Offer are free from all encumbrances whatsoever together with all rights attached thereto, including but not limited to all rights to any dividend or other distribution declared, made or paid on or after the date on which the Offer is made.

Acceptance of the Offer is irrevocable and would not be capable of being withdrawn, subject to the provisions of the Takeovers Code.

Please also refer to Appendix I to the Composite Document of which this letter forms part and the accompanying Acceptance Form for further terms of the Offer.

Independent Shareholders are reminded to read the recommendations from the Independent Board Committee to the Independent Shareholders and the letter of advice from the Independent Financial Adviser to the Independent Board Committee in respect of the Offer as set out in this Composite Document.

Settlement

Provided that a valid Acceptance Form and the relevant documents required to tender the relevant acceptance under the Offer are complete and in good order in all respects and have been received by the Registrar no later than 4:00 p.m. on Wednesday, 23 December 2015, being the latest time for acceptance of the Offer unless the Offer is extended by the Offeror in accordance with the Takeovers Code and applicable laws, a cheque for the amount due to the relevant accepting Independent Shareholder less seller's

LETTER FROM THE BOARD

ad valorem stamp duty payable by the relevant accepting Independent Shareholder will be despatched to the relevant accepting Independent Shareholder at the Independent Shareholder's address as it appears on the register of members of the Offeror or, in the case of joint Independent Shareholders, at the address of the Independent Shareholder whose name stands first in the register of members of the Offeror by ordinary post at the Independent Shareholder's own risk as soon as possible, but in any event within seven (7) Stock Exchange Business Days from the date on which all relevant documents are received by the Registrar to render such acceptance complete and valid.

No fractions of a cent will be payable and the amount of the consideration payable to an Independent Shareholder who accepts the Offer will be rounded up to the nearest cent.

Taxation advice

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 the Offeror, the Company, China International Capital Corporation, Southwest Securities HK and their respective ultimate beneficial owners, directors, officers, agents or associates or any other person involved in the Offer accepts any responsibility for any taxation effects on, or liabilities of, any persons as a result of their acceptance or rejection of the Offer.

Hong Kong stamp duty

The seller's Hong Kong ad valorem stamp duty on acceptance of the Offer at a rate of 0.1% of the consideration payable in respect of the acceptances by the relevant Independent Shareholders or if higher, the value of the Offer Shares, will be deducted from the amount payable to those Shareholders who accept the Offer.

The Offeror will bear the buyer's Hong Kong ad valorem stamp duty at the rate of 0.1% of the amount payable in respect of the relevant acceptance, or if higher, the value of the Shares.

Overseas Shareholders

The Composite Document will not be filed under any laws or rules of any jurisdiction other than Hong Kong.

As the Offer to persons outside Hong Kong might be affected by the laws of the relevant jurisdictions, Overseas Shareholders should obtain information about and observe any applicable legal or regulatory requirements and, where necessary, seek legal advice in respect of the Offer. 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 jurisdictions).

LETTER FROM THE BOARD

Any acceptance by any Overseas Shareholders will be deemed to constitute a representation and warranty from such Overseas Shareholders to the Offeror that the local laws and requirements have been complied with. Overseas Shareholders should consult their professional advisers if in doubt.

SHAREHOLDING STRUCTURE OF THE COMPANY

The following table sets out the shareholding structures of the Company (i) immediately before Completion; (ii) immediately after Completion and as at the Latest Practicable Date:

	(i) Immediately before Completion		(ii) Immediately after Completion and as at the Latest Practicable Date	
	<i>Number of Shares</i>	<i>Approx. %</i>	<i>Number of Shares</i>	<i>Approx. %</i>
The Offeror and parties acting in concert with it	–	–	229,948,000	66.10
Green Parade and Mr. Pong (<i>Note</i>)	<u>247,308,000⁽¹⁾</u>	<u>71.09</u>	<u>17,360,000⁽²⁾</u>	<u>4.99</u>
<i>Subtotal</i>	247,308,000	71.09	247,308,000	71.09
Other Shareholders	<u>100,596,000</u>	<u>28.91</u>	<u>100,596,000</u>	<u>28.91</u>
Total	<u><u>347,904,000</u></u>	<u><u>100.00</u></u>	<u><u>347,904,000</u></u>	<u><u>100.00</u></u>

Notes:

⁽¹⁾ Immediately before Completion, the 247,308,000 Shares were held as to (i) 246,932,000 Shares by Green Parade and (ii) 376,000 Shares by Mr. Pong.

⁽²⁾ Immediately after Completion and as at the Latest Practicable Date, the 17,360,000 Shares were held as to (i) 16,984,000 Shares by Green Parade and (ii) 376,000 Shares by Mr. Pong.

As at the Latest Practicable Date, the Company did not have any outstanding share options, derivatives, warrants or securities which are convertible or exchangeable into Shares and has not entered into any agreement for the issue of such options, derivatives, warrants or securities which are convertible or exchangeable into Shares.

LETTER FROM THE BOARD

INFORMATION ON THE OFFEROR

The Offeror is a special purpose vehicle incorporated in the British Virgin Islands with limited liability on 11 September 2015 and is directly wholly owned by Zhu Rong Hong Kong, which is a company incorporated in Hong Kong and is principally engaged in investment holding activities. The Offeror, through Zhu Rong Hong Kong and other intermediate holding companies, is indirectly wholly owned by Zhonghong. Zhonghong is established in the PRC with its headquarters in Beijing and is primarily engaged in the business of real estate development in the PRC including Beijing, Jilin, Shandong and Hainan. As a leader in the PRC property industry, Zhonghong has a diverse portfolio of property businesses which primarily focus on the development, sale and management of commercial properties including offices, residential properties, hotels and shopping complexes. Its long term strategy includes the development and operation of travel destinations and it currently operates and manages a number of cultural and leisure resort destinations in Beijing, Jilin, Shandong and Hainan. The shares of Zhonghong was first listed on the SSE in 2010 (stock code: 000979). As at 30 September 2015, Zhonghong's total asset value was approximately RMB19 billion and as at 10 November 2015, its total market capitalisation was approximately RMB21.1 billion. As at the Latest Practicable Date, Mr. Wang Yonghong, through one of his wholly-owned companies, 中弘卓業集團有限公司 (Zhonghong Zhuoye Group Company Limited), was the controlling shareholder of Zhonghong and holds approximately 34.51% of the issued shares of Zhonghong. The board of directors of the Offeror comprises one director, namely Ms. Jia Dai. The board of directors of Zhonghong comprises seven directors, namely Mr. Wang Yonghong, Mr. Cui Wei, Mr. Jin Jie, Mr. Liu Zuming, Mr. Lin Yingshi, Mr. Li Yaping and Mr. Lan Qingxin.

The Offeror and its ultimate beneficial owners are third parties independent of, and not acting in concert with, Green Parade. Immediately preceding Completion, none of the Offeror, its intermediate holding companies or its ultimate beneficial owners owned any Shares. Immediately before Completion, the Offeror and its concert parties were not interested in any Shares of the Company. As at the Latest Practicable Date, immediately after Completion, the Offeror was interested in 229,948,000 Shares, representing approximately 66.10% of the total issued share capital of the Company.

INTENTION OF THE OFFEROR IN RELATION TO THE GROUP

It is the intention of the Offeror to continue with the Group's existing principal business following the close of the Offer. While neither the Offeror nor Zhonghong has operated in the same industry as the business of the Group, they understand that Mr. Edwin Chan and Mr. Stanley Chan intend to remain as directors of the operating subsidiaries of the Company and Ms. Rebecca Chan intends to remain as a director of certain operating subsidiaries of the Company after the close of the Offer to ensure that the business of the Group will be able to operate smoothly following the change of the Board composition. The Offeror and Zhonghong believe that these three directors' continued involvement will ensure that the boards of the relevant subsidiaries can continue to enjoy the benefit of their experience in the industry and in the relevant subsidiaries, and the staff and customers of the relevant subsidiaries will have greater comfort that those subsidiaries will continue to operate as usual.

LETTER FROM THE BOARD

The Offeror and Zhonghong do not have any intention, and have no arrangement or agreement, and no understanding or negotiation (concluded or otherwise) for any arrangement or agreement with any person, to dispose of, terminate or scale-down the Company's existing business, to inject any new business from the Zhonghong group into the Company or to change the Offeror's status as a holding company of the Company.

As disclosed in the Zhonghong's SPA Announcement, according to the strategic planning of Zhonghong and the current development trend of the industry, the acquisition of Sale Shares fulfils the future development strategy of Zhonghong. After Completion, the Company is intended to be developed as a brand management company, which will provide property management services for a range of recreational properties, including hotels, resorts and theme parks under brands which the brand management company will establish, develop and manage as it develops its property management businesses for such properties. The brand management company will be asset-light as opposed to asset-heavy as it will be providing property management services under its property management brands for properties as opposed to developing and holding the real properties themselves. The brand management company will aim at operating business properties including for travel and resort, healthcare, cultural innovation. The planning management of the brand management company will cover a number of commercial activities including theme parks, performance venues, entertainment, sports, races, hotels, medical care, elderly care, commercial and education to achieve the integration between different commercial activities and connections between different locations. As at the Latest Practicable Date, the Offeror and Zhonghong had no concrete plans, agreements or arrangements in respect of any specific properties to be managed by the brand management company or any specific brands under which the brand management company will operate. By leveraging on Hong Kong's international market, the brand management company will draw on the management experience of international advanced brands and recruit talented people in high-end brand management to build a professional team and undertake the team development and the resource integration. This is expected to further promote and enhance the brand value and influence of Zhonghong in tourism and culture property projects, strengthen its competitiveness and consolidate and improve its leading position in the industry.

The acquisition of Shares and the plan to develop the Company as a brand management company are in line with the long-term development strategy of Zhonghong and will fulfill its asset-light strategy. Such brand management company is expected to contribute to the performance of Zhonghong and its expansion in the cultural tourism industry.

As at the Latest Practicable Date, the Offeror had no intention to discontinue the employment of the employees (save for the proposed changes to the composition of the Board as detailed below) or to dispose of or re-deploy the assets of the Group.

LETTER FROM THE BOARD

PROPOSED CHANGE TO THE BOARD COMPOSITION

The Board is currently made up of five members, comprising two executive Directors, namely Mr. Lee Wing Yin and Mr. Ngan Man Ho; and three independent non-executive Directors, namely Mr. Lung Hung Cheuk, Mr. Leung Ka Tin and Mr. Li Wai Ming. Pursuant to the terms of the Agreement, Green Parade and Mr. Pong had, at the request of the Offeror, delivered the undated written resignations of all Directors to the Offeror at Completion and such resignation shall be effective from the earliest time permitted under the Takeovers Code, the Listing Rules or other applicable rules or regulations or such later date as the Offeror may determine.

In addition, pursuant to the terms of the Agreement, Green Parade and Mr. Pong shall, if so required by the Offeror, cause such persons as the Offeror may nominate to be validly appointed as the Directors and such appointment(s) shall be effective from the date falling one day after the date on which the Composite Document is despatched or such later date as the Offeror may determine, provided that such date shall not be earlier than such earliest date as may be permitted under the Takeovers Code or the SFC. Any changes to the Board composition will be announced by the Company and made in compliance with the Takeovers Code and the Listing Rules.

INTENTION OF THE OFFEROR TO MAINTAIN THE LISTING OF THE COMPANY

The Offeror intends to maintain the listing status of the Company on the Main Board of the Stock Exchange following the close of the Offer.

The Offeror and the proposed Directors who would be nominated by the Offeror and appointed as Directors will jointly and severally undertake to the Stock Exchange to take appropriate steps as soon as possible following the close of the Offer to ensure that a sufficient public float exists for the Shares if the public float of the Company falls below 25% following the close of the Offer.

The Stock Exchange has stated that if, upon closing of the Offer, less than the minimum prescribed percentage applicable to the Company, being 25% of the 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, it will consider exercising its discretion to suspend trading in the Shares until the prescribed level of public float is restored.

INFORMATION OF THE GROUP

The Company was incorporated in the Cayman Islands on 12 April 2002 as an exempted company with limited liability under the Companies Law of the Cayman Islands and the issued Shares have been listed on the Main Board of the Stock Exchange since 12 March 2003. The principal activity of the Company is investment holding. The Group is principally engaged in manufacturing and distribution of leather products and retail of fashion apparel, footwear and leather accessories.

LETTER FROM THE BOARD

The following table is a summary of the audited consolidated financial information of the Group for the two financial years ended 31 March 2014 and 31 March 2015 and the unaudited consolidated financial information of the Group for the six months ended 30 September 2015 respectively.

	For the year ended 31 March 2014	For the year ended 31 March 2015	For the six months ended 30 September 2015
	<i>HK\$'000</i> <i>(audited)</i>	<i>HK\$'000</i> <i>(audited)</i>	<i>HK\$'000</i> <i>(unaudited)</i>
Turnover	131,418	128,711	64,597
Profit/(loss) for the year/period	<u>(38,866)</u>	<u>(25,780)</u>	<u>(16,815)</u>
	As at 31 March 2014	As at 31 March 2015	As at 30 September 2015
	<i>HK\$'000</i> <i>(audited)</i>	<i>HK\$'000</i> <i>(audited)</i>	<i>HK\$'000</i> <i>(unaudited)</i>
Total assets	273,496	247,897	108,849
Total liabilities	23,140	21,541	34,058
Net asset value attributable to owners of the Company	<u>250,356</u>	<u>226,356</u>	<u>74,791</u>

Reference is made to the Joint Announcement which contains certain unaudited financial information of the Group for the three months ended 30 June 2015 (the “**Unaudited Financial Information**”). Under Rule 10 of the Takeovers Code, such Unaudited Financial Information constitutes a profit forecast and would be subject to the reporting requirements under Rules 10.3 and 10.4 of the Takeovers Code.

With the publication of the interim results of the Group for the six months ended 30 September 2015 on 30 November 2015, such interim results supersede the Unaudited Financial Information and reporting on the Unaudited Financial Information is not necessary. Please refer to Appendix II in relation to the interim results of the Group for the six months ended 30 September 2015. Shareholders and potential investors should not rely the Unaudited Financial Information when dealing in Shares or in assessing the merits or demerits of the Offer.

LETTER FROM THE BOARD

RECOMMENDATION

The Independent Board Committee has been established to make recommendation to the Independent Shareholders as to whether the terms of the Offer are fair and reasonable and as to acceptance.

Your attention is drawn to the “Letter from the Independent Board Committee” as set out on pages 27 and 28 of this Composite Document which contains its recommendation to the Independent Shareholders in respect of the Offer, and the “Letter from Messis Capital” as set out on pages 29 to 50 of this Composite Document containing its advice to the Independent Board Committee in respect of the Offer.

Yours faithfully,
By order of the Board
Chanco International Group Limited
Lee Wing Yin
Director

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



CHANCO INTERNATIONAL GROUP LIMITED
卓高國際集團有限公司
(Incorporated in the Cayman Islands with limited liability)

(Stock code: 264)

2 December 2015

To the Independent Shareholders

Dear Sir or Madam,

**UNCONDITIONAL MANDATORY CASH OFFER FOR ALL THE
ISSUED SHARES IN CHANCO INTERNATIONAL GROUP LIMITED
(OTHER THAN THOSE ALREADY OWNED OR AGREED TO BE ACQUIRED
BY ZHURONG GLOBAL LIMITED AND/OR PARTIES ACTING IN
CONCERT WITH IT) BY CHINA INTERNATIONAL CAPITAL CORPORATION
HONG KONG SECURITIES LIMITED AND
SOUTHWEST SECURITIES (HK) CAPITAL LIMITED
ON BEHALF OF ZHURONG GLOBAL LIMITED**

INTRODUCTION

We refer to the Composite Document, of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Composite Document unless the context otherwise requires.

We have been appointed by the Board as members of the Independent Board Committee to consider the terms of the Offer and to advise you as to whether, in our opinion, the terms of the Offer are fair and reasonable so far as the Independent Shareholders are concerned and as to acceptance.

Messis Capital Limited has been appointed as the Independent Financial Adviser to the Independent Board Committee to advise us in respect of the terms of the Offer and as to acceptance. Details of its advice and principal factors taken into consideration in arriving at its recommendation are set out in the "Letter from Mesis Capital" on pages 29 to 50 of this Composite Document. We also wish to draw your attention to the letter from the Board in this Composite Document, the letter from CICC and Southwest Securities HK and the additional information set out in the appendices to this Composite Document.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

RECOMMENDATION

Having taken into account the terms of the Offer and the advice and recommendations of the Independent Financial Adviser, we consider the terms of the Offer are fair and reasonable so far as the Independent Shareholders are concerned. Therefore, we recommend the Independent Shareholders to accept the Offer.

Notwithstanding our recommendation, the Independent Shareholders should consider carefully the terms of the Offer and then decide whether to accept or not to accept the Offer.

Yours faithfully,
For and on behalf of
the Independent Board Committee of
Chanco International Group Limited

Mr. Lung Hung Cheuk
Independent
non-executive Director

Mr. Leung Ka Tin
Independent
non-executive Director

Mr. Li Wai Ming
Independent
non-executive Director

LETTER FROM MESSIS CAPITAL

The following is the full text of the letter from the Independent Financial Adviser which sets out its advice to the Independent Board Committee for inclusion in this Composite Document.



大有融資有限公司
MESSIS CAPITAL LIMITED

2 December 2015

To: The Independent Board Committee of Chanco International Group Limited

Dear Sir/Madam,

**UNCONDITIONAL MANDATORY CASH OFFER FOR ALL THE
ISSUED SHARES IN CHANCO INTERNATIONAL GROUP LIMITED
(OTHER THAN THOSE ALREADY OWNED OR AGREED TO BE ACQUIRED
BY ZHURONG GLOBAL LIMITED AND/OR PARTIES ACTING IN
CONCERT WITH IT) BY CHINA INTERNATIONAL CAPITAL CORPORATION
HONG KONG SECURITIES LIMITED AND
SOUTHWEST SECURITIES (HK) CAPITAL LIMITED
ON BEHALF OF ZHURONG GLOBAL LIMITED**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee in respect of the Offer, details of which are set out in the Composite Document dated 2 December 2015, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Composite Document unless the context otherwise requires.

It was announced in the Joint Announcement that, after the Stock Exchange trading hours on 30 October 2015, Green Parade as vendor, Mr. Pong as guarantor and the Offeror as purchaser entered into the Agreement, pursuant to which Green Parade has agreed to sell and the Offeror agreed to acquire the Sale Shares, representing approximately 66.10% of the total issued share capital of the Company. Completion of such sale and purchase took place on 2 November 2015. The Consideration for the Sale Shares is HK\$458,516,312, equivalent to HK\$1.994 per Sale Share, which was paid by the Offeror in full upon Completion.

Prior to Completion, Green Parade and Mr. Pong owned a total of 247,308,000 Shares, representing approximately 71.09% of the total issued share capital of the Company. Immediately after Completion, Green Parade and Mr. Pong held in aggregate 17,360,000 Shares and the Offeror was beneficially interested in 229,948,000 Shares, representing approximately 4.99% and 66.10%, respectively, of the total 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 a mandatory unconditional general offer in cash for all the issued Shares (other than those already owned or agreed to be acquired by the Offeror and parties acting in concert with it).

LETTER FROM MESSIS CAPITAL

An Independent Board Committee comprising all independent non-executive Directors, namely Mr. Lung Hung Cheuk, Mr. Leung Ka Tin and Mr. Li Wai Ming, has been formed to advise the Independent Shareholders in relation to the terms and conditions of the Offer, in particular as to whether the Offer is, or is not, fair and reasonable and so to the acceptance of the Offer.

We are appointed as the Independent Financial Adviser to advise the Independent Board Committee as to (i) whether the Offer is on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) whether the Offer should be accepted. Our appointment has been approved by the Independent Board Committee.

OUR INDEPENDENCE

As at the Latest Practicable Date, we were not connected with the Company, the vendor or the Offeror, or any of their respective substantial shareholders, directors or chief executives, or any of their respective associates, or any party acting, or presumed to be acting, in concert with any of them and accordingly, are considered suitable to give independent advice to the Independent Board Committee in respect of the Offer. In the last two years, we have acted as the independent financial adviser to the Independent Board Committee and the Independent Shareholders of the Company for the following transaction:

Date of the relevant circular and our letter of advice	Nature of the transaction
31 August 2015	Possible mandatory unconditional cash offer

Apart from normal professional fees paid or payable to us in connection with the previous appointment mentioned above as well as this appointment as the Independent Financial Adviser, no arrangements exist whereby we had received or will receive any fees or benefits from the Company or any other parties that could reasonably be regarded as relevant to our independence. Accordingly, we consider that the aforementioned previous appointments would not affect our independence, and that we are independent pursuant to Rule 13.84 of the Listing Rules.

BASIS OF OUR OPINION AND RECOMMENDATION

In formulating our opinion to the Independent Board Committee, we have relied on the statements, information, opinions and representations contained or referred to in the Composite Document and the representations made to us by the Directors and the senior management of the Company. We have assumed that all statements, information and representations provided by the Directors and the management of the Company, for which they are solely responsible, are true and accurate at the time when they were provided and continue to be so as at the Latest Practicable Date and the Shareholders will be notified of any material changes to such statements, information, opinions and/or representations as soon as possible in accordance with Rule 9.1 of the Takeovers Code. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in

LETTER FROM MESSIS CAPITAL

the Composite Document were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Composite Document, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Composite Document (other than information relating to the Offeror and parties acting in concert with it, the terms of the Offer and the intention of the Offeror in relation to the Group) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Composite Document have been arrived at after due and careful consideration and there are no other facts not contained in the Composite Document the omission of which would make any statement contained in the Composite Document, including this letter, incorrect or misleading.

The sole director of the Offeror and the directors of Zhonghong accept full responsibility for the accuracy of the information contained in the Composite Document (other than those relating to the Group), and confirms, having made all reasonable enquiries, that to the best of his knowledge, opinions expressed in the Composite Document (other than opinions expressed by the Group) have been arrived at after due and careful consideration and there are no other facts not contained in the Composite Document, the omission of which would make any statement in the Composite Document misleading.

We consider that we have been provided with sufficient information and have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules and Rule 2 of the Takeovers Code. We have not, however, carried out any independent verification of the information provided, nor have we conducted any independent investigation into the business and affairs of the Group. We have not considered the taxation implication on the Group or the Shareholders as a result of the Offer. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Where information in this letter has been extracted from published or otherwise publicly available sources, the sole responsibility of us is to ensure that such information has been correctly and fairly extracted, reproduced or presented from the relevant stated sources and not be used out of context.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation to the Independent Board Committee in relation to the Offer, we have considered the principal factors and reasons as set out below:

1. Background of the Offer

It was announced in the Joint Announcement that, after the Stock Exchange trading hours on 30 October 2015, Green Parade as vendor, Mr. Pong as guarantor and the Offeror

LETTER FROM MESSIS CAPITAL

as purchaser entered into the Agreement, pursuant to which Green Parade has agreed to sell and the Offeror agreed to acquire the Sale Shares, representing approximately 66.10% of the total issued share capital of the Company. Completion of such sale and purchase took place on 2 November 2015. The Consideration for the Sale Shares is HK\$458,516,312, equivalent to HK\$1.994 per Sale Share, which was paid by the Offeror in full upon Completion.

Prior to Completion, Green Parade and Mr. Pong owned a total of 247,308,000 Shares, representing approximately 71.09% of the total issued share capital of the Company. Immediately after Completion, Green Parade and Mr. Pong held in aggregate 17,360,000 Shares (i.e. the Remaining Shares) and the Offeror was beneficially interested in 229,948,000 Shares, representing approximately 4.99% and 66.10%, respectively, of the total issued share capital of the Company as at the Latest Practicable Date. Green Parade and Mr. Pong have irrevocably undertaken in the Agreement not to accept the Offer in respect of the Remaining Shares and, before the final closing of the Offer, not to transfer or sell or otherwise dispose of any of the Remaining Shares or any interests in the Remaining Shares. Pursuant to Rule 26.1 of the Takeovers Code, the Offeror is required to make a mandatory unconditional general offer in cash for all the issued Shares (other than those already owned or agreed to be acquired by the Offeror and parties acting in concert with it).

As at the Latest Practicable Date, the Company had 347,904,000 Shares in issue. The Company does not have any outstanding options, derivatives, warrants or securities which are convertible into or which confer rights to require the issue of Shares and has not entered into any agreement for the issue of such options, derivatives, warrants or securities which are convertible into or which confer rights to require the issue of Shares. Other than the 347,904,000 issued Shares, the Company does not have relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in issue.

2. Background information of the Group

(a) *Principal business*

The Company is an investment holding company. The Group, comprising the Company and its subsidiaries, is engaged in manufacturing and distribution of leather products and retail of fashion apparel, footwear and leather accessories.

(b) *Historical financial information*

The unaudited consolidated financial results of the Group which were extracted from the interim results announcement of the Company for the six months ended 30 September 2015 (the “**Interim Results Announcement 2015**”) and the audited consolidated financial results of the Group which were extracted from the

LETTER FROM MESSIS CAPITAL

annual report of the Company for the year ended 31 March 2015 (the “**Annual Report 2014/15**”) are summarized as follows:

Table 1: Consolidated income statement of the Group

	Six months ended		For the year ended	
	30 September		31 March	
	2015	2014	2015	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)	(audited)	(audited)
Turnover				
– Manufacturing business	51,291	43,661	97,199	97,906
– Retail business	13,306	13,326	31,512	33,512
Total Turnover	64,597	56,987	128,711	131,418
Gross Profit	13,354	7,484	22,807	12,208
Loss for the period/year attributable to owners of the Company	(16,815)	(15,014)	(25,780)	(38,866)

Table 2: Consolidated statement of financial position of the Group

	As at 30		As at 31 March	
	September		2015	
	2015	2015	2015	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(audited)	(audited)	(audited)
Non-current assets	7,580	12,898	9,962	
Current assets	101,269	234,999	263,534	
Current liabilities	33,997	21,480	23,079	
Net current assets	67,272	213,519	240,455	
Net asset attributable to owners of the Company	74,791	226,356	250,356	

Financial year ended 31 March 2015 vs financial year ended 31 March 2014

For the year ended 31 March 2015, the Group’s turnover decreased by approximately 2.1% from approximately HK\$131.42 million for the corresponding period in 2014 to approximately HK\$128.71 million. Revenue from both manufacturing and retail business segments declined in the reporting year. Gross profit increased by approximately 86.8% from approximately HK\$12.21 million for the corresponding period in 2014 to approximately HK\$22.81 million due to better in cost control. The cost decreased from approximately HK\$119.21 million for the corresponding period in 2014 to approximately HK\$105.90 million. Gross profit margin also

LETTER FROM MESSIS CAPITAL

increased from approximately 9.3% for the corresponding period in 2014 to approximately 17.7%. This was mainly due to gross profit improved from both manufacturing and retail business segments.

The Group recorded a net loss attributable to owners of the Company of approximately HK\$25.78 million for the year ended 31 March 2015 (2014: net loss of approximately HK\$38.87 million). The loss was primarily attributable to (i) decrease in turnover; and (ii) increase in administrative and other operating expenses due to the increase of staff cost.

As at 31 March 2015, the Group recorded net current assets and net assets attributable to owners of the Company of approximately HK\$213.52 million and HK\$226.36 million, respectively.

Six months ended 30 September 2015 vs six months ended 30 September 2014

For the six months ended 30 September 2015, the Group's turnover increased by approximately 13.4% from approximately HK\$56.99 million for the corresponding period in 2014 to approximately HK\$64.60 million. This was mainly due to the increase in revenue from the manufacturing business segment. Gross profit increased by approximately 78.4% from approximately HK\$7.48 million for the corresponding period in 2014 to approximately HK\$13.35 million which was mainly due to better cost control. Gross profit margin also increased from approximately 13.1% for the corresponding period in 2014 to approximately 20.7%. This was mainly due to improved gross profit from both manufacturing and retail business segments.

The Group recorded a net loss attributable to owners of the Company of approximately HK\$16.82 million for the six months ended 30 September 2015 (2014: net loss of approximately HK\$15.01 million). The loss was primarily attributable to the increase in administrative and other operating expenses. Administrative and other operating expenses increased by approximately 46.8% from approximately HK\$13.63 million for the corresponding period in 2014 to approximately HK\$20.01 million. This was mainly due to the net foreign exchange loss of approximately HK\$5.15 million for the six months ended 30 September 2015 (2014: net foreign exchange gain of approximately HK\$0.59 million). For further details, please refer to the profit warning announcement of the Company dated 25 August 2015.

As at 30 September 2015, the Group recorded net current assets and net assets attributable to owners of the Company of approximately HK\$67.27 million (31 March 2015: HK\$213.52 million) and HK\$74.79 million (31 March 2015: HK\$226.36 million), respectively. Such decreases in both net current assets and net assets were mainly due to the distribution of special dividend in an aggregate amount of approximately HK\$148.0 million that was paid on 31 August 2015. Please refer to the announcement regarding to the declaration of special interim dividend for the year ending 31 March 2016 of the Company dated 28 July 2015 for further details.

LETTER FROM MESSIS CAPITAL

3. Prospect and outlook of the Group

The Group is principally engaged in (i) manufacturing and distribution of leather products; and (ii) retails of fashion apparel, footwear and leather accessories. For the year ended 31 March 2015, the two business segments, namely manufacturing and retail business segments, accounted for approximately 76% (2014: 74%) and 24% (2014: 26%) of the Group total turnover respectively.

Revenue from both manufacturing and retail business segments declined for the financial year ended 31 March 2015. For the year ended 31 March 2015, turnover of manufacturing business segment from external customers slightly decreased from approximately HK\$97.91 million for the corresponding period in 2014 to approximately HK\$97.20 million. According to the Annual report 2014/15, such decrease was mainly due to the decline in demand from the European Union and Hong Kong market which was partly offset by an increase in demand from the PRC market. The Group's revenue from its retail business decreased by approximately 6.0% from approximately HK\$33.51 million for the year ended 31 March 2014 to approximately HK\$31.51 million for the year ended 31 March 2015, as a result of intensified market competition.

As stated in the paragraph headed "Intention of the Offeror in relation to the Group" as set out in the "Letter from CICC and Southwest Securities HK" to this Composite Document, we noted that the Offeror intends to continue with the Group's existing principal business following the close of the Offer. We have, accordingly, researched on the information from the public domain with respect to the prospect of the leather consumer goods industry in Hong Kong.

According to a research report titled "Leather Consumer Goods Industry in Hong Kong" published by Hong Kong Trade Development Council ("HKTDC") on 29 July 2015 ("HKTDC's Research"), overseas buyers regard Hong Kong as an important sourcing centre for leather consumer goods and they are attracted by the industry's high quality products, flexibility, production with short lead-time, quick response to fashion trends and ability to meet customer specifications. However, Hong Kong's exports of leather consumer goods fell another 8% to HK\$14.6 billion in the first five months of 2015 after registering a decrease of 8% in 2014. Re-exports, accounting for almost all exports of leather consumer goods from Hong Kong, also fell by 8%, while domestic exports were up 1%.

(HK\$ billion)	2013		2014		Jan-May 2015	
	Value	Growth %	Value	Growth %	Value	Growth %
Domestic exports (<i>Note 1</i>)	0.005	-28	0.009	+79	0.003	+1
Re-exports (<i>Note 2</i>)	44.887	-5	41.471	-8	14.631	-8
– Of the PRC origin	32.652	-8	30.139	-8	10.303	-8
Total exports (<i>Note 3</i>)	44.892	-5	41.480	-8	14.634	-8

Source: HKTDC

LETTER FROM MESSIS CAPITAL

Notes:

1. Domestic exports are the natural produce of Hong Kong or the products of a manufacturing process in Hong Kong which has changed permanently the shape, nature, form or utility of the basic materials used in the manufacturing process. Processes such as simple diluting, packing, bottling, drying, simple assembling, sorting, decorating, etc., do not confer Hong Kong as the origin.
2. Re-exports are products which have previously been imported into Hong Kong and which are re-exported without having undergone in Hong Kong a manufacturing process which has changed permanently the shape, nature, form or utility of the product.
3. Total exports comprise domestic exports and re-exports of imported goods.

Further to the HKTDC's Research, the USA remains the leading export destination for Hong Kong's leather consumer goods, accounting for approximately 30% of the total export during the first five months of 2015, followed by the EU and the PRC, with respective shares of approximately 16% and 14%. In terms of performance, Hong Kong's exports of leather consumer goods to the USA declined by approximately 10% in the first five months of 2015. As for the EU, sales also dropped by 15%. The decrease in the Group's turnover is in line with the overall decrease in total exports of the leather consumer goods industry in Hong Kong as shown in the above table.

According to the statistical reports titled "Report on Monthly Survey of Retail Sales (September 2014)" and "Report on Monthly Survey of Retail Sales (September 2015)" published by the Census and Statistics Department, the total value of retail sales in clothing, footwear and allied products outlet in Hong Kong decreased 6.10% from approximately HK\$49.04 billion in the first nine months of 2014 to approximately HK\$46.05 billion in the same period of 2015. In particular, the total value of retail sales of wearing apparel in the first nine months of 2015 was approximately HK\$39.30 billion, decreased by 6.57% from approximately HK\$42.07 billion compared with the same period in 2014. The total value of retail sales of footwear, allied products and other clothing accessories decreased 3.28% from approximately HK\$6.97 billion in the first nine months of 2014 to approximately HK\$6.75 billion in the corresponding period in 2015.

According to the Annual Report 2014/15, the Group's retail sales growth in Hong Kong decelerated in the past year on the ground of weaker tourist spending and softening of domestic consumption. Market competition intensified as numerous fashion retailers offer earlier and greater sales discount in low season period. The decrease in the Group's turnover from retail business in 2015 was in line with the overall performance in Hong Kong.

The Group has altered the product mix by focusing on selling more fashion bags with high quality and creative design, which contributed a mild increase in the Group's in-house brand sales and increase in gross profit margin in retail business. The Group's total in-house brand sales increased 11.1% from approximately HK\$22.90 million in the financial year ended 31 March 2014 to approximately HK\$25.43 million in the financial year ended 31 March 2015. Non in-house brand sales decreased 42.7% from approximately HK\$10.62 million in the financial year ended 31 March 2014 to approximately HK\$6.08 million in the financial year ended 31 March 2015.

LETTER FROM MESSIS CAPITAL

Despite the improvement in gross profit from both manufacturing and retail business segments of the Group for the year ended 31 March 2015, having considered that Hong Kong's exports of leather consumer goods fell in recent years and sluggish market demand as mentioned above in the "Report on Monthly Survey of Retail Sales", it is difficult for the Group to secure new orders; and also the increasing market competition in the retail business, we remain cautious about the outlook and prospects of the Group.

Further to the paragraph headed "Intention of the Offeror in relation to the Group" as set out in the "Letter from CICC and Southwest Securities HK" to this Composite Document, the Company is intended to be developed as a brand management company, which will provide property management services for a range of recreational properties, including hotels, resorts and theme parks under brands which the brand management company will establish, develop and manage as it develops its property management businesses for such properties. The brand management company will be asset-light as opposed to asset-heavy as it will be providing property management services under its property management brands for properties as opposed to developing and holding the real properties themselves. Such brand management company is expected to contribute to the performance of Zhonghong and its expansion in the cultural tourism industry. The Offeror has no intention to discontinue the employment of the employees (save for the proposed changes to the composition of the Board) or to dispose of or re-deploy the assets of the Group as at the Latest Practicable Date.

Having considered that (i) the plan to develop business in the cultural tourism industry has not been materialized as at the Latest Practicable Date; and (ii) the sluggish market demand in leather consumer goods which exerts uncertainty on the existing business of the Group, we remain cautious about the outlook and prospect of the Group.

4. Principal terms of the Offer

China International Capital Corporation and Southwest Securities HK, the financial advisers to the Offeror, will make the Offer for and on behalf of the Offeror in compliance with the Takeovers Code on the following basis:

For each Offer Share HK\$1.994 in cash

The Offer Price of HK\$1.994 per Offer Share under the Offer is the same as the purchase price per Sale Share paid by the Offeror under the Agreement. The Offer Shares to be acquired under the Offer shall be fully paid and free from all encumbrances together with all rights attached thereto, including but not limited to all rights to any dividend or other distribution declared, made or paid on or after the date on which the Offer is made, being the date of the despatch of the Composite Document.

Your attention is drawn to the further terms of the Offer, including procedures for acceptance, settlement and the acceptance period, as set out in Appendix I to this Composite Document and the Acceptance Form.

LETTER FROM MESSIS CAPITAL

The Offer Price

The Offer Price of HK\$1.994 per Offer Share represents:

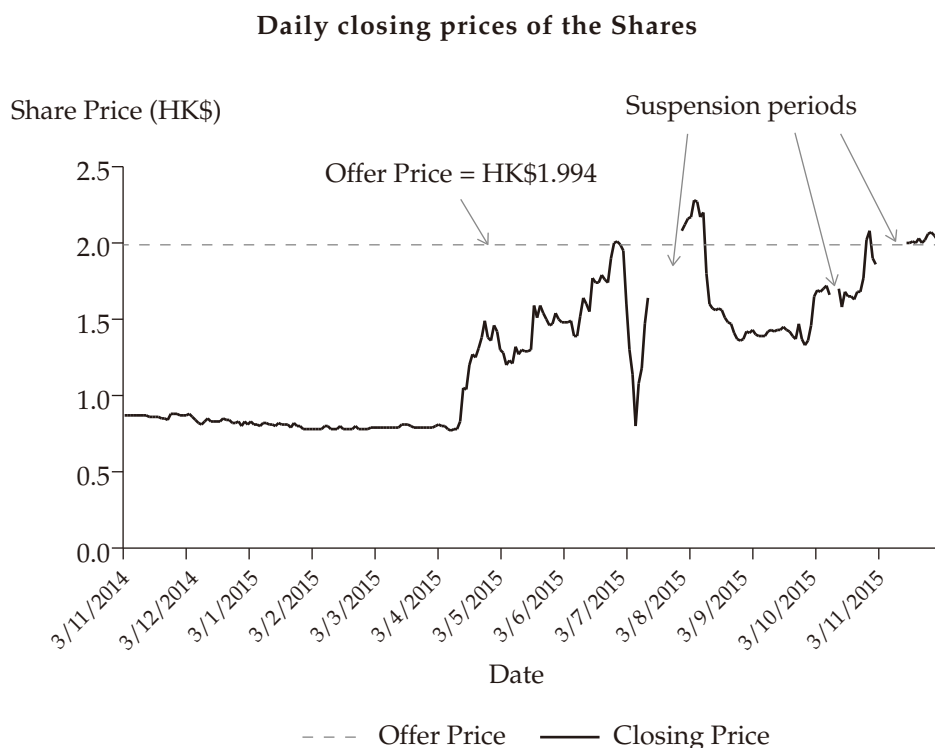
- (i) a premium of approximately 20.1% over the closing price of HK\$1.66 per Share as quoted on the Stock Exchange on 8 October 2015, being the last trading day prior to the commencement of the Offer Period;
- (ii) a premium of approximately 7.2% over the closing price of HK\$1.860 per Share as quoted on the Stock Exchange on 30 October 2015, being the Last Trading Day;
- (iii) a premium of approximately 3.5% over the average of the closing prices of the Shares as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;
- (iv) a premium of approximately 11.3% over the average of the closing prices of the Shares as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day;
- (v) a premium of approximately 23.4% over the average of the closing prices of the Shares as quoted on the Stock Exchange for the last thirty consecutive trading days up to and including the Last Trading Day;
- (vi) a discount of approximately 3.2% to the closing price of HK\$2.06 per Share as quoted on the Stock Exchange as at the Latest Practicable Date; and
- (vii) a premium of approximately 785.4% over the audited consolidated net asset value of the Company of approximately HK\$0.2252 per Share as at 31 March 2015 (calculated based on the audited consolidated net asset value of the Company as at 31 March 2015 of approximately HK\$226,356,000 and 347,904,000 Shares in issue as at the Latest Practicable Date) and taking into account the special dividend of HK\$0.4254 per Share paid on 31 August 2015.

LETTER FROM MESSIS CAPITAL

5. Historical performance of the Shares

5.1 Share Price

The chart of daily closing price of the Shares during the Review Period (as defined below) is as follows:



Source: website of the Stock Exchange (<http://www.hkex.com.hk>)

Notes:

1. Trading in the Shares was suspended from 15 July 2015 to 28 July 2015 (both days inclusive) pending the publication of the announcement in relation to the previous general offer. For details, please refer to the announcement of the Company dated 28 July 2015 (the “**Previous GO Announcement**”).
2. Trading in the Shares was suspended from 9 October 2015 to 12 October 2015 (both days inclusive) pending the Company’s MOU Announcement.
3. Trading in the Shares was suspended from 2 November 2015 to 12 November 2015 (both days inclusive) pending the Joint Announcement.
4. A special interim dividend in respect of the year ending 31 March 2016 of HK\$0.4254 per Share was paid on 31 August 2015.

We have reviewed the movements in the closing price of the Shares for the period commencing from 3 November 2014, being the 12-month period prior to the date of the Joint Announcement and up to and including the Latest Practicable Date (the “**Review Period**”). We consider that the length of the Review Period to be

LETTER FROM MESSIS CAPITAL

reasonably long enough to illustrate the relationship between the historical trend of the closing price of the Shares and the Offer. The chart above represents the daily movement in the closing prices of the Shares against the Offer Price during the Review Period.

Prior the release of the Joint Announcement on 12 November 2015, the lowest and highest closing price of the Shares during the Review Period were HK\$0.77 per Share recorded on 10 April 2015 and HK\$2.28 per Share recorded on 4 August 2015 respectively, as quoted on the Stock Exchange. The average daily closing price of the Shares during the Review Period before the release of the Joint Announcement is HK\$1.20 per Share. The Offer Price of HK\$1.994 per Share represents (i) a premium of approximately 158.96% from the lowest closing price; (ii) a discount of approximately 12.54% from the highest closing price; and (iii) a premium of approximately 66.17% from the average daily closing price during the Review Period before the release of the Joint Announcement.

During the period from 3 November 2014 to 15 April 2015, the closing price of the Share hovered between HK\$0.77 per Share and HK\$0.88 per Share. The closing price of the Share then surged to HK\$1.05 per Share on 16 April 2015 and reached the highest of HK\$2.01 per Share on 29 June 2015. Since no information of change in the financial position of the Group published in the public domain during such period, we have enquired with the Directors regarding the possible reasons for the increase in the Share price before the publication of the Previous GO Announcement and were advised that they were not aware of any particular matters which might have impact on the share price. Therefore, we believe that the surge of the closing price of the Shares immediately before the publication of the Previous GO Announcement did not reflect the fundamentals of the Company and the Share price during such period does not serve a fair and meaningful indicator for assessing the Offer Price.

There was a sharp decrease in Hang Seng Index from 24,975.31 on 7 July 2015 to 23,516.56 on 8 July 2015 (-5.84%), and a quick bounce back to 24,392.79 on 9 July 2015 (+3.73%). A similar movement in the price of the Share is observed. The price of the Share decreased from HK\$1.14 on 7 July 2015 to HK\$0.8 on 8 July 2015 (-29.8%), and then bounced back to HK\$1.08 on 9 July 2015 (35%).

At the request of the Company, trading in the Shares was suspended from 15 July 2015 to 28 July 2015 (both days inclusive) pending the publication of the Previous GO Announcement. Subsequent to the issue of the Previous GO Announcement, the closing price of the Shares increased by approximately 26.83% to HK\$2.08 per Share on 29 July 2015 (being the first trading day after the publication of the Previous GO Announcement) as compared to that of HK\$1.64 per Share on 14 July 2015. We have enquired with the Directors regarding the possible reasons for the increase in the Share price after the publication of the Previous GO Announcement and were advised that save for the sale and purchase agreement dated 14 July 2015 and the possible mandatory unconditional cash offer, they were not aware of any other matters which might have impact on the Share price. Therefore, we believe that the surge in the closing price of the Shares immediately after the publication of the Previous GO Announcement was likely attributable to

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the positive market speculation on the sale and purchase agreement dated 14 July 2015 and the possible mandatory unconditional cash offer as disclosed in the Previous GO Announcement.

The closing price of the Shares increased from HK\$2.08 per share on 29 July 2015 to HK\$2.2 per share on 7 August 2015, before dropping to HK\$1.80 per share on 10 August 2015. The closing price of the Share then gradually decreased from HK\$1.60 per Share on 11 August 2015 to HK\$1.36 per Share on 25 September 2015. The closing price of the Share surged to HK\$1.46 per Share on 26 September 2015 and reached HK\$1.72 per Share on 7 October 2015 and HK\$1.66 per Share on 8 October 2015, before suspension of trading of Shares from 9 October 2015 to 12 October 2015.

Following the resumption of trading of shares on 13 October 2015, the closing price of the Shares was HK\$1.70 on 13 October 2015, and then hovered between HK\$1.58 and HK\$1.68 for the period from 14 October 2015 to 23 October 2015. The closing price then increased to HK\$1.77 on 26 October 2015 and reached HK\$2.08 on 28 October 2015. The closing price was HK\$1.86 on the Last Trading Day. Since no information of change in the financial position of the Group published in the public domain during such period except for the Company's MOU Announcement on 12 October 2015, we have enquired with the Directors regarding the possible reasons for the increase in the Share price before the Joint Announcement and were advised that they were not aware of any particular matters which might have impact on the Share price. Therefore, we believe that the surge of the closing price of the Shares immediately before the publication of the Joint Announcement did not reflect the fundamentals of the Company and the Share price during such period does not serve a fair and meaningful indicator for assessing the Offer Price.

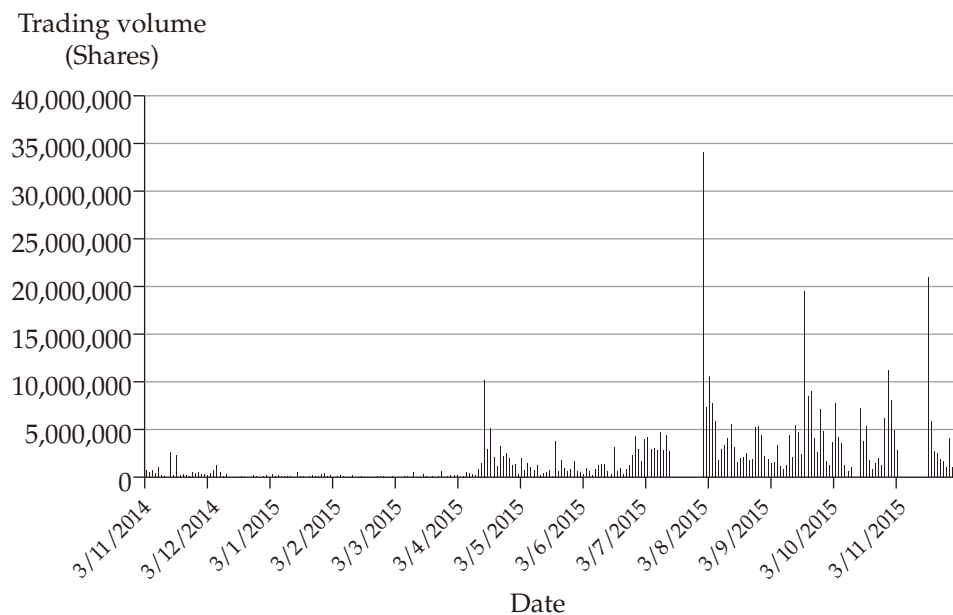
In view of the fluctuation in the Share price of the Group, Independent Shareholders who wish to realize their investment in the Group are reminded that they should carefully and closely monitor the market price of the Group during the offer period and consider selling their Shares in the open market during the offer period, rather than accepting the Offer, if the net proceeds from the sales of such Shares in the open market would exceed the net amount receivable under the Offer.

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5.2 Liquidity of the Shares

The chart of daily trading volume of the Shares during the Review Period is as follows:

Daily trading volume of the Shares during the Review Period



Source: website of the Stock Exchange (<http://www.hkex.com.hk>)

Notes:

1. Trading in the Shares was suspended from 15 July 2015 to 28 July 2015 (both days inclusive) pending the publication of the Previous GO Announcement.
2. Trading in the Shares was suspended from 9 October 2015 to 12 October 2015 (both days inclusive) pending the Company's MOU Announcement.
3. Trading in the Shares was suspended from 2 November 2015 to 12 November 2015 (both days inclusive) pending the Joint Announcement.
4. A special interim dividend in respect of the year ending 31 March 2016 of HK\$0.4254 per Share was paid on 31 August 2015.

A table showing the average daily volume of the Shares per month and the respective percentages of the average daily trading volume as compared to the total

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number of issued Shares and total number of issued Shares held by public Shareholders respectively during the Review Period is as follows:

	Total monthly trading volume (in number of shares)	Number of trading days in the month (days)	Approximate average daily trading volume (in number of shares) (Note 1)	Number of trading days with no turnover (excluding suspension period) (days)	Percentage of average daily trading volume to total number of shares in Latest Practicable Date (Approximate %) (Note 2)	Percentage of average daily trading volume to total number of shares held by public Shareholders as at the Latest Practicable Date (Approximate %) (Note 3)
2014						
November	11,696,000	20	584,800	1	0.17%	0.58%
December	4,324,000	21	205,905	5	0.06%	0.20%
2015						
January	3,160,000	21	150,476	2	0.04%	0.15%
February	1,116,000	18	62,000	3	0.02%	0.06%
March	2,608,000	22	118,545	7	0.03%	0.12%
April	37,671,900	19	1,982,732	0	0.57%	1.97%
May	19,587,501	19	1,030,921	0	0.30%	1.02%
June	27,106,000	22	1,232,091	0	0.35%	1.22%
July	83,497,000	12	6,958,083	0	2.00%	6.92%
August	67,988,000	21	3,237,524	0	0.93%	3.22%
September	95,656,300	20	4,782,815	0	1.37%	4.75%
October	67,356,000	18	3,742,000	0	1.08%	3.72%
November (up to and including the Latest Practicable Date)	45,383,900	12	3,781,992	0	1.09%	3.76%

Source: website of the Stock Exchange (<http://www.hkex.com.hk>)

Notes:

1. Average daily trading volume is calculated by dividing the total trading volume for the month/period by the number of trading days during the month/period which exclude any trading day on which trading of the Shares on the Stock Exchange was suspended for the whole trading day.
2. Based on 347,904,000 Shares in issue as at the Latest Practicable Date.
3. Based on 100,596,000 Shares held by public as at the Latest Practicable Date.
4. The Review Period commenced on 3 November 2014.
5. The Review Period ended on the Latest Practicable Date.

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The average daily trading volume of the Shares per month during the Review Period was ranging from approximately 0.02% in February 2015 to 2.00% in July 2015 of the total number of issued Shares as at the Latest Practicable Date. If only Shares held by public Shareholders, i.e. the free float, are considered in calculating the percentage of average daily trading volume of the Shares per month during the Review Period, the percentage was ranging from approximately 0.06% in February 2015 to 6.92% in July 2015.

On 29 July 2015, the first trading day after the publication of the Previous GO Announcement, the daily trading volume was 34,057,000 Shares, representing 9.79% of the Shares in issue as at the Latest Practicable Date. We have enquired with the Directors regarding the possible reasons for the increase in the trading volume after the publication of the Previous GO Announcement and were advised that save for the sale and purchase agreement dated 14 July 2015 and the possible mandatory unconditional cash offer, they were not aware of any other matters which might have impact on the trading volume. Therefore, we believe that the surge in the trading volume of the Shares immediately after the publication of the Previous GO Announcement was likely attributable to the positive market speculation on the sale and purchase agreement dated 14 July 2015 and the possible mandatory unconditional cash offer as disclosed in the Previous GO Announcement.

The average daily trading volume of Shares during the Review Period was generally thin. The average daily trading volume during the Review Period was 1,756,205 Shares, representing approximately 0.50% of the total number of Shares in issue. Although the trading volume has slightly increased since July 2015, it is uncertain that this increasing trend will continue.

Given that the trading volume of the Shares fluctuated during the Review Period, it is uncertain as to whether there would be sufficient liquidity in the Shares for the Independent Shareholders to dispose of a significant number of the Shares in the open market without depressing the Share price. Accordingly, the market trading price of the Shares may not necessarily reflect the proceeds that the Independent Shareholders can receive by the disposal of their Shares in the open market. Therefore, we are of the view that the Offer represents an opportunity for the Independent Shareholders, particularly for those who hold a large volume of the Shares, to dispose of part or all of their Shares at the Offer Price if they so wish to.

5.3 *Comparable analysis*

The Group is principally engaged in manufacturing and distribution of leather products and retail of fashion apparel, footwear and leather accessories.

Given that the Company is loss making, it is impracticable to use price-to-earnings (“P/E”) ratio to value the Company with other companies engaged in similar industry. Other than P/E ratio, price-to-book (“P/B”) ratio is the most commonly used benchmark in valuing a company. Based on the price of HK\$1.994 per Offer Share and the total number of issued Shares of 347,904,000 as at the Latest Practicable Date, the Company is valued at approximately HK\$693.72 million. The

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P/B ratio of the Company implied by the Offer Price (the “**Implied P/B**”) is approximately 8.85 times based on the equity attributable to owners of the Company of approximately HK\$78.36 million (calculated based on the audited consolidated net asset value of the Group as at 31 March 2015 of approximately HK\$226.36 million deducted by the special dividend of HK\$0.4254 per Share paid on 31 August 2015). As at the Latest Practicable Date, the market capitalization of the Company is HK\$716.68 million.

In assessing the fairness and reasonableness of the Offer Price, we have identified an exhaustive list of companies (the “**Comparable Companies**”) which (i) are principally engaged in and generated a majority of their revenue from accessories and leather goods in their respective latest financial year; and (ii) have their shares listed on the Main Board of the Stock Exchange. Based on these criteria, we identified 3 Comparable Companies. The Comparable Companies represent a complete and an exhaustive list of companies meeting the aforementioned criteria as identified by us. We consider that while the Company and the Comparable Companies are not closely similar in terms of, among others, financial performance, financial position and market capitalization, the supply and demand of the accessories and leather goods, and therefore the fundamentals of such companies engaged in the manufacturing and trading of leather products, are in general affected by similar macro-economic factors including, but not limited to, global economy and outlook, prices of raw materials, demand from end users, i.e. market demand for and consumption of leather products. Based on the foregoing, we consider the Comparable Companies as fair and representative comparable, the analysis of which is useful for assessing the fairness and reasonableness of the Offer Price. The following table sets out the details of the Comparable Companies:

Company (Stock code)	Principal business	Market capitalisation as at the Latest Practicable Date (HK\$ million)	Net asset value attributable to the shareholders of the company (HK\$ million)	PB Ratio (Note) (times)
Sitoy Group Holdings Ltd. (1023)	Design, research, development, manufacturing, sales and retailing of handbags, small leather goods and travel goods.	3,635.56	2,119.95	1.71

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Company (Stock code)	Principal business	Market capitalisation as at the Latest Practicable Date (HK\$ million)	Net asset value attributable to the shareholders of the company (HK\$ million)	PB Ratio (Note) (times)
Guangdong Tannery Ltd. (1058)	Processing and sale of semi-finished and finished leather.	419.65	339.73	1.24
Lee & Man Handbags Holding Ltd. (1488)	Manufacture and sale of ladies' handbags, tote bags, cosmetics bags, children's bags and backpacks.	1,138.50	282.03	4.04
			Average	2.33
			Median	1.71
			Maximum	4.04
			Minimum	1.24
The Offer		693.72	78.36	8.85

Source: website of the Stock Exchange (<http://www.hkex.com.hk>)

Note: The P/B ratios of the Comparable Companies are calculated based on the market capitalisation of the respective Comparable Companies as at the Latest Practicable Date divided by the equity attributable to owners of the respective Comparables as extracted from their respective latest published annual or interim results.

As illustrated in the table set out above, the P/B Ratios of the Comparables ranged from approximately 1.24 times to approximately 4.04 times, with an average and median of approximately 2.33 times and 1.71 times respectively. The Implied P/B Ratio of approximately 8.85 times is significantly higher than the average and median of the P/B Ratios of the Comparables. As such, we consider the Offer Price, with reference to the Implied P/B Ratio, is fair and reasonable given the current market valuation of the Comparables.

6. Background and intention of the Offeror

Background of the Offeror

The Offeror is a special purpose vehicle incorporated in the British Virgin Islands with limited liability on 11 September 2015 and is directly wholly owned by Zhu Rong Hong Kong, which is a company incorporated in Hong Kong and is principally engaged in investment holding activities. The Offeror, through Zhu Rong Hong Kong and other intermediate holding companies, is indirectly wholly owned by Zhonghong. Zhonghong is established in the PRC with its headquarters

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in Beijing and is primarily engaged in the business of real estate development in the PRC including Beijing, Jilin, Shandong and Hainan. As a leader in the PRC property industry, Zhonghong has a diverse portfolio of property businesses which primarily focus on the development, sale and management of commercial properties including offices, residential properties, hotels and shopping complexes. Its long term strategy includes the development and operation of travel destinations and it currently operates and manages a number of cultural and leisure resort destinations in Beijing, Jilin, Shandong and Hainan. The shares of Zhonghong was first listed on the SSE in 2010 (stock code: 000979). As at 30 September 2015, Zhonghong's total asset value was approximately RMB19 billion and as at 10 November 2015, its total market capitalisation was approximately RMB21.1 billion. As at the date of the Joint Announcement, Mr. Wang Yonghong, through one of his wholly-owned companies, 中弘卓業集團有限公司 (Zhonghong Zhuoye Group Company Limited*), is the controlling shareholder of Zhonghong and holds approximately 34.51% of the issued shares of Zhonghong. The board of directors of the Offeror comprises one director, namely Ms. Jia Dai.

The Offeror and its ultimate beneficial owners are third parties independent of, and not acting in concert with, Green Parade. Immediately preceding Completion, none of the Offeror, its intermediate holding companies or its ultimate beneficial owners owned any Shares. Immediately before Completion, the Offeror and its concert parties were not interested in any Shares of the Company. Immediately after Completion and as at the Latest Practicable Date, the Offeror was interested in 229,948,000 Shares, representing approximately 66.10% of the total issued share capital of the Company.

Intention of the Offeror

It is the intention of the Offeror to continue with the Group's existing principal business following the close of the Offer. While neither the Offeror nor Zhonghong has operated in the same industry as the business of the Group, they understand that Mr. Edwin Chan and Mr. Stanley Chan intend to remain as directors of the operating subsidiaries of the Company and Ms. Rebecca Chan intends to remain as a director of certain operating subsidiaries of the Company after the close of the Offer to ensure that the business of the Group will be able to operate smoothly following the change of the Board composition. The Offeror and Zhonghong believe that these three directors' continued involvement will ensure that the boards of the relevant subsidiaries can continue to enjoy the benefit of their experience in the industry and in the relevant subsidiaries, and the staff and customers of the relevant subsidiaries will have greater comfort that those subsidiaries will continue to operate as usual.

The Offeror and Zhonghong do not have any intention, and have no arrangement or agreement, and no understanding or negotiation (concluded or otherwise) for any arrangement or agreement with any person, to dispose of, terminate or scale-down the Company's existing business, to inject any new business from the Zhonghong group into the Company or to change the Offeror's status as a holding company of the Company.

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As disclosed in the Zhonghong's SPA Announcement, according to the strategic planning of Zhonghong and the current development trend of the industry, the acquisition of Sale Shares fulfils the future development strategy of Zhonghong. After Completion, the Company is intended to be developed as a brand management company, which will provide property management services for a range of recreational properties, including hotels, resorts and theme parks under brands which the brand management company will establish, develop and manage as it develops its property management businesses for such properties. The brand management company will be asset-light as opposed to asset-heavy as it will be providing property management services under its property management brands for properties as opposed to developing and holding the real properties themselves. The brand management company will aim at operating business properties including for travel and resort, healthcare, cultural innovation. The planning management of the brand management company will cover a number of commercial activities including theme parks, performance venues, entertainment, sports, races, hotels, medical care, elderly care, commercial and education to achieve the integration between different commercial activities and connections between different locations. As at the Latest Practicable Date, the Offeror and Zhonghong had no concrete plans agreements or arrangements in respect of any specific properties to be managed by the brand management company or any specific brands under which the brand management company will operate. By leveraging on Hong Kong's international market, the brand management company will draw on the management experience of international advanced brands and recruit talented people in high-end brand management to build a professional team and undertake the team development and the resource integration. This is expected to further promote and enhance the brand value and influence of Zhonghong in tourism and culture property projects, strengthen its competitiveness and consolidate and improve its leading position in the industry.

The acquisition of Shares and the plan to develop the Company as a brand management company are in line with the long-term development strategy of Zhonghong and will fulfill its asset-light strategy. Such brand management company is expected to contribute to the performance of Zhonghong and its expansion in the cultural tourism industry.

As at the Latest Practicable Date, the Offeror had no intention to discontinue the employment of the employees (save for the proposed changes to the composition of the Board as detailed below) or to dispose of or re-deploy the assets of the Group. For further details, please refer to the section headed "Intention of the Offeror in relation to the Group" set out in the "Letter from CICC and Southwest Securities HK" to the Composite Document.

Proposed Change to the Board

The Board is currently made up of five members, comprising two executive Directors, namely Mr. Lee Wing Yin and Mr. Ngan Man Ho; and three independent non-executive Directors, namely Mr. Lung Hung Cheuk, Mr. Leung Ka Tin and Mr. Li Wai Ming. Pursuant to the terms of the Agreement, Green Parade and Mr. Pong

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had, at the request of the Offeror, delivered the undated written resignations of all Directors to the Offeror at Completion and such resignation shall be effective from the earliest time permitted under the Takeovers Code, the Listing Rules or other applicable rules or regulations or such later date as the Offeror may determine.

In addition, pursuant to the terms of the Agreement, Green Parade and Mr. Pong shall, if so required by the Offeror, cause such persons as the Offeror may nominate to be validly appointed as the Directors and such appointment(s) shall be effective from the date falling one day after the date on which the Composite Document is despatched or such later date as the Offeror may determine, provided that such date shall not be earlier than such earliest date as may be permitted under the Takeovers Code or the SFC. Any changes to the Board composition will be announced by the Company and made in compliance with the Takeovers Code and the Listing Rules.

RECOMMENDATION

Having considered the abovementioned principal factors and reasons for the Offer, in particular that:

- (a) the Offer Price was generally above the closing price of the Shares for most of the time prior to the release of the Joint Announcement;
- (b) the Implied P/B Ratio of approximately 8.85 times is significantly higher than the average and median of the P/B Ratios of the Comparables;
- (c) trading volume of the Shares fluctuated during the Review Period and the Offer provides an opportunity for the Independent Shareholders to realise their investment at the Offer Price without exerting a downward impact on the Share price;
- (d) it is uncertain that the proposed change if the Board would have a positive impact on the existing business of the Group and its performance;
- (e) the plan to develop business in the cultural tourism industry has not been materialized as at the Latest Practicable Date which exerts uncertainty on the existing business of the Group; and
- (f) the market demand for Hong Kong's exports of leather consumer goods is sluggish and there is increasing market competition in the retail business as discussed in the paragraph headed "Prospect and outlook of the Group" above,

we are of the opinion that the terms of the Offer are fair and reasonable so far as the Independent Shareholders are concerned and we recommend the Independent Board Committee to advise the Independent Shareholders to, and we recommend the Independent Shareholders to, accept the Offer.

In view of the recent surge in the price of the Shares, Independent Shareholders who wish to realize their investment in the Group are reminded that they should carefully and

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closely monitor the market price of the Shares during the offer period and consider selling their Shares in the open market during the offer period, rather than accepting the Offer, if the net proceeds from the sales of such Shares in the open market would exceed the net amount receivable under the Offer. In any event, Independent Shareholders should note that there is no certainty that the current trading volume and/or current trading price level of the Shares will be sustainable during or after the Offer Period of the Offer.

Yours faithfully,
For and on behalf of
Messis Capital Limited
Robert Siu
Managing Director

Note: Mr. Robert Siu is a licensed person registered with the Securities and Future Commission of Hong Kong and a responsible officer of Messis Capital Limited to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and has over 15 years of experience in corporate finance industry.

1. PROCEDURES FOR ACCEPTANCE OF THE OFFER

To accept the Offer, you must complete and sign the accompanying Acceptance Form in accordance with the instructions printed thereon, which instructions form part of the terms and conditions of the Offer.

- (i) If the share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are in your name, and you wish to accept the Offer in respect of your Shares, you must send the duly completed and signed Acceptance Form together with the relevant share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17/F, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong, marked “**Chanco International Group Limited – Offer**” on the envelope, in any event not later than 4:00 p.m. on 23 December 2015, being the Closing Date or such later time and/or date as the Offeror may determine and announce in compliance with the Takeovers Code.
- (ii) If the share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are in the name of a nominee company or a name other than your own, and you wish to accept the Offer in respect of your Shares, you must either:
 - (a) lodge your share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) with the nominee company, or other nominee, with instructions authorising it to accept the Offer on your behalf and requesting it to deliver in an envelope marked “**Chanco International Group Limited – Offer**” the duly completed and signed Acceptance Form together with the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar; or
 - (b) arrange for the Shares to be registered in your name through the Registrar, and deliver in an envelope marked “**Chanco International Group Limited – Offer**” the duly completed and signed Acceptance Form together with the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar; or

- (c) if your Shares have been lodged with your licensed securities dealer/registered institution in securities/custodian bank through CCASS, instruct your licensed securities dealer/registered institution in securities/custodian bank to authorise HKSCC to accept the Offer on your behalf on or before the deadline set by HKSCC. In order to meet the deadline set by HKSCC, you should check with your licensed securities dealer/registered institution in securities/custodian bank for the timing on the processing of your instruction, and submit your instruction to your licensed securities dealer/registered institution in securities/custodian bank as required by them; or
- (d) if your Shares have been lodged with your investor participant's stock account with CCASS, authorise your instruction via the CCASS phone system or CCASS internet system no later than the deadline set by HKSCC.
- (iii) If you have lodged transfer(s) of any of your Shares for registration in your name and have not yet received your share certificate(s), and you wish to accept the Offer in respect of your Shares, you should nevertheless complete and sign the Acceptance Form and deliver it in an envelope marked "**Chanco International Group Limited – Offer**" to the Registrar together with the transfer receipt(s) duly signed by yourself. Such action will be deemed to be irrevocable instruction and constitute an authority to the Offeror and/or CICC and/or Southwest Securities HK or their respective agent(s) to collect from the Company or the Registrar on your behalf the relevant share certificate(s) when issued and to deliver such share certificate(s) to the Registrar and to authorize and instruct the Registrar to hold such share certificate(s), subject to the terms and conditions to the Offer as if it was/they were delivered to the Registrar with the Acceptance Form.
- (iv) If the share certificate(s) and/or transfer receipt(s) and/or other document(s) of title in respect of your Shares is/are not readily available or is/are lost, as the case may be, and you wish to accept the Offer in respect of your Shares, you should nevertheless complete and sign the Acceptance Form and deliver it in an envelope marked "**Chanco International Group Limited – Offer**" to the Registrar together with a letter stating that you have lost one or more of your share certificate(s) and/or transfer receipt(s) and/or other document(s) of title in respect of your Shares or that it is/they are not readily available. If you find such document(s) or if it/they become(s) available, the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title should be forwarded to the Registrar as soon as possible thereafter. If you have lost your share certificate(s) and/or transfer receipt(s) and/or other document(s) of title, you should also write to the Registrar requesting a letter of indemnity which, when completed in accordance with the instructions given, should be returned to the Registrar. The Offeror shall have the absolute discretion to decide whether any Shares in respect of which the share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title is/are not readily available and/or is/are lost will be taken up by the Offeror.

- (v) Acceptance of the Offer will be treated as valid only if the duly completed and signed Acceptance Form is received by the Registrar by no later than 4:00 p.m. on 23 December 2015, being the Closing Date (or such later time and/or date as the Offeror may determine and announce in compliance with the Takeovers Code) and in compliance with Note 1 to Rule 30.2 of the Takeovers Code, and the Registrar has recorded that the Acceptance Form and any relevant documents required under paragraph (vi) below have been so received.
- (vi) Acceptance of the Offer may not be counted as valid unless the Acceptance Form is duly completed and signed and is:
- (a) accompanied by the relevant share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) and, if those share certificate(s) is/are not in your name, such other documents (for example a duly stamped transfer of the relevant Share(s) in blank or in your favour executed by the registered holder) in order to establish your right to become the registered holder of the relevant Shares; or
 - (b) from an Independent Shareholder or his/her personal representative (but only up to the amount of the registered holding and only to the extent that the acceptance relates to the Shares which are not taken into account under another sub-paragraph under this paragraph (vi)); or
 - (c) certified by the Registrar or the Stock Exchange.

If the Acceptance Form is executed by a person other than the registered Independent Shareholder, appropriate documentary evidence of authority (for example grant of probate or certified copy of a power of attorney) to the satisfaction of the Registrar must be produced.

- (vii) No acknowledgement of receipt of any Acceptance Form, share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) will be given.

2. SETTLEMENT

- (i) If you accept the Offer, settlement of the consideration, less seller's Hong Kong ad valorem stamp duty, will be made by cheque as soon as possible, but in any event within seven (7) Stock Exchange Business Days following the date of receipt by the Registrar of the duly completed Acceptance Form together with all the valid requisite documents from the Independent Shareholders accepting the Offer in compliance with Note 1 to Rule 30.2 of the Takeovers Code. Each cheque will be despatched by ordinary post to the address specified on the relevant Independent Shareholder's Acceptance Form at his/her/its own risk.

- (ii) No fractions of a cent will be payable and the amount of cash consideration payable to an Independent Shareholder who accepts the Offer will be rounded up to the nearest cent.

3. ACCEPTANCE PERIOD AND REVISIONS

- (i) The Offer is made on 2 December 2015, being the date of despatch of this Composite Document, and is open for acceptance on and from this date.
- (ii) Unless the Offer has previously been revised or extended in compliance with the Takeovers Code, to be valid, the Acceptance Form must be received by the Registrar by 4:00 p.m. on 23 December 2015, being the Closing Date in accordance with the instructions printed on the relevant Acceptance Form.
- (iii) If the Offer is extended, the announcement of such extension will state the next closing date or that the Offer will remain open until further notice. In the latter case, at least 14 days' notice in writing must be given to those Independent Shareholders who have not accepted the Offer before the Offer is closed and an announcement in respect thereof must be published. If, in the course of the Offer, the Offeror revises the terms of the Offer, all Independent Shareholders, whether or not they have already accepted the Offer, will be entitled to accept the revised Offer under the revised terms. The revised Offer must be kept open for at least 14 days following the date on which the revised offer document(s) are posted and shall not close earlier than 21 days following this Composite Document is posted.
- (iv) If the Closing Date is extended, any references in this Composite Document and the Acceptance Form to the Closing Date shall, except where the context otherwise requires, be deemed to refer to the subsequent closing date.

4. ANNOUNCEMENT

- (i) By 6:00 p.m. on 23 December 2015, being the Closing Date (or such later time and/or date as the Executive may in exceptional circumstances permit), the Offeror must inform the Executive and the Stock Exchange of its decision in relation to the revision, extension or expiry of the Offer. The Offeror must publish an announcement on the Stock Exchange's website by 7:00 p.m. on 23 December 2015, being the Closing Date stating whether the Offer has been revised, extended or closed.

The announcement will state the total number of Shares:

- (a) for which acceptances of the Offer have been received;
- (b) held, controlled or directed by the Offeror and parties acting in concert with it before the Offer Period; and

- (c) acquired by the Offeror and parties acting in concert with it during the Offer Period.

The announcement will also include details of any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company (the “**Relevant Securities**”) which the Offeror and any parties acting in concert with it has borrowed or lent, save for any borrowed securities which have been either on-lent or sold.

The announcement will also specify the percentages of the issued share capital of the Company, and the percentages of voting rights, represented by these numbers.

In computing the total number of Shares represented by acceptances, only valid acceptances that are complete, in good order and fulfil the acceptance conditions set out in this Appendix I, and which have been received by the Registrar no later than 4:00 p.m. on 23 December 2015, being the Closing Date and latest time and date for acceptance of the Offer, shall be included.

- (ii) As required under the Takeovers Code, all announcements in relation to the Offer will be made in accordance with the requirements of the Takeovers Code and the Listing Rules.

5. NOMINEE REGISTRATION

To ensure equality of treatment of all Shareholders, those Shareholders who hold Shares as nominees on behalf of more than one beneficial owner should, as far as practicable, treat the holding of such beneficial owner separately. In order for beneficial owners of Shares whose investments are registered in the names of nominees to accept the Offer, it is essential that they provide instructions of their intentions with regard to the Offer to their nominees.

6. RIGHT OF WITHDRAWAL

- (i) Acceptance of the Offer tendered by the Independent Shareholders or by their agent(s) on their behalf shall be irrevocable and cannot be withdrawn, except in the circumstances set out in subparagraph (ii) below.
- (ii) If the Offeror is unable to comply with the requirements set out in the paragraph headed “Announcement” in this Appendix above, the Executive may require, pursuant to Rule 19.2 of the Takeovers Code, that the Independent Shareholders who have tendered acceptances to the Offer be granted a right of withdrawal on terms that are acceptable to the Executive until the requirements of Rule 19 of the Takeovers Code can be met.

In such case, when the Independent Shareholders withdraw their acceptance(s), the Offeror shall, as soon as possible but in any event within ten days thereof, return by ordinary post the share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) lodged with the Acceptance Form to the relevant Independent Shareholder(s).

Save as aforesaid, acceptances of the Offer shall be irrevocable and not capable of being withdrawn. By accepting the Offer, the Independent Shareholders will sell their Shares to the Offeror free from all encumbrances together with all rights attached thereto, including but not limited to all rights to any dividend or other distribution declared, made or paid on or after the date on which the Offer is made, being the date of the despatch of this Composite Document.

7. OVERSEAS SHAREHOLDERS

The Offer is available to all the Independent Shareholders, including the Overseas Shareholders. However, the Overseas Shareholders who wish to accept the Offer are subject to, and may be affected by, the applicable laws and regulations of their relevant jurisdictions of residence. Overseas Shareholders should observe any applicable legal and regulatory requirements and, where necessary, consult their own professional advisers. It is the responsibility of Overseas Shareholders who wish to accept the Offer to satisfy themselves as to the full observance of the laws and regulations of the relevant jurisdiction in connection with the acceptance of the Offer (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 by such Overseas Shareholders in respect of such jurisdiction).

8. STAMP DUTY

The seller's Hong Kong ad valorem stamp duty on acceptance of the Offer at a rate of 0.1% of the consideration payable in respect of the acceptances by the relevant Independent Shareholders or if higher, the value of the Offer Shares, will be deducted from the amount payable to those Shareholders who accept the Offer.

The Offeror will bear the buyer's Hong Kong ad valorem stamp duty at the rate of 0.1% of the amount payable in respect of the relevant acceptance, or if higher, the value of the Shares.

9. TAX IMPLICATIONS

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 and parties acting in concert with it, the Company, CICC, Southwest Securities HK, Messis Capital, the Registrar or any of their respective ultimate beneficial owners, directors, officers, agents or associates or any other person involved in the Offer accepts any responsibility for any taxation effects on, or liabilities of, any persons as a result of their acceptance or rejection of the Offer.

10. GENERAL

- (i) All communications, notices, the Acceptance Form, share certificates, transfer receipts, other documents of title (and/or any satisfactory indemnity or indemnities required in respect thereof) and remittances to be delivered by or sent to or from the Independent Shareholders will be delivered by or sent to or from them, or their designated agents, by ordinary post at their own risk. Such communications, notices, documents and remittances will be sent to the Independent Shareholders at their addresses specified on the relevant Acceptance Form. None of the Offeror and parties acting in concert with it, the Company, CICC, Southwest Securities HK, Messis Capital, the Registrar or any of their respective ultimate beneficial owners, directors, officers, agents or associates or any other person 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.
- (ii) The provisions set out in the Acceptance Form form part of the terms of the Offer.
- (iii) The accidental omission to despatch this Composite Document and/or Acceptance Form or any of them to any person to whom the Offer is made will not invalidate the Offer in any way.
- (iv) The Offer is, and all acceptances will be, governed by and construed in accordance with the laws of Hong Kong.
- (v) Due execution of the Acceptance Form will constitute an irrevocable authority to the Offeror, CICC and/or Southwest Securities HK (or such person or persons as the Offeror, CICC and/or Southwest Securities HK may direct) to complete and execute any document on behalf of the person accepting the Offer and to do any other act that may be necessary or expedient for the purposes of vesting in the Offeror (or such person or persons as it may direct) the Shares in respect of which such person has accepted the Offer.
- (vi) Acceptance of the Offer by the Independent Shareholders will be deemed to constitute a warranty by such person(s) to the Offeror that such Shares acquired under the Offer are sold or tendered by the Independent Shareholders free from all pledges, charges, claim, community or other marital property interest, liens, mortgages, lease, security interests, attachments, pre-emption rights, options restrictions, conditional sale agreement or other title retention agreement and any other encumbrances or similar third party rights or claims of any kind, and together with all rights accruing or attaching thereto on the date on which the Offer is made or subsequently becoming attached to them, including the right to receive in full all dividends (whether final or interim) and other distributions, if any, declared, made or paid on or after the date on which the Offer is made.

- (vii) References to the Offer in this Composite Document and in the Acceptance Form shall include any extension and/or revision thereof.
- (viii) Any Independent Shareholders accepting the Offer will be responsible for payment of any other transfer or cancellation or other taxes or duties payable by them in any relevant jurisdiction.
- (ix) Save for the payment of stamp duty, settlement of the consideration to which any Independent Shareholder is entitled under the Offer will be implemented in full in accordance with the terms of the Offer without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against such Independent Shareholder.
- (x) Acceptance of the Offer by any nominee will be deemed to constitute a warranty by such nominee to the Offeror that the number of Shares it has indicated in the Acceptance Form is the aggregate number of Shares for which such nominee has received authorisations from the beneficial owners to accept the Offer on their behalf.
- (xi) The English text of this Composite Document and of the Acceptance Form shall prevail over the Chinese text for the purpose of interpretation.
- (xii) In making their decision, the Independent Shareholders must rely on their own examination of the Group and the terms of the Offer, including the merits and risks involved. The contents of this Composite Document, including any general advice or recommendation contained herein together with the Acceptance Form, shall not be construed as any legal or business advice on the part of the Offeror, the Company, CICC, Southwest Securities HK, Messis Capital, the Registrar or their respective professional advisers. Independent Shareholders should consult their own professional advisers for professional advice.
- (xiii) This Composite Document has been prepared for the purposes of compliance with the legislative and regulatory requirements applicable in respect of the Offer in Hong Kong (including the Takeovers Code) and the operating rules of the Stock Exchange.

1. FINANCIAL SUMMARY

The following is a summary of the audited financial results of the Group for each of the three years ended 31 March 2013, 2014 and 2015 and the unaudited financial results of the Group for the six months ended 30 September 2015.

No qualified opinion had been given in the auditor's reports issued by BDO Limited, the auditor of the Company in respect of the audited financial statements for the three financial years ended 31 March 2013, 2014 and 2015.

For each of the three financial years ended 31 March 2013, 2014 and 2015 and the six months ended 30 September 2015:

- the Group had no exceptional or extraordinary items because of size, nature or incidence;
- the Group did not record any non-controlling interests; and
- all of the loss of the Group was attributable to owners of the Company.

	Year ended 31 March			Six months ended	
	2013	2014	2015	2014	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
(i) Turnover	187,561	131,418	128,711	56,987	64,597
Loss before income tax expenses	(1,226)	(38,489)	(25,230)	(14,457)	(16,704)
Income tax expense	(1,343)	(377)	(550)	(557)	(111)
Loss for the year and attributable to owners of the Company	(2,569)	(38,866)	(25,780)	(15,014)	(16,815)
Loss per Share					
– Basic and diluted (Note 1)	(HK0.81 cents)	(HK12.19 cents)	(HK8.09 cents)	(HK4.7 cents)	(HK5.14 cents)

Note 1: The calculation of basic loss per Share is based on the loss for each of the three financial years ended 31 March 2013, 2014 and 2015 attributable to owners of the Company and 318,804,000 Shares in issue during each year.

Diluted loss per Share equals to basic loss per Share, as the computation of diluted loss per Share does not assume the exercise of the Company's outstanding Share Options as the outstanding Share Options have an anti-dilutive effect on the basic loss per Share during each of the three financial years ended 31 March 2013, 2014 and 2015.

	Year ended 31 March			Six months ended 30 September
	2013	2014	2015	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
(ii) Assets and liabilities				
Non-current assets	26,042	9,962	12,898	7,580
Current assets	<u>282,910</u>	<u>263,534</u>	<u>234,999</u>	<u>101,269</u>
Total assets	<u><u>308,952</u></u>	<u><u>273,496</u></u>	<u><u>247,897</u></u>	<u><u>108,849</u></u>
Current liabilities	(20,454)	(23,079)	(21,480)	(33,997)
Non-current liabilities	<u>(61)</u>	<u>(61)</u>	<u>(61)</u>	<u>(61)</u>
Total liabilities	<u><u>(20,515)</u></u>	<u><u>(23,140)</u></u>	<u><u>(21,541)</u></u>	<u><u>(34,058)</u></u>
Net assets	<u><u>288,437</u></u>	<u><u>250,356</u></u>	<u><u>226,356</u></u>	<u><u>74,791</u></u>

(iii) Dividend

For each of the three financial years ended 31 March 2013, 2014 and 2015, no final dividend was declared and paid. An interim dividend of HK0.33 cents each per Share, aggregating a total of approximately HK\$1,052,000, was paid during the year ended 31 March 2013.

The Board declared a special interim dividend of HK\$0.4254 per share on 28 July 2015 to shareholders of the Company. The special interim dividend was paid on 31 August 2015. The Directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 September 2015.

2. AUDITED CONSOLIDATED FINANCIAL INFORMATION OF THE GROUP

The following is the full text of the audited consolidated financial statements of the Group for the year ended 31 March 2015 extracted from the annual report of the Company for the year ended 31 March 2015. Capitalised terms used in this section 2 have the same meanings as defined in the related annual report of the Company.

Consolidated Statement of Comprehensive Income*For the year ended 31 March 2015*

	Notes	2015 HK\$'000	2014 HK\$'000
Turnover	7	128,711	131,418
Cost of sales		<u>(105,904)</u>	<u>(119,210)</u>
Gross profit		22,807	12,208
Other income and gains		5,401	6,978
Selling and distribution costs		(23,855)	(24,081)
Administrative and other operating expenses		(29,583)	(28,839)
Impairment loss on property, plant and equipment	14	<u>–</u>	<u>(4,755)</u>
Loss before income tax expense	8	(25,230)	(38,489)
Income tax expense	11	<u>(550)</u>	<u>(377)</u>
Loss for the year attributable to owners of the Company	12	<u>(25,780)</u>	<u>(38,866)</u>
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Change in fair value of available-for-sale investments		1,817	(26)
Exchange differences arising on translation of financial statements of operations outside Hong Kong		(140)	644
Transfer of fair value gain to profit or loss upon disposal of available-for-sale investments		(177)	(463)
Reclassification from equity to profit or loss on impairment of available-for-sale investments		<u>280</u>	<u>630</u>
Other comprehensive income for the year		<u>1,780</u>	<u>785</u>
Total comprehensive income for the year attributable to owners of the Company		<u>(24,000)</u>	<u>(38,081)</u>
Loss per share	13		
– Basic		<u>(HK8.09 cents)</u>	<u>(HK12.19 cents)</u>
– Diluted		<u>(HK8.09 cents)</u>	<u>(HK12.19 cents)</u>

Consolidated Statement of Financial Position*As at 31 March 2015*

	<i>Notes</i>	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment	14	2,086	1,862
Available-for-sale investments	16	8,236	6,985
Rental deposits		2,576	1,115
		<u>12,898</u>	<u>9,962</u>
Current assets			
Inventories	17	50,623	69,025
Trade and bills receivables	18	14,419	17,528
Other receivables, deposits and prepayments		8,241	6,884
Tax recoverable		282	132
Bank deposit with original maturity of over one year		–	9,434
Bank balances and cash		161,434	160,531
		<u>234,999</u>	<u>263,534</u>
Current liabilities			
Trade payables	20	8,472	8,474
Other payables and accrued charges		13,008	14,304
Current tax liabilities		–	301
		<u>21,480</u>	<u>23,079</u>
Net current assets		<u>213,519</u>	<u>240,455</u>
Total assets less current liabilities		226,417	250,417
Non-current liabilities			
Deferred tax liabilities	21	61	61
Total net assets		<u>226,356</u>	<u>250,356</u>
Capital and reserves attributable to owners of the Company			
Share capital	22	3,188	3,188
Reserves		223,168	247,168
Total equity		<u>226,356</u>	<u>250,356</u>

Statement of Financial Position*As at 31 March 2015*

	<i>Notes</i>	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Non-current assets			
Investments in subsidiaries	15	48,181	48,181
Available-for-sale investments	16	<u>8,236</u>	<u>6,985</u>
		<u>56,417</u>	<u>55,166</u>
Current assets			
Other receivables		145	179
Amounts due from subsidiaries	19	33,663	22,407
Bank balances and cash		<u>2,179</u>	<u>28,717</u>
		<u>35,987</u>	<u>51,303</u>
Current liabilities			
Accrued charges and other payables		32	42
Amount due to a subsidiary	19	<u>–</u>	<u>15,797</u>
		<u>32</u>	<u>15,839</u>
Net current assets		<u>35,955</u>	<u>35,464</u>
Total net assets		<u>92,372</u>	<u>90,630</u>
Capital and reserves attributable to owners of the Company			
Share capital	22	3,188	3,188
Reserves	24	<u>89,184</u>	<u>87,442</u>
Total equity		<u>92,372</u>	<u>90,630</u>

Consolidated Statement of Changes In Equity*For the year ended 31 March 2015*

	Share capital HK\$'000	Share premium HK\$'000	Share option reserve HK\$'000	Foreign exchange reserve HK\$'000	Statutory and discretionary reserves HK\$'000 (Note)	Available- for-sale reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1 April 2013	3,188	32,608	4,904	5,780	888	76	240,993	288,437
Loss for the year	-	-	-	-	-	-	(38,866)	(38,866)
Change in fair value of available- for-sale investments	-	-	-	-	-	(26)	-	(26)
Exchange differences arising on translation of financial statements of operations outside Hong Kong	-	-	-	644	-	-	-	644
Transfer of fair value gain to profit or loss upon disposal of available-for-sale investments	-	-	-	-	-	(463)	-	(463)
Reclassification from equity to profit or loss on impairment of available-for-sale investments	-	-	-	-	-	630	-	630
Total comprehensive income for the year	-	-	-	644	-	141	(38,866)	(38,081)

	Share capital HK\$'000	Share premium HK\$'000	Share option reserve HK\$'000	Foreign exchange reserve HK\$'000	Statutory and discretionary reserves HK\$'000 (Note)	Available- for-sale investments reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 31 March 2014 and 1 April 2014	3,188	32,608	4,904	6,424	888	217	202,127	250,356
Loss for the year	-	-	-	-	-	-	(25,780)	(25,780)
Change in fair value of available- for-sale investments	-	-	-	-	-	1,817	-	1,817
Exchange differences arising on translation of financial statements of operations outside Hong Kong	-	-	-	(140)	-	-	-	(140)
Transfer of fair value gain to profit or loss upon disposal of available-for-sale investments	-	-	-	-	-	(177)	-	(177)
Reclassification from equity to profit or loss on impairment of available-for-sale investments	-	-	-	-	-	280	-	280
Total comprehensive income for the year	-	-	-	(140)	-	1,920	(25,780)	(24,000)
Transfer between reserves	-	-	-	-	2,031	-	(2,031)	-
At 31 March 2015	3,188	32,608	4,904	6,284	2,919	2,137	174,316	226,356

Note: The statutory and discretionary reserves are non-distributable and the transfers to these reserves are determined by the board of directors and in accordance with the relevant laws and regulations of the People's Republic of China (the "PRC"). These reserves can be used to offset accumulated losses, expand the scale of production and business and increase capital of the subsidiaries in the PRC upon approval from the relevant authorities.

Consolidated Statement of Cash Flows*For the year ended 31 March 2015*

	2015 HK\$'000	2014 HK\$'000
Cash flows from operating activities		
Loss before income tax expense	(25,230)	(38,489)
Adjustments for:		
Interest income	(4,595)	(5,029)
Dividend income from available-for-sale investments	(288)	(221)
Gain on disposal of available-for-sale investments	(177)	(463)
Impairment loss on property, plant and equipment	–	4,755
Depreciation of property, plant and equipment	848	2,719
(Gain)/loss on disposal of property, plant and equipment	(4)	94
Impairment loss on available-for-sale investments	280	630
Impairment loss on trade receivables	181	17
Write-down of inventories	1,839	10,218
	<u> </u>	<u> </u>
Operating loss before working capital changes	(27,146)	(25,769)
(Increase)/decrease in rental deposits	(1,461)	2,109
Decrease/(increase) in inventories	16,551	(4,546)
Decrease/(increase) in trade and bills receivables	2,969	(5,047)
Increase in other receivables, deposits and prepayments	(1,332)	(1,470)
(Decrease)/increase in trade payables	(437)	2,756
(Decrease)/increase in other payables and accrued charges	(1,321)	214
	<u> </u>	<u> </u>
Cash used in operations	(12,177)	(31,753)
Hong Kong Profits Tax refunded	32	17
PRC Enterprise Income Tax paid	(1,031)	(784)
	<u> </u>	<u> </u>
Net cash used in operating activities	<u>(13,176)</u>	<u>(32,520)</u>

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Cash flows from investing activities		
Purchases of property, plant and equipment	(1,116)	(1,967)
Purchase of available-for-sale investments	–	(2,847)
Proceeds from disposal of property, plant and equipment	53	–
Proceeds from disposal of available-for-sale investments	566	1,904
Proceeds from redemption of held-to-maturity investment	–	1,524
Decrease in bank deposit with original maturity of over one year	9,434	–
Increase in bank deposit with original maturity of over three months	(15,488)	–
Interest received	4,595	5,029
Dividend received from available-for-sale investments	288	221
	<u> </u>	<u> </u>
Net cash (used in)/generated from investing activities	<u>(1,668)</u>	<u>3,864</u>
Net decrease in cash and cash equivalents	(14,844)	(28,656)
Cash and cash equivalents at beginning of year	160,531	188,764
Effect of exchange rate changes on cash and cash equivalents	<u>259</u>	<u>423</u>
Cash and cash equivalents at end of year	<u><u>145,946</u></u>	<u><u>160,531</u></u>

Consolidated Statement of Cash Flows*For the year ended 31 March 2015*

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Analysis of balances of cash and cash equivalents		
Cash and cash equivalents as stated in the consolidated statement of cash flows	145,946	160,531
Bank deposit with original maturity of over three months	<u>15,488</u>	<u>–</u>
Bank balances and cash as stated in the consolidated statement of financial position	<u><u>161,434</u></u>	<u><u>160,531</u></u>

Notes to the Financial Statements

31 March 2015

1. GENERAL

Chanco International Group Limited (the “Company”) was incorporated in the Cayman Islands on 12 April 2002 as an exempted company with limited liability under the Companies Law of the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The addresses of the registered office and principal place of business of the Company are disclosed in the section headed “Corporate Information” to the annual report. The Group, comprising the Company and its subsidiaries, is engaged in manufacturing and distribution of leather products and retail of fashion apparel, footwear and leather accessories.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) AND NEW HONG KONG COMPANIES ORDINANCE PROVISIONS RELATING TO THE DISCLOSURE REQUIREMENTS FOR FINANCIAL STATEMENTS

(a) Adoption of new/revised HKFRSs – first effective on 1 April 2014

A number of amendments to HKFRSs and one new interpretation are first effective for the current accounting period of the Group. The adoption of these amendments to HKFRSs and interpretation has no material impact on the Group’s financial statements.

(b) New/revised HKFRSs that have been issued but are not yet effective

The following new/revised HKFRSs, potentially relevant to the Group’s financial statements, have been issued, but are not yet effective and have not been early adopted by the Group.

HKFRSs (Amendments)	Annual Improvements 2010-2012 Cycle ²
HKFRSs (Amendments)	Annual Improvements 2011-2013 Cycle ¹
HKFRSs (Amendments)	Annual Improvements 2012-2014 Cycle ³
Amendments to HKAS 1	Disclosure Initiative ³
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation ³
HKFRS 9 (2014)	Financial Instruments ⁵
HKFRS 15	Revenue from Contracts with Customers ⁴

¹ Effective for annual periods beginning on or after 1 July 2014

² Effective for annual periods beginning, or transactions occurring, on or after 1 July 2014

³ Effective for annual periods beginning on or after 1 January 2016

⁴ Effective for annual periods beginning on or after 1 January 2017

⁵ Effective for annual periods beginning on or after 1 January 2018

Annual Improvements 2010–2012 Cycle, 2011-2013 Cycle and 2012–2014 Cycle

The amendments issued under the annual improvements process make small, non-urgent changes to a number of standards where they are currently unclear.

Amendments to HKAS 1 – Disclosure Initiative

The amendments to HKAS 1 are designed to further encourage companies to apply professional judgement in determining what information to disclose in their financial statements. Furthermore, the amendments clarify that companies should use professional judgement in determining where and in what order information is presented in the financial disclosures.

Amendments to HKAS 16 and HKAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments to HKAS 16 prohibit the use of a revenue-based depreciation method for items of property, plant and equipment. The amendments to HKAS 38 introduce a rebuttable presumption that amortisation based on revenue is not appropriate for intangible assets. This presumption can be rebutted if either the intangible asset is expressed as a measure of revenue or revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

HKFRS 9 (2014) – Financial Instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets. Debt instruments that are held within a business model whose objective is to hold assets in order to collect contractual cash flows (the business model test) and that have contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (the contractual cash flow characteristics test) are generally measured at amortised cost. Debt instruments that meet the contractual cash flow characteristics test are measured at fair value through other comprehensive income (“FVTOCI”) if the objective of the entity’s business model is both to hold and collect the contractual cash flows and to sell the financial assets. Entities may make an irrevocable election at initial recognition to measure equity instruments that are not held for trading at FVTOCI. All other debt and equity instruments are measured at fair value through profit or loss (“FVTPL”).

HKFRS 9 includes a new expected loss impairment model for all financial assets not measured at FVTPL replacing the incurred loss model in HKAS 39 and new general hedge accounting requirements to allow entities to better reflect their risk management activities in financial statements.

HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities designated at FVTPL, where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

HKFRS 15 – Revenue from Contracts with Customers

The new standard establishes a single revenue recognition framework. The core principle of the framework is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. HKFRS 15 supersedes existing revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and related interpretations.

HKFRS 15 requires the application of a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to each performance obligation
- Step 5: Recognise revenue when each performance obligation is satisfied

HKFRS 15 includes specific guidance on particular revenue related topics that may change the current approach taken under HKFRS. The standard also significantly enhances the qualitative and quantitative disclosures related to revenue.

The Group is in the process of making an assessment of the potential impact of these pronouncements disclosed above. The directors of the Company so far concluded that the adoption of these pronouncements will have no material impact on the Group’s financial statements.

(c) **New Hong Kong Companies Ordinance provisions relating to the disclosure requirements for financial statements**

The Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) requiring financial statements disclosures with reference to the provisions of the new Hong Kong Companies Ordinance, Cap. 622 will first apply to the Company in its first financial year ending on 31 March 2016.

The directors of the Company consider that there will be no impact on the Group’s financial position or performance, however the disclosure requirements of the new Hong Kong Companies Ordinance, Cap. 622, would have impacts on the presentation and disclosures in the consolidated financial statements. For example, the statement of financial position of the Company will be presented in the notes to the financial statements rather than a separate statement and certain related notes need not be included.

3. **BASIS OF PREPARATION**

(a) **Statement of compliance**

The financial statements have been prepared in accordance with all applicable HKFRSs, Hong Kong Accounting Standards (“HKASs”) and Interpretations (hereinafter collectively referred to as the “HKFRSs”) and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the financial statements include applicable disclosures required by the Listing Rules.

(b) **Basis of measurement**

The financial statements have been prepared under the historical cost basis except for certain financial instruments, which are measured at fair values as explained in the accounting policies set out below.

(c) **Functional and presentation currency**

The financial statements are presented in Hong Kong dollars (“HK\$”), which is the same as the functional currency of the Company.

4. **SIGNIFICANT ACCOUNTING POLICIES**

(a) **Basis of consolidation**

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

(b) **Subsidiaries**

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: power over the investee, exposure, or rights, to variable returns from the investee, and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

(c) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised as an expense in profit or loss during the financial period in which they are incurred.

Property, plant and equipment are depreciated so as to write off their cost net of expected residual value using reducing balance method at the following principal annual rates:

Plant and machinery	-	30%
Furniture and fixtures	-	10%-20%
Leasehold improvements	-	Annual rates as determined by shorter of expected useful lives and the unexpired period of the leases
Motor vehicles	-	30%

The annual rates, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

(d) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to lessee. All other leases are classified as operating leases.

The total rentals payable under the operating leases are recognised in profit or loss on a straight-line basis over the lease term. Lease incentives received are recognised as an integrated part of the total rental expense, over the term of the lease.

(e) **Financial instruments**

(i) *Financial assets*

The Group classifies its financial assets at initial recognition, depending on the purpose for which the asset was acquired. Financial assets at fair value through profit or loss are initially measured at fair value and all other financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. Regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

Loans and receivables

These assets, including bank deposit with original maturity of over one year, rental deposits, trade and bills receivables, other receivables, deposits, bank balances and cash, and amounts due from subsidiaries, are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers, and also incorporate other types of contractual monetary asset. Subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any identified impairment losses.

Available-for-sale financial assets

These assets are non-derivative financial assets that are designated as available for sale or are not included in other categories of financial assets. Subsequent to initial recognition, these assets are carried at fair value with changes in fair value recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses on monetary instruments, which are recognised in profit or loss.

(ii) *Impairment loss on financial assets*

The Group assesses, at the end of each reporting period, whether there is any objective evidence that financial asset is impaired. Financial asset is impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- granting concession to a debtor because of debtor's financial difficulty;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

For loans and receivables

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The carrying amount of financial asset is reduced through the use of an allowance account. When any part of financial asset is determined as uncollectible, it is written off against the allowance account for the relevant financial asset.

Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

For available-for-sale financial assets

Where a decline in the fair value constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognised in profit or loss.

For available-for-sale equity investments, any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income.

(iii) Financial liabilities

Financial liabilities at amortised cost, including trade payables, other payables and accrued charges, and amount due to a subsidiary, are initially measured at fair value, net of directly attributable costs incurred, and are subsequently measured at amortised cost, using effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

(iv) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(v) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(vi) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 Revenue.

(vii) *Derecognition*

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

(f) **Inventories**

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the first-in first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated cost necessary to make the sale.

(g) **Revenue recognition**

Revenue comprise the fair value of the consideration received or receivable for the sales of goods and the use of the Group's assets yielding interest and dividend, net of rebate and discounts. Provided it is probable that the economic benefit will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised as follows:

Revenue from sale of goods is recognised on transfer of risks and rewards of ownership, which is at the time of delivery and the title is passed to customer.

Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.

Dividend income is recognised when the right to receive the dividend is established.

(h) **Income taxes**

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates appropriate to the expected manner in which the carrying amount of the asset or liability is realised or settled and that have been enacted or substantively enacted at the end of reporting period.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income.

(i) **Foreign currency**

Transactions entered into by group entities in currencies other than the currency of the primary economic environment in which they operate (the “functional currency”) are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

On consolidation, income and expense items of foreign operations are translated into the presentation currency of the Group (i.e. HK\$) at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of foreign operations are translated at the rate ruling at the end of reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as foreign exchange reserve. Exchange differences recognised in profit or loss of group entities’ separate financial statements on the translation of long-term monetary items forming part of the Group’s net investment in the foreign operations concerned are reclassified to other comprehensive income and accumulated in equity as foreign exchange reserve.

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are transferred to profit or loss as part of the profit or loss on disposal.

(j) **Employee benefits**

(i) *Short term employee benefits*

Short term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Short term employee benefits are recognised in the year when the employees render the related service.

(ii) *Defined contribution retirement plans*

Contributions to defined contribution retirement plans are recognised as an expense in profit or loss when the services are rendered by the employees.

(iii) *Termination benefits*

Termination benefits are recognised on the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

(k) Share-based payments

Where share options are awarded to employees, the fair value of the options at the date of grant is recognised in profit or loss over the vesting period with a corresponding increase in the share option reserve within equity. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at the end of each reporting period so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also recognised in profit or loss over the remaining vesting period.

Where equity instruments are granted to persons other than employees, the fair value of goods or services received is recognised in profit or loss unless the goods or services qualify for recognition as assets. A corresponding increase in equity is recognised.

The policy described above is applied to all equity-settled share-based payments that were granted after 7 November 2002 and vested after 1 January 2005.

The Group has taken the advantage of the transitional provisions of HKFRS 2 in respect of those equity-settled awards for the share options granted and immediately vested before 1 January 2005. As a result, no share-based expenses have been recognised in the financial statements.

(l) Impairment of other assets

At the end of each reporting period, the Group reviews the carrying amounts of its property, plant and equipment and investments in subsidiaries to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased.

If the recoverable amount (i.e. the greater of the fair value less costs of disposal and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

(m) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(n) Dividends

Interim dividends are recognised directly as a liability when they are proposed and declared by the directors.

Final dividends proposed by the directors are classified as a separate allocation of retained earnings within capital and reserves in the statement of financial position. Final dividends are recognised as a liability when they are approved by the shareholders.

(o) Related parties

(a) A person or a close member of that person's family is related to the Group if that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of key management personnel of the Group.

(b) An entity is related to the Group if any of the following conditions apply:

- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

- (i) that person's children and spouse or domestic partner;
- (ii) children of that person's spouse or domestic partner; and
- (iii) dependents of that person or that person's spouse or domestic partner.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(a) Critical judgements in applying accounting policies*Impairment of available-for-sale investments*

Management review available-for-sale investments at the end of each reporting period to assess whether they are impaired. The Group records impairment loss on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is significant or prolonged decline requires judgement. In making this judgement, management evaluate, among other factors, historical share price movements and the duration and extent to which the fair value of an investment is less than its cost.

(b) Key sources of estimation uncertainty

The following are the key sources of estimation uncertainty that have a significant risk of resulting a material adjustment to the carrying amounts of assets and liabilities within next financial year are as follows:

Impairment of property, plant and equipment

Impairment loss for property, plant and equipment are recognised for the amount by which the carrying amount exceeds its recoverable amount. The recoverable amount of the assets, or, where appropriate, the cash generating unit ("CGU") to which they belong, is the higher of its value in use ("VIU") and fair value less costs of disposal ("FVL COD").

VIU

The VIU calculations primarily use cash flow projections based on financial budgets approved by management covering a period of 2 to 5 years. There are a number of assumptions and estimates involved in the preparation of cash flow projections for the period covered by the approved budgets. Key assumptions and estimates in the VIU calculations include the expected growth in revenues, timing of future capital expenditures and selection of discount rates to reflect the risks involved.

Judgement is required to determine key assumptions and estimates adopted in the cash flow projections and changes to key assumptions can significantly affect these cash flow projections and therefore the results of the impairment review.

FVL COD

Management estimate the amount obtainable from the sales of the assets or the CGU in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal, as appropriate. Management estimated that the FVL CODs of the CGUs should not be materially different from their respective VIUs if the subject assets within the respective CGUs are collectively used by market participants as the existing use of these assets represent their highest and best use. While in estimating the FVL CODs of

individual assets, key assumptions and estimates used by management include the scarp value of the assets and the asking price of comparable assets.

If future events do not correspond to such assumptions and estimates, the recoverable amounts will need to be revised, and this may have an impact on the Group's results of operations and financial position.

Write-down of inventories

Management estimate the net realisable value of inventories based primarily on the latest market prices and current market conditions. The Group carries out an inventory review at the end of each reporting period and makes allowance on obsolete and slow moving items to write down inventories to their net realisable values. Where the subsequent estimated net realisable value of inventories is less than the original estimate, a material write-down may arise.

Impairment loss on trade receivables

Impairment loss on trade receivables is made based on the evaluation of collectability and ageing analysis of accounts and on management's judgement by reference to the estimation of the future cash flow discounted at an original effective interest rate to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

6. SEGMENT REPORTING

The Group determines its operating segments based on the reports reviewed by the chief operating decision makers that are used to make strategic decisions.

The Group has two reportable segments. The segments are managed separately as each business offers different products and services and requires different business strategies. The following summary describes the operations in each of the Group's reportable segments:

Manufacturing business	–	Manufacture and distribution of leather products
Retail business	–	Retail of fashion apparel, footwear and leather accessories

Inter-segment transactions are priced with reference to prices charged to external parties for similar order. Central revenue and expenses are not allocated to the operating segments as they are not included in the measure of the segments' profit that is used by the chief operating decision makers for assessment of segment performance.

(a) Reportable segments

	Manufacturing business		Retail business		Total	
	2015	2014	2015	2014	2015	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from external customers	97,199	97,906	31,512	33,512	128,711	131,418
Inter-segment revenue	6,121	3,799	–	–	6,121	3,799
Reportable segment revenue	<u>103,320</u>	<u>101,705</u>	<u>31,512</u>	<u>33,512</u>	<u>134,832</u>	<u>135,217</u>
Reportable segment loss	<u>(25,949)</u>	<u>(35,362)</u>	<u>(3,208)</u>	<u>(7,368)</u>	<u>(29,157)</u>	<u>(42,730)</u>
Depreciation of property, plant and equipment	371	1,627	298	712	669	2,339
Impairment loss on property, plant and equipment	–	2,798	–	1,002	–	3,800
Write-down of inventories	1,795	7,505	44	2,713	1,839	10,218
Reportable segment assets	114,955	142,240	18,267	15,826	133,222	158,066
Additions to property, plant and equipment	145	1,443	905	91	1,050	1,534
Reportable segment liabilities	<u>20,315</u>	<u>21,855</u>	<u>1,133</u>	<u>880</u>	<u>21,448</u>	<u>22,735</u>

(b) Reconciliation of reportable segment revenues, loss, assets and liabilities

	2015 HK\$'000	2014 HK\$'000
Revenue		
Reportable segment revenue	134,832	135,217
Elimination of inter-segment revenue	<u>(6,121)</u>	<u>(3,799)</u>
Consolidated revenue	<u>128,711</u>	<u>131,418</u>
Loss before income tax expense		
Reportable segment loss	(29,157)	(42,730)
Elimination of inter-segment losses	104	245
Interest income	4,595	5,029
Dividend income from available-for-sale investments	288	221
Gain on disposal of available-for-sale investments	177	463
Impairment loss on available-for-sale investments	(280)	(630)
Unallocated corporate expenses	<u>(957)</u>	<u>(1,087)</u>
Consolidated loss before income tax expense	<u>(25,230)</u>	<u>(38,489)</u>

	2015 HK\$'000	2014 HK\$'000
Depreciation of property, plant and equipment		
Reportable segment depreciation	669	2,339
Depreciation of unallocated property, plant and equipment	179	380
	<u> </u>	<u> </u>
Consolidated depreciation of property, plant and equipment	<u>848</u>	<u>2,719</u>
Impairment loss on property, plant and equipment		
Reportable segment impairment loss on property, plant and equipment	–	3,800
Impairment loss on unallocated property, plant and equipment	–	955
	<u> </u>	<u> </u>
Consolidated impairment loss on property, plant and equipment	<u>–</u>	<u>4,755</u>
Additions to property, plant and equipment		
Reportable segment additions	1,050	1,534
Unallocated additions to property, plant and equipment	66	433
	<u> </u>	<u> </u>
Consolidated additions to property, plant and equipment	<u>1,116</u>	<u>1,967</u>
Assets		
Reportable segment assets	133,222	158,066
Available-for-sale investments	8,236	6,985
Tax recoverable	282	132
Unallocated corporate bank balances and cash	105,448	107,489
Other unallocated corporate assets	709	824
	<u> </u>	<u> </u>
Consolidated total assets	<u>247,897</u>	<u>273,496</u>
Liabilities		
Reportable segment liabilities	21,448	22,735
Current tax liabilities	–	301
Deferred tax liabilities	61	61
Unallocated corporate liabilities	32	43
	<u> </u>	<u> </u>
Consolidated total liabilities	<u>21,541</u>	<u>23,140</u>

(c) Geographical information

The following table provides an analysis of the Group's revenue from external customers and non-current assets other than financial instruments, i.e. property, plant and equipment.

	Revenue from external customers <i>(Note)</i>		Property, plant and equipment	
	2015 HK\$'000	2014 HK\$'000	2015 HK\$'000	2014 HK\$'000
Hong Kong (place of domicile)	45,973	51,605	907	716
Europe	30,131	31,901	-	-
The PRC	15,692	11,267	1,179	1,146
The United States of America	10,469	10,100	-	-
Other countries	26,446	26,545	-	-
Total	82,738	79,813	1,179	1,146
	<u>128,711</u>	<u>131,418</u>	<u>2,086</u>	<u>1,862</u>

Note: Revenues are attributed to countries on the basis of the customer's location.

(d) Information about major customers

For the year ended 31 March 2015, no individual customers accounted for 10% or more of the Group's revenue. For the year ended 31 March 2014, revenue from one customer of the Group's manufacturing business segment amounted to approximately HK\$14,699,000 which represented 10% or more of the Group's revenue for that year.

7. TURNOVER

Turnover, which is also the revenue, represents the net amounts received and receivable for goods sold to external customers, less returns and discount, if any, during the year.

8. LOSS BEFORE INCOME TAX EXPENSE

Loss before income tax expense is arrived at after charging/(crediting):

	2015 HK\$'000	2014 HK\$'000
Auditor's remuneration	438	418
Cost of inventories recognised as expenses	105,904	119,210
Staff costs, excluding directors' emoluments (<i>note 9</i>)	31,623	17,956
Depreciation of property, plant and equipment	848	2,719
(Gain)/loss on disposal of property, plant and equipment	(4)	94
Impairment loss on property, plant and equipment	–	4,755
Impairment loss on trade receivables	181	17
Write-down of inventories	1,839	10,218
Impairment loss on available-for-sale investments	280	630
Foreign exchange loss/(gain), net	112	(1,044)
Interest income	(4,595)	(5,029)
Dividend income from available-for-sale investments	(288)	(221)
Gain on disposal of available-for-sale investments	(177)	(463)
	<u> </u>	<u> </u>

9. STAFF COSTS, EXCLUDING DIRECTORS' EMOLUMENTS

	2015 HK\$'000	2014 HK\$'000
Salaries and other benefits	29,628	17,155
Retirement benefits scheme contributions	1,995	801
	<u> </u>	<u> </u>
	<u>31,623</u>	<u>17,956</u>

10. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

	2015 HK\$'000	2014 HK\$'000
Directors' fees	150	150
Other emoluments:		
Salaries and other benefits	7,476	7,032
Retirement benefits scheme contributions	88	75
	<u> </u>	<u> </u>
	<u>7,714</u>	<u>7,257</u>

Details of directors' emoluments for the year ended 31 March 2015 are as follows:

	Fees <i>HK\$'000</i>	Salaries and other benefits <i>HK\$'000</i>	Retirement benefits scheme contributions <i>HK\$'000</i>	Total <i>HK\$'000</i>
2015				
Executive directors:				
Chan King Hong Edwin	–	2,544	35	2,579
Chan King Yuen Stanley	–	2,544	35	2,579
Chan Wai Po Rebecca	–	2,388	18	2,406
Independent non-executive directors:				
Chau Cynthia Sin Ha	50	–	–	50
Fong Pui Sheung David	50	–	–	50
Or Kam Chung Janson	50	–	–	50
Total	150	7,476	88	7,714
2014				
Executive directors:				
Chan King Hong Edwin	–	2,394	30	2,424
Chan King Yuen Stanley	–	2,394	30	2,424
Chan Wai Po Rebecca	–	2,244	15	2,259
Independent non-executive directors:				
Chau Cynthia Sin Ha	50	–	–	50
Fong Pui Sheung David	50	–	–	50
Or Kam Chung Janson	50	–	–	50
Total	150	7,032	75	7,257

No directors waived any emoluments during the years ended 31 March 2015 and 2014.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2014: three) directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining two (2014: two) individuals are as follows:

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Salaries and other benefits	1,888	1,820
Discretionary bonuses	–	48
Retirement benefits scheme contributions	35	30
	1,923	1,898

The emoluments of the remaining individuals were within the following bands:

	2015 <i>No. of individuals</i>	2014 <i>No. of individuals</i>
Nil to HK\$1,000,000	1	2
HK\$1,000,001 to HK\$1,500,000	1	–
	<u>1</u>	<u>2</u>

During the years ended 31 March 2015 and 2014, no emolument was paid to the directors or any of the five highest paid individuals as an inducement to join or upon joining by the Group or as compensation for loss of office.

- (c) The emoluments paid or payable to members of senior management (including directors) were within the following bands:

	2015 <i>No. of individuals</i>	2014 <i>No. of individuals</i>
Nil to HK\$1,000,000	7	8
HK\$1,000,001 to HK\$1,500,000	1	–
HK\$2,000,001 to HK\$2,500,000	1	3
HK\$2,500,001 to HK\$3,000,000	2	–
	<u>11</u>	<u>11</u>

11. INCOME TAX EXPENSE

The amount of income tax expense in the consolidated statement of comprehensive income represents:

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Current tax – Hong Kong Profits Tax		
– overprovision in respect of prior years	–	(25)
Current tax – PRC Enterprise Income Tax		
– tax for the year	698	688
– overprovision in respect of prior years	(148)	(286)
	<u>550</u>	<u>402</u>
Income tax expense	<u>550</u>	<u>377</u>

No provision for Hong Kong Profits Tax has been made as the Group has sustained estimated tax losses for the years ended 31 March 2015 and 2014.

The PRC Enterprise Income Tax rate for the Company's subsidiaries in the PRC is 25% (2014: 25%).

The income tax expense for the year can be reconciled to the loss before income tax expense per the consolidated statement of comprehensive income as follows:

	2015 HK\$'000	2014 HK\$'000
Loss before income tax expense	<u>(25,230)</u>	<u>(38,489)</u>
Tax credit calculated at Hong Kong Profits Tax rate of 16.5% (2014: 16.5%)	(4,163)	(6,351)
Tax effect of expenses not deductible for tax purpose	5,751	10,602
Tax effect of income not taxable for tax purpose	(4,728)	(8,516)
Overprovision in respect of prior years	(148)	(311)
Effect of different tax rates of subsidiaries operating in other jurisdiction	(360)	235
Tax effect of tax losses not recognised	4,504	3,932
Utilisation of other deductible temporary difference previously not recognised	(328)	–
Tax effect of other deductible temporary difference not recognised	–	790
Others	<u>22</u>	<u>(4)</u>
Income tax expense	<u>550</u>	<u>377</u>

12. LOSS FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY

The Group's loss for the year attributable to owners of the Company includes an amount of loss of approximately HK\$178,000 (2014: HK\$405,000) which has been dealt with in the financial statements of the Company.

13. LOSS PER SHARE

The calculation of basic and diluted loss per share is based on the Group's loss for the year of approximately HK\$25,780,000 (2014: HK\$38,866,000) attributable to owners of the Company and the weighted average number of 318,804,000 (2014: 318,804,000) ordinary shares in issue during the year.

The computation of diluted loss per share does not assume the exercise of the Company's outstanding share options as the outstanding share options have an anti-dilutive effect on the basic loss per share for both years ended 31 March 2015 and 2014.

14. PROPERTY, PLANT AND EQUIPMENT

The Group	Plant and machinery HK\$'000	Furniture and fixtures HK\$'000	Leasehold improvements HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost					
At 1 April 2014	9,657	6,132	14,064	2,646	32,499
Additions	38	144	854	80	1,116
Disposals	–	(138)	(2,494)	(155)	(2,787)
Exchange realignment	23	1	–	7	31
At 31 March 2015	9,718	6,139	12,424	2,578	30,859
Accumulated depreciation and impairment					
At 1 April 2014	9,302	5,897	13,669	1,769	30,637
Depreciation	118	75	372	283	848
Eliminated on disposals	–	(132)	(2,464)	(142)	(2,738)
Exchange realignment	21	1	–	4	26
At 31 March 2015	9,441	5,841	11,577	1,914	28,773
Net book value					
At 31 March 2015	277	298	847	664	2,086
Cost					
At 1 April 2013	9,506	6,033	13,474	1,847	30,860
Additions	113	99	961	794	1,967
Disposals	–	(2)	(371)	–	(373)
Exchange realignment	38	2	–	5	45
At 31 March 2014	9,657	6,132	14,064	2,646	32,499
Accumulated depreciation and impairment					
At 1 April 2013	8,829	4,572	8,459	1,544	23,404
Depreciation	239	310	1,950	220	2,719
Impairment losses	202	1,015	3,538	–	4,755
Eliminated on disposals	–	(1)	(278)	–	(279)
Exchange realignment	32	1	–	5	38
At 31 March 2014	9,302	5,897	13,669	1,769	30,637
Net book value					
At 31 March 2014	355	235	395	877	1,862

15. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2015	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares, at cost	48,181	48,181

Details of the Company's subsidiaries at 31 March 2015 are as follows:

Name	Place of incorporation or establishment/ operations	Issued share capital/paid-up registered capital	Attributable equity interest held by the Company		Principal activities
			Directly	Indirectly	
Chanco International Holding Limited	British Virgin Islands/ Hong Kong	Ordinary shares US\$1,000	100%		Investment holding
Sun Ray Manufactory, Limited	Hong Kong	Non-voting deferred shares HK\$6 Ordinary shares HK\$2	100%		Manufacturing and trading of leather products
Elite Leatherware Company Limited	Hong Kong	Ordinary shares HK\$10,000	100%		Trading of leather products
Talent Union Development Limited	British Virgin Islands/ Hong Kong	Ordinary shares US\$8	100%		Investment holding
Dongguan Ngai Luen Leather Goods Company Limited (Note)	The PRC	Paid up registered capital HK\$5,600,000 (2014: HK\$2,720,000)	100%		Manufacturing and trading of leather products
Dongguan Sze Cheik Leather Goods Company Limited (Note)	The PRC	Paid up registered capital HK\$5,000,000 (2014: HK\$1,665,866)	100%		Manufacturing and trading of leather products
Amid Success Holdings Limited	British Virgin Islands/ Hong Kong	Ordinary share US\$1	100%		Investment holding
Urban Stranger Company Limited	Hong Kong	Ordinary share HK\$1	100%		Retail of fashion apparel, footwear and leather accessories

Note: These subsidiaries are wholly foreign-owned enterprises established in the PRC.

None of the subsidiaries had any debt securities subsisting at the end of the year or at any time during the year.

16. AVAILABLE-FOR-SALE INVESTMENTS

	The Group and the Company	
	2015	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>
Equity securities listed in Hong Kong, at fair value	8,236	6,985

Fair value is determined by reference to published price quotation in an active market.

17. INVENTORIES

	The Group	
	2015	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	39,562	54,968
Work in progress	3,015	3,630
Finished goods	8,046	10,427
	<u>50,623</u>	<u>69,025</u>

18. TRADE AND BILLS RECEIVABLES

	The Group	
	2015	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade and bills receivables	15,338	18,266
Less: impairment loss	(919)	(738)
	<u>14,419</u>	<u>17,528</u>

Customers are generally granted with credit terms of 30 to 90 days. The ageing analysis of trade and bills receivables based on invoice date (net of impairment loss) at the end of reporting period is as follows:

	The Group	
	2015	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>
Less than 30 days	8,558	9,817
31 to 60 days	3,140	784
61 to 90 days	885	4,092
91 to 120 days	311	1,507
121 to 365 days	1,522	1,328
More than 365 days	3	–
	<u>14,419</u>	<u>17,528</u>

As at 31 March 2015, trade and bills receivables of approximately HK\$10,189,000 (2014: HK\$8,732,000) are neither past due nor impaired. Trade and bills receivables that are neither past due nor impaired related to customers for whom there is no recent history of default.

The ageing of trade and bills receivables which are past due but not impaired is as follows:

	The Group	
	2015	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>
Less than 30 days past due	2,324	4,171
31–60 days past due	421	2,111
61–90 days past due	543	1,448
91–120 days past due	505	197
121–365 days past due	434	869
More than 365 days	3	–
	4,230	8,796
	4,230	8,796

Trade and bills receivables that are past due but not impaired related to customers that have good creditworthiness or good track record with the Group. Based on past experience, management considered no impairment is necessary as there has not been a significant change in credit quality of these balances, which are still considered fully recoverable.

The movement in the impairment loss on trade and bills receivables during the year is as follows:

	The Group	
	2015	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>
At beginning of the year	738	724
Impairment loss recognised	181	17
Bad debts written off	–	(3)
	919	738
	919	738

The Group recognised impairment loss on individual assessment based on the accounting policy stated in note 4(e)(ii).

19. AMOUNTS DUE FROM/(TO) SUBSIDIARIES

The amounts are unsecured, interest-free and repayable on demand.

20. TRADE PAYABLES

The ageing analysis of trade payables at the end of reporting period is as follows:

	The Group	
	2015	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>
Less than 30 days	2,885	5,149
31 to 60 days	1,399	1,943
61 to 90 days	1,880	892
91 to 120 days	1,581	322
121 to 365 days	651	154
More than 365 days	76	14
	<u>8,472</u>	<u>8,474</u>

21. DEFERRED TAX LIABILITIES

Deferred tax liabilities recognised by the Group and movements thereof are as follows:

	Accelerated tax depreciation
	<i>HK\$'000</i>
At 1 April 2013, 31 March 2014, 1 April 2014 and 31 March 2015	<u>61</u>

At 31 March 2015, the Group had other deductible temporary difference of approximately HK\$3,832,000 (2014: HK\$6,175,000) and unused tax losses of approximately HK\$52,227,000 (2014: HK\$29,079,000). The deductible temporary difference and unused tax losses of approximately HK\$3,832,000 (2014: HK\$6,175,000) and HK\$45,330,000 (2014: 29,079,000), respectively, can be carried forward indefinitely, while the remaining unused tax losses of approximately HK\$6,897,000 (2014: Nil) will expire in five years from the respective date of incurrence. Deferred tax assets have not been recognised in relation to such deductible temporary difference and unused tax losses due to unpredictability of future profit streams.

No deferred tax liability has been recognised on temporary difference in relation to the undistributed earnings of approximately HK\$26,208,000 (2014: HK\$24,088,000) of a subsidiary in the PRC because the Group is in a position to control the timing of the reversal of the temporary difference and it is probable that such difference will not reverse in the foreseeable future.

At 31 March 2015, the Group and the Company did not have other material unrecognised deferred tax assets and liabilities (2014: Nil).

22. SHARE CAPITAL

(a) Authorised and issued share capital

	The Company Number of shares	Amount HK\$'000
Ordinary shares of HK\$0.01 each		
Authorised:		
At 1 April 2013, 31 March 2014, 1 April 2014 and 31 March 2015	2,000,000,000	20,000
Issued and fully paid:		
At 1 April 2013, 31 March 2014, 1 April 2014 and 31 March 2015	318,804,000	3,188

(b) Capital management policy

The Group regards the share capital and reserves attributable to owners of the Company as its capital which amounts to approximately HK\$226,356,000 (2014: HK\$250,356,000) as shown in the consolidated statement of financial position as at 31 March 2015. The Group's objective when managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may raise bank borrowings and adjust the amount of dividends paid to shareholders.

No changes were made in the objectives or policies during the year.

23. SHARE OPTIONS

Under the share option scheme (the "Share Option Scheme") approved by the shareholders on 18 February 2003, the directors of the Company may, at its discretion, invite non-executive directors, employees, invested entities, suppliers of goods or services, customers, consultants and advisors of the Group or any entity in which any member of the Group holds any equity interest to take up options to subscribe for shares in the Company representing up to a maximum of 30 per cent of the issued share capital of the Company from time to time.

The subscription price for the shares in relation to options to be granted under the Share Option Scheme shall be determined by the board and shall be at least the highest of (i) the nominal value of the shares of the Company; (ii) the closing price of the shares on the date of grant (the "Offer Date"); and (iii) the average closing price of the shares for the five business days immediately preceding the Offer Date. The options are exercisable within 10 years from the Offer Date.

The following table discloses movements in the Company's share options during the years ended 31 March 2014 and 2015.

Name or category of participant	Date of grant	Number of options outstanding as at 1 April 2013	Lapsed during the year	Number of options outstanding as at 31 March 2014, 1 April 2014 and 31 March 2015	Exercisable period	Exercise price per share HK\$
(a) Executive directors						
Chan King Hong Edwin	24 Sept 2003	3,181,200	(3,181,200)	-	24 Sept 2003 – 23 Sept 2013	0.830
	22 July 2009	8,700,000	-	8,700,000	22 July 2009 – 21 July 2019	0.570
Chan King Yuen Stanley	24 Sept 2003	3,181,200	(3,181,200)	-	24 Sept 2003 – 23 Sept 2013	0.830
	22 July 2009	8,700,000	-	8,700,000	22 July 2009 – 21 July 2019	0.570
Chan Wai Po Rebecca	24 Sept 2003	3,181,200	(3,181,200)	-	24 Sept 2003 – 23 Sept 2013	0.830
	22 July 2009	8,700,000	-	8,700,000	22 July 2009 – 21 July 2019	0.570
		<u>35,643,600</u>	<u>(9,543,600)</u>	<u>26,100,000</u>		
(b) Employees, in aggregate						
	26 May 2003	60,000	(60,000)	-	26 May 2003 – 25 May 2013	0.580
	24 Sept 2003	6,362,400	(6,362,400)	-	24 Sept 2003 – 23 Sept 2013	0.830
	22 July 2009	3,000,000	-	3,000,000	22 July 2009 – 21 July 2019	0.570
		<u>9,422,400</u>	<u>(6,422,400)</u>	<u>3,000,000</u>		
(c) Others, in aggregate						
	26 May 2003	<u>3,000,000</u>	<u>(3,000,000)</u>	-	26 May 2003 – 25 May 2013	0.580
Total		<u>48,066,000</u>	<u>(18,966,000)</u>	<u>29,100,000</u>		
Weighted average exercise price		HK\$0.657	HK\$0.790	HK\$0.570		

No options have been granted, lapsed or exercised during the year ended 31 March 2015.

The weighted average remaining contractual life of the options outstanding at 31 March 2015 is 4.31 years (2014: 5.31 years).

Note:

The Group has taken the advantage of the transitional provisions of HKFRS 2 in respect of the above equity-settled awards for the share options granted and immediately vested before 1 January 2005. As a result the HKFRS 2 has not been applied.

24. RESERVES

The Company	Share premium HK\$'000	Share option reserve HK\$'000	Available-for-sale investments reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1 April 2013	80,779	4,904	76	1,947	87,706
Loss for the year	-	-	-	(405)	(405)
Change in fair value of available-for-sale investments	-	-	(26)	-	(26)
Transfer of fair value gain to profit or loss upon disposal of available-for-sale investments	-	-	(463)	-	(463)
Reclassification from equity to profit or loss on impairment of available-for-sale investments	-	-	630	-	630
At 31 March 2014 and 1 April 2014	80,779	4,904	217	1,542	87,442
Loss for the year	-	-	-	(178)	(178)
Change in fair value of available-for-sale investments	-	-	1,817	-	1,817
Transfer of fair value gain to profit or loss upon disposal of available-for-sale investments	-	-	(177)	-	(177)
Reclassification from equity to profit or loss on impairment of available-for-sale investments	-	-	280	-	280
At 31 March 2015	<u>80,779</u>	<u>4,904</u>	<u>2,137</u>	<u>1,364</u>	<u>89,184</u>

The following describes the nature and purpose of each reserve within owners' equity:

Reserve	Description and purpose
Share premium	Amount subscribed for share capital in excess of nominal value.
Share option reserve	Cumulative expenses recognised on the granting of share options to participant over the vesting period.
Available-for-sale investments reserve	Fair value changes arising on recognising financial assets classified as available-for-sale investments at fair value.
Retained earnings	Cumulative net gains and losses recognised in profit or loss.

25. DIVIDENDS

The directors of the Company do not recommend the payment of any dividend for both years ended 31 March 2015 and 2014.

26. CONTINGENT LIABILITIES

As at 31 March 2015, the Company issued guarantees to landlords in respect of the lease agreements entered into by a subsidiary for certain retail outlets. At 31 March 2015, there were no rental payables by the subsidiary under these lease agreements (2014: Nil) and the non-cancellable future minimum lease payment under these lease agreements was approximately HK\$4,441,000 (2014: HK\$6,258,000).

At 31 March 2014, the Company issued a guarantee to a bank in respect of general facilities granted to its subsidiaries to the extent of HK\$15,000,000, which had not been utilised by the subsidiaries. The Company had not recognised any deferred income in respect of the guarantee as the amount involved was insignificant. During the year ended 31 March 2015, the guarantee was released by the bank upon expiry of the general facilities.

27. OPERATING LEASES

Operating lease payments represent rental payable by the Group for its offices, retail outlets and production plants. Leases are negotiated and rentals are fixed for an average term of one to three years (2014: one to three years), and the leases for certain retail outlets include contingent rents, which are determined by applying pre-determined percentages to sales less the basic rentals of the respective leases.

The lease payments recognised as expenses during the year are as follows:

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Minimum lease payments	17,549	17,690
Contingent rents	14	53
	<u>17,563</u>	<u>17,743</u>

The total future minimum lease payments are due as follows:

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Not later than one year	11,378	10,116
Later than one year and not later than five years	8,990	930
	<u>20,368</u>	<u>11,046</u>

The above lease commitments only include commitments for basic rentals, and do not include commitments for contingent rents, if any, as it is not practical to determine in advance the amount of such additional rentals.

28. RELATED PARTY TRANSACTIONS

- (a) In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Rental expenses paid to Mr. Chan Woon Man and Ms. Tsang Sau Lin for office premises	765	600

Mr. Chan Woon Man is a substantial shareholder of the Company and Ms. Tsang Sau Lin is the wife of Mr. Chan Woon Man.

(b) Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Short-term benefits	11,204	11,067
Post employment benefits	175	150
	<u>11,379</u>	<u>11,217</u>

29. RETIREMENT BENEFIT PLANS

The Group operates a Mandatory Provident Fund Scheme (“MPF Scheme”) for all employees in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the scheme.

The employees of the Group’s subsidiaries in the PRC are members of a state-managed retirement benefit scheme operated by the government of the PRC. The subsidiaries are required to contribute a specified percentage of payroll cost to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

30. FINANCIAL RISK MANAGEMENT

Exposure to currency, interest rate, credit and liquidity risks arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from its available-for-sale investments.

These risks are limited by the Group's financial management policies and practices described below.

(i) Currency risk

Several subsidiaries of the Company have foreign currency sales and purchases, mainly denominated in United States Dollars ("USD") and Renminbi ("RMB"), which expose the Group to currency risk. Certain financial assets and liabilities of the Group are also denominated in USD and RMB. As HK\$ is pegged to USD, the Group does not expect any significant movements in the USD/HK\$ exchange rate. In this regard, the Group does not expose to significant currency risk arising from USD.

The carrying amounts of the Group's financial instruments denominated in RMB at the end of reporting period are as follows:

	Liabilities		Assets	
	2015 HK\$'000	2014 HK\$'000	2015 HK\$'000	2014 HK\$'000
RMB	5,121	11,994	113,904	107,171

The Group currently does not have a foreign currency hedging policy. However, management monitor foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Sensitivity analysis

The following table indicates the approximate change in the Group's loss for the year and retained earnings in response to reasonably possible changes in the foreign exchange rate to which the Group has significant exposure at the end of reporting period. The sensitivity analysis includes balances between group companies where the denomination of the balances is in a currency other than the functional currencies of the lender or the borrower.

	2015		2014	
	Appreciation/ (depreciation) of foreign exchange rates against HK\$ %	Increase/ (decrease) in loss for the year and decrease/ (increase) in retained earnings HK\$'000	Appreciation/ (depreciation) of foreign exchange rates against HK\$ %	Increase/ (decrease) in loss for the year and decrease/ (increase) in retained earnings HK\$'000
RMB	2%	(2,383)	4%	(3,847)
	(2%)	2,383	(4%)	3,847

The sensitivity analysis has been determined assuming that the change in foreign exchange rate had occurred at the end of reporting period and had been applied to each of the group entities; exposure to currency risk for financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rate over the period until the next annual reporting date. The analysis is performed on the same basis for the year ended 31 March 2014.

(ii) Interest rate risk

The Group's exposure to cash flow interest rate risk is mainly attributable to its interest-bearing bank deposits. The interest rate of bank deposits is subject to changes as determined by banks. The Group currently does not have an interest rate hedging policy and will consider to enter into interest rate hedging should the need arise.

At 31 March 2015, it is estimated that a general increase/decrease of 25 basis points in interest rates, with all other variables held constant, would have decreased/increased the loss for the year and increased/decreased the retained earnings by approximately HK\$333,000 (2014: HK\$347,000).

(iii) Credit risk

The Group has significant concentration of credit risk on trade and bills receivables as the amounts due from its four (2014: three) customers as at 31 March 2015 amounted to approximately HK\$8,122,000 (2014: HK\$9,421,000) which accounted for approximately 56% (2014: 54%) of the trade and bills receivables.

The Group has policies in place to determine credit limit, credit approval and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts from customers. In this regard, the directors of the Company consider that the Group does not expose to significant credit risk.

The credit risk for bank deposit with original maturity of over one year and cash at banks is limited because the counterparties are banks with high credit-ratings.

(iv) Liquidity risk

Internally generated cash flows are the general sources of funds to finance the operations of the Group. The Group's liquidity risk management includes making available standby banking facilities and maintaining adequate bank balances and cash for its operations. The Group regularly reviews its major funding positions to ensure it has adequate financial resources in meeting its financial obligations. The Group's financial liabilities, comprising trade payables and other payables and accrued charges, mature in less than one year and their contractual undiscounted payments approximate their carrying amounts included in the statement of financial position.

(v) Equity price risk

The Group is exposed to equity price changes arising from equity instruments classified as available-for-sale investments. All of these investments are listed on the Stock Exchange. Listed investments held in the available-for-sale portfolio have been chosen based on their longer term growth potential and are monitored regularly for performance against expectations.

It is estimated that an increase or decrease of 15% (2014: 15%) in the prices of the respective equity instruments, with all other variables held constant, would have insignificant effect on the loss or other components of equity of the Group for the years ended 31 March 2015 and 2014.

(vi) Fair values

- (a) The following table provides an analysis of financial instruments carried at fair value by level of fair value hierarchy:

Level 1:	Quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2:	Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
Level 3:	Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	The Group and the Company			Total
	Level 1	Level 2	Level 3	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
2015				
Available-for-sale investments – Listed	8,236	–	–	8,236
	<u>8,236</u>	<u>–</u>	<u>–</u>	<u>8,236</u>
	Level 1	Level 2	Level 3	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
2014				
Available-for-sale investments – Listed	6,985	–	–	6,985
	<u>6,985</u>	<u>–</u>	<u>–</u>	<u>6,985</u>

- (b) The fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes listed redeemable notes, bills of exchange, debentures).
- the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

The directors of the Company consider the fair values of the Group's financial assets and financial liabilities approximate their carrying amounts as at the end of each reporting period.

31. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 30 June 2015.

3. UNAUDITED CONSOLIDATED FINANCIAL RESULTS OF THE GROUP

Set out below are the unaudited consolidated financial results of the Group for the six months ended 30 September 2015 with the relevant comparative figures, as extracted from the announcement of the interim results of the Group dated 30 November 2015.

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 September 2015

		Six months ended	
		30 September	
		2015	2014
	<i>Notes</i>	Unaudited	Unaudited
		<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	4	64,597	56,987
Cost of sales		<u>(51,243)</u>	<u>(49,503)</u>
Gross profit		13,354	7,484
Other income and gains		3,577	3,395
Selling and distribution costs		(13,628)	(11,711)
Administrative and other operating expenses		<u>(20,007)</u>	<u>(13,625)</u>
Loss before income tax expense	5	(16,704)	(14,457)
Income tax expense	6	<u>(111)</u>	<u>(557)</u>
Loss for the period attributable to owners of the Company		<u>-----</u> (16,815) <u>-----</u>	<u>-----</u> (15,014) <u>-----</u>
Other comprehensive income			
<i>Items that may be subsequently reclassified to profit or loss:</i>			
Change in fair value of available-for-sale investments		(516)	706
Transfer of fair value gain to profit or loss upon disposal of available-for-sale investments		(1,621)	(177)
Exchange differences arising on translation of financial statements of operations outside Hong Kong		<u>(1,202)</u>	<u>159</u>
Other comprehensive income for the period		<u>(3,339)</u>	<u>688</u>
Total comprehensive income for the period attributable to owners of the Company		<u>-----</u> (20,154) <u>-----</u>	<u>-----</u> (14,326) <u>-----</u>
Loss per share			
– Basic	8	<u>(HK5.14 cents)</u>	<u>(HK4.7 cents)</u>
– Diluted	8	<u>(HK5.14 cents)</u>	<u>(HK4.7 cents)</u>

Condensed Consolidated Statement of Financial Position*As at 30 September 2015*

	<i>Notes</i>	30 September 2015 Unaudited HK\$'000	31 March 2015 Audited HK\$'000
Non-current assets			
Property, plant and equipment		3,924	2,086
Available-for-sale investments	9	–	8,236
Rental deposits		3,656	2,576
		<u>7,580</u>	<u>12,898</u>
Current assets			
Inventories		49,590	50,623
Trade and bills receivables	10	16,587	14,419
Other receivables, deposits and prepayments		11,556	8,241
Tax recoverable		1,726	282
Bank balances and cash		21,810	161,434
		<u>101,269</u>	<u>234,999</u>
Current liabilities			
Trade payables	11	11,006	8,472
Other payables and accrued charges		22,991	13,008
		<u>33,997</u>	<u>21,480</u>
Net current assets		<u>67,272</u>	<u>213,519</u>
Total assets less current liabilities		74,852	226,417
Non-current liabilities			
Deferred tax liabilities		61	61
Total Net Assets		<u>74,791</u>	<u>226,356</u>
Capital and reserves attributable to owners of the Company			
Share capital	12	3,479	3,188
Reserves		71,312	223,168
Total Equity		<u>74,791</u>	<u>226,356</u>

Notes to the Condensed Interim Financial Statements

1. GENERAL

The Company was incorporated in the Cayman Islands on 12 April 2002 as an exempted company with limited liability under the Companies Law of the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited (“Stock Exchange”). As at 30 September 2015, its immediate and ultimate holding company was Green Parade Limited (“Green Parade”), a company incorporated in the British Virgin Islands (the “BVI”). According to the Company’s joint announcement dated 12 November 2015, Green Parade has sold to Zhurong Global Limited (“Zhurong”) approximately 66.10% of the total issued share capital of the Company and the completion took place on 2 November 2015. Zhurong is indirectly wholly owned by Zhonghong Holding Co., Ltd. (“Zhonghong”) which is established in the People’s Republic of China (the “PRC”) with its shares being first listed on the Shenzhen Stock Exchange in 2010 (stock code: 000979). The address of the registered office and principal place of business of the Company are disclosed in the corporate information to the interim report.

The unaudited condensed interim financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

2. BASIS OF PREPARATION

The unaudited condensed interim financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the “Listing Rules”) on the Stock Exchange and the Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

3. PRINCIPAL ACCOUNTING POLICIES

The condensed interim financial statements have been prepared under the historical cost convention except for certain financial instruments which are measured at fair values.

Except as described below, the accounting policies and methods of computation used in the preparation of these condensed interim financial statements are consistent with those used in the annual financial statements for the year ended 31 March 2015.

In the current interim period, the Group has applied a number of amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) that are first effective for current accounting period of the Group. The adoption of these amendments to HKFRSs has no material impact on the Group’s financial statements.

The following new/revised HKFRSs, potentially relevant to the Group’s financial statements, have been issued, but are not yet effective and have not been early adopted by the Group.

HKFRSs (Amendments)	Annual Improvements 2012-2014 Cycle ¹
Amendments to HKAS 1	Disclosure Initiative ¹
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation ¹
HKFRS 9 (2014)	Financial Instruments ²
HKFRS 15	Revenue from Contracts with Customers ²

¹ Effective for annual periods beginning on or after 1 January 2016

² Effective for annual periods beginning on or after 1 January 2018

The Group is in the process of making an assessment of the potential impact of these pronouncements. The directors of the Company so far concluded that the adoption of these pronouncements will have no material impact on the Group’s financial statements.

4. TURNOVER AND SEGMENT INFORMATION

Turnover, which is also the revenue, represents the net amounts received and receivable for goods sold to external customers, less returns and discount, if any, during the period.

The principal activities of the Group are manufacture and distribution of leather products and retail of fashion apparel, footwear and leather accessories.

The Group determines its operating segments based on the reports reviewed by the chief operating decision maker that are used to make strategic decisions.

The Group has two reportable segments. The segments are managed separately as each business offers different products and services and requires different business strategies. The following summary describes the operations in each of the Group's reportable segments:

Manufacturing business	–	Manufacture and distribution of leather products
Retail business	–	Retail of fashion apparel, footwear and leather accessories

Inter-segment transactions are priced with reference to prices charged to external parties for similar order. Central revenue and expenses are not allocated to the operating segments as they are not included in the measure of the segments' result that is used by the chief operating decision makers for assessment of segment performance.

	Manufacturing business		Retail business		Total	
	Six months ended		Six months ended		Six months ended	
	30 September		30 September		30 September	
	Unaudited 2015 HK\$'000	Unaudited 2014 HK\$'000	Unaudited 2015 HK\$'000	Unaudited 2014 HK\$'000	Unaudited 2015 HK\$'000	Unaudited 2014 HK\$'000
Revenue from external customers	51,291	43,661	13,306	13,326	64,597	56,987
Inter-segment revenue	3,922	3,322	–	–	3,922	3,322
Reportable segment revenue	<u>55,213</u>	<u>46,983</u>	<u>13,306</u>	<u>13,326</u>	<u>68,519</u>	<u>60,309</u>
Reportable segment loss	(14,557)	(13,346)	(2,383)	(3,532)	(16,940)	(16,878)
Elimination of inter-segment losses					52	120
Dividend income from available-for-sale investments					502	206
Gain on disposal of available-for-sale investments					1,621	177
Interest income					1,308	2,304
Unallocated other income and gains					146	71
Unallocated corporate expenses					<u>(3,393)</u>	<u>(457)</u>
Loss before income tax expense					(16,704)	(14,457)
Income tax expense					<u>(111)</u>	<u>(557)</u>
Loss for the period					<u>(16,815)</u>	<u>(15,014)</u>

	Manufacturing business		Retail business		Total	
	30 September	31 March	30 September	31 March	30 September	31 March
	2015	2015	2015	2015	2015	2015
	Unaudited	Audited	Unaudited	Audited	Unaudited	Audited
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Reportable segment assets	87,396	114,955	17,056	18,267	104,452	133,222
Available-for-sales investments					–	8,236
Tax recoverable					1,726	282
Unallocated bank balances and cash					2,537	105,448
Other unallocated corporate assets					134	709
					<u>108,849</u>	<u>247,897</u>
Reportable segment liabilities	31,903	20,315	1,570	1,133	33,473	21,448
Deferred tax liabilities					61	61
Unallocated corporate liabilities					524	32
					<u>34,058</u>	<u>21,541</u>

5. LOSS BEFORE INCOME TAX EXPENSE

Loss before income tax expense is arrived at after charging:

	Six months ended 30 September	
	2015	2014
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Cost of inventories sold	51,243	49,503
Depreciation of property, plant and equipment	576	342
Foreign exchange loss, net	5,150	–
Operating lease rentals in respect of land and buildings	9,322	9,331
Write down of inventories	–	412
Staff costs (excluding directors' emoluments)	10,296	8,049
and crediting:		
Dividend income from available-for-sale investments	502	206
Interest income	1,308	2,304
Foreign exchange gain, net	–	586
Gain on disposal of available-for-sale investments	1,621	177
Reversal of write down of inventories	495	–
	<u>495</u>	<u>–</u>

6. INCOME TAX EXPENSE

	Six months ended 30 September	
	2015	2014
	Unaudited HK\$'000	Unaudited HK\$'000
Current taxation:		
– PRC enterprise income tax	111	557

No provision for Hong Kong profits tax has been made for the period as the Group has sustained estimated tax losses for both periods. The PRC enterprise income tax rate for the Company's subsidiaries in the PRC is 25% (2014: 25%).

7. DIVIDEND

The Board declared a special interim dividend of HK\$0.4254 per share on 28 July 2015 to shareholders of the Company. The special interim dividend was paid on 31 August 2015.

The directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 September 2015 and 2014.

8. LOSS PER SHARE

The calculation of basic loss per share is based on the Group's loss for the period of HK\$16,815,000 (2014: loss of HK\$15,014,000) and weighted average number of 327,072,852 (2014: 318,804,000) ordinary shares in issue during the period.

For the six months ended 30 September 2015 and 2014, diluted loss per share is equal to the basic loss per share for the respective periods as there is no dilutive effect on the outstanding share options.

9. AVAILABLE-FOR-SALE INVESTMENTS

	30 September	31 March
	2015	2015
	Unaudited HK\$'000	Audited HK\$'000
Equity securities listed in Hong Kong, at fair value	–	8,236

As at 31 March 2015, fair value was determined by reference to published price quotation in an active market.

10. TRADE AND BILLS RECEIVABLES

	30 September 2015 Unaudited HK\$'000	31 March 2015 Audited HK\$'000
Trade and bills receivables	17,506	15,338
Less: impairment loss	(919)	(919)
	<u>16,587</u>	<u>14,419</u>

Customers are generally granted with credit terms of 30 to 90 days. The ageing analysis of trade and bills receivables (net of impairment loss) at the end of reporting period is as follows:

	30 September 2015 Unaudited HK\$'000	31 March 2015 Audited HK\$'000
Less than 30 days	6,412	8,558
31-60 days	4,847	3,140
61-90 days	3,163	885
91-120 days	963	311
121-365 days	1,202	1,522
More than 365 days	-	3
	<u>16,587</u>	<u>14,419</u>

11. TRADE PAYABLES

Details of the ageing analysis are as follows:

	30 September 2015 Unaudited HK\$'000	31 March 2015 Audited HK\$'000
Less than 30 days	5,790	2,885
31-60 days	4,061	1,399
61-90 days	274	1,880
91-120 days	366	1,581
121-365 days	435	651
More than 365 days	80	76
	<u>11,006</u>	<u>8,472</u>

12. SHARE CAPITAL

Authorised and issued share capital

	Number of shares	Amount HK\$'000
Ordinary shares of HK\$0.01 each		
Authorised:		
At 1 April 2014, 31 March 2015, 1 April 2015 and 30 September 2015	2,000,000,000	20,000
Issued and fully paid:		
At 1 April 2014, 31 March 2015 and 1 April 2015	318,804,000	3,188
Shares issued upon exercise of share options	29,100,000	291
At 30 September 2015	347,904,000	3,479

13. CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 30 September 2015 and 31 March 2015.

14. RELATED PARTY TRANSACTIONS

- (a) During the period, the Group had entered into the following transactions with related parties:

	Six months ended 30 September	
	2015	2014
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Rental expenses paid to Mr. Chan Woon Man and Ms. Tsang Sau Lin for office premises	390	375

Mr. Chan Woon Man was a substantial shareholder of the Company from 1 April 2015 to 21 September 2015 and Ms. Tsang Sau Lin is the wife of Mr. Chan Woon Man.

- (b) **Compensation of key management personnel**

The remuneration of directors and other members of key management during the period was as follows:

	Six months ended 30 September	
	2015	2014
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Short-term benefits	5,548	5,225
Post employment benefits	83	77
	5,631	5,302

4. INDEBTEDNESS

At the close of business on 31 October 2015 being the latest practicable date for the purpose of ascertaining information contained in this statement of indebtedness prior to the printing of this Composite Document, the details of the Group's indebtedness are as follows:

Debt instruments

As at the close of business on 31 October 2015, the Group had no borrowings.

Commitments

As at the close of business on 31 October 2015, the Group had no material capital commitment.

Pledge of assets

As at the close of business on 31 October 2015, the Group had no pledge of assets.

Contingent liabilities

As at the close of business on 31 October 2015, the Group had no material contingent liabilities.

Disclaimer

Apart from intra-group liabilities and normal trade payables in the ordinary course of business, the Group did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, mortgages, charges or debentures, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills and payables), acceptance credits or hire purchase commitments, guarantees or other material contingent liabilities outstanding at the close of business on 31 October 2015.

5. MATERIAL CHANGE

The Directors confirmed that as at the Latest Practicable Date, save as disclosed below, there had been no material changes in the financial or trading position or outlook of the Group since 31 March 2015, being the date to which the latest published audited consolidated financial statements of the Group were made, up to and including the Latest Practicable Date:

- (i) as disclosed in the announcement of the Company dated 25 August 2015 regarding the profit warning statement, which stated that because of the recent volatility of the exchange rate of RMB, the Group had converted all its RMB fixed deposits, amounting to approximately RMB92.2 million, into Hong Kong dollar at spot rates ranging from approximately 1.185 to 1.200 recently between 12 and 24 August 2015. As a result, the Group has recorded a foreign exchange loss of approximately HK\$7.2 million. As reflected in the Interim Results Announcement 2015, the net foreign exchange loss for six months ended 30 September 2015 was HK\$5.15 million after taking into account the foreign exchange loss of approximately HK\$7.2 million due to volatility of the exchange rate of RMB;
- (ii) as disclosed in the announcement of the Company dated 28 July 2015 and reflected in the interim results announcement of the Company dated 30 November 2015 (the “**Interim Results Announcement 2015**”), the Directors resolved on 28 July 2015 to declare a special dividend in respect of the year ending 31 March 2016 of HK\$0.4254 per Share. The special dividend in an aggregate amount of approximately HK\$148.0 million was paid on 31 August 2015 in cash to those Shareholders whose names were recorded on the principal or branch register of members of the Company on 13 August 2015. As stated in the Interim Results Announcement 2015, the Group’s cash and bank deposits were approximately HK\$21.81 million as at 30 September 2015 (31 March 2015: approximately HK\$161.43 million) as a result of special interim dividend paid on 31 August 2015;
- (iii) as disclosed in the announcement of the Company dated 10 August 2015 and reflected in the Interim Results Announcement 2015, 29,100,000 new Shares have been allotted and issued pursuant to the exercise of the Share Options at the exercise price of HK\$0.570 per Share. The Company received proceeds of approximately HK\$16.59 million from the exercise of the Share Options; and
- (iv) subsequent to 31 March 2015, the Company had disposed all available-for-sale financial assets with carrying value of approximately HK\$8.2 million as at 31 March 2015. The proceeds from such disposal, which were not materially different from the carrying value as at 31 March 2015, were used for the distribution of the special dividend. As shown in the Interim Results Announcement 2015, there were no available-for-sale investments as at 30 September 2015.

1. RESPONSIBILITY STATEMENT

The sole director of the Offeror and the directors of Zhonghong jointly and severally accept full responsibility for the accuracy of the information contained in this Composite Document (other than those relating to the Group, the Vendor, the Guarantor and parties acting in concert with any of them) and confirm, having made all reasonable enquires, that to the best of their knowledge, opinions expressed in this Composite Document (other than those expressed by the Group, the Vendor, the Guarantor and parties acting in concert with any of them) have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document, the omission of which would make any statement in this Composite Document misleading.

2. MARKET PRICES

The table below shows the closing price of the Shares quoted on the Stock Exchange on (i) the last day on which trading took place in each of the calendar months during the Relevant Period; (ii) the Last Trading Day; and (iii) the Latest Practicable Date.

Date	Closing price per Share HK\$
2015	
30 April 2015	1.46
29 May 2015	1.47
30 June 2015	1.99
31 July 2015	2.16
31 August 2015	1.43
30 September 2015	1.65
30 October 2015 (Last Trading Day) (<i>Note</i>)	1.86
30 November 2015 (Latest Practicable Date)	2.06

Note: Trading of the Shares was suspended during the period from 2 November 2015 to 12 November 2015.

During the Relevant Period:

- (i) the highest closing price of the Shares as quoted on the Stock Exchange was HK\$2.28 per Share on 4 August 2015; and
- (ii) the lowest closing price of the Shares as quoted on the Stock Exchange was HK\$0.78 per Share on 13 April and 14 April 2015.

3. DISCLOSURE OF INTERESTS AND DEALINGS

The Offeror is a special purpose vehicle incorporated in the British Virgin Islands with limited liability on 11 September 2015 and is directly wholly owned by Zhu Rong Hong Kong, which is a company incorporated in Hong Kong and is principally engaged in investment holding activities. The Offeror, through Zhu Rong Hong Kong and other intermediate holding companies, is indirectly wholly owned by Zhonghong. Zhonghong is established in the PRC.

The Offeror and its ultimate beneficial owners are third parties independent of, and not acting in concert with, Green Parade and Mr. Pong. The Offeror entered into the Agreement on 30 October 2015 for the acquisition of 229,948,000 Shares. Immediately preceding Completion, none of the Offeror, its intermediate holding companies or its ultimate beneficial owners owned or was interested in any Shares of the Company. Immediately after Completion and as at the Latest Practicable Date, the Offeror was interested in 229,948,000 Shares, representing approximately 66.10% of the total issued share capital of the Company. Immediately after Completion and as at the Latest Practicable Date, Green Parade and Mr. Pong held in aggregate 17,360,000 Shares representing approximately 4.99% of the total issued share capital of the Company.

Green Parade and Mr. Pong have undertaken in the Agreement not to accept the Offer in respect of the Remaining Shares and, before the final closing of the Offer, not to transfer or sell or otherwise dispose of any of the Remaining Shares or any interests in the Remaining Shares (“Undertaking”). Insofar as the Offeror is aware, save for (i) the entering into of the Agreement to sell to the Offeror the 229,948,000 Shares; (ii) the entering into of a sale and purchase agreement dated 14 July 2015 among Green Parade as purchaser, Leopark Worldwide Inc., New Paramount Profits Limited, Prevail Assets Limited and Smarty Worldwide Limited as vendors and Chan King Hong Edwin, Chan King Yuen Stanley and Chan Wai Po Rebecca as guarantors in relation to the acquisition of 226,140,000 Shares at the price of HK\$1.415 per Share by Green Parade as disclosed in the announcement of the Company dated 28 July 2015; and (iii) the acquisition of 20,792,000 Shares at the offer price of HK\$1.415 per Share under the mandatory offer by Green Parade of Shares as disclosed in the announcement of the Company dated 21 September 2015, none of the Vendor and the Guarantor had dealt for value in any Relevant Securities during the Relevant Period.

As security for the Loan Facility, the Offeror has granted Southwest Securities (HK) Brokerage a charge over the Shares which the Offeror has acquired under the Agreement and any Shares it may acquire under the Offer. Southwest Securities (HK) Brokerage will be entitled to enforce such charge (including exercise of power of sale) and all rights pertaining to the charged Shares will be transferred to Southwest Securities (HK) Brokerage upon an event of default under the terms of the Loan Facility. The loan bears interest at a rate of 12% per annum. The tranche of the loan used to fund the acquisition of the Sale Shares (HK\$270,000,000) under the Agreement shall be repaid on 29 October 2016. The tranche of the loan for the funding of the acquisition of Shares under the Offer (HK\$224,000,000) shall be repaid six months after the last date on which consideration for Shares tendered under the Offer may be payable. As at the Latest Practicable Date,

Southwest Securities (HK) Brokerage did not own or control and was not interested in any Shares other than pursuant to such charge.

Save as disclosed above:

- (i) none of the Offeror, its ultimate beneficial owner, the directors of the Offeror and/or parties acting in concert with any of them owned or controlled or was interested in any Relevant Securities as at the Latest Practicable Date;
- (ii) none of the Offeror, its ultimate beneficial owner, the directors of the Offeror and/or parties acting in concert with any of them had dealt for value in any Relevant Securities during the Relevant Period;
- (iii) there were no Relevant Securities which the Offeror, its ultimate beneficial owner and/or parties acting in concert with any of them had borrowed or lent during the Relevant Period;
- (iv) the Offeror had no agreement, arrangement or understanding to transfer, charge or pledge any Shares which the Offeror may acquire in pursuance of the Offer to any other persons as at the Latest Practicable Date;
- (v) no person had irrevocably committed himself/herself to accept or reject the Offer;
- (vi) no Relevant Securities were owned or controlled by a person with whom the Offeror, its ultimate beneficial owner and/or parties acting in concert with any of them had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code, and no such person had dealt in any Relevant Securities during the Relevant Period; and
- (vii) as at the Latest Practicable Date, there was no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code existed between the Offeror (or any parties acting in concert with it or, insofar as the Offeror or any of its directors or financial advisers is aware, its other associates) and any other person.

4. OTHER ARRANGEMENTS IN RELATION TO THE OFFER

As at the Latest Practicable Date:

- (i) save as disclosed under the section headed "Proposed change to the Board composition" set out in the letter from CICC and Southwest Securities HK contained in this Composite Document, there was no agreement, arrangement or understanding (including any compensation arrangement) existed between any of the Offeror, its ultimate beneficial owner and/or parties acting in concert with any of them, and any Director, recent Director, Shareholder or recent Shareholder which had any connection with or was dependent on the Offer;

- (ii) there is no agreement or arrangement to which the Offeror, its ultimate beneficial owner and/or any party acting in concert with any of them 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) no benefit (other than statutory compensation) was or will be given to any Directors as compensation for loss of office or otherwise in connection with the Offer; and
- (iv) the Offeror did not intend that the payment of interest on, repayment of or security for any liability, contingent or otherwise, will depend, to any significant extent, on the business of the Company.

5. EXPERTS' QUALIFICATION AND CONSENT

The following is the qualification of experts whose letter is contained in this Composite Document:

Name	Qualification
CICC	a corporation licensed under the SFO to carry out Type 6 (advising on corporate finance) regulated activity under the SFO
Southwest Securities HK	a corporation licensed under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

Each of CICC and Southwest Securities HK has given and has not withdrawn its written consent to the issue of this Composite Document with the inclusion of its letter and/or the references to its name in the form and context in which they appear.

6. GENERAL

- (i) The Offeror is Zhurong Global Limited, which is an indirect wholly owned subsidiary of Zhonghong. The board of directors of the Offeror comprises one director, namely Ms. Jia Dai. The Offeror, through Zhu Rong Hong Kong and other intermediate holding companies, is indirectly wholly owned by Zhonghong. The board of directors of Zhonghong comprises seven directors, namely Mr. Wang Yonghong, Mr. Cui Wei, Mr. Jin Jie, Mr. Liu Zuming, Mr. Lin Yingshi, Mr. Li Yaping and Mr. Lan Qingxin.

- (ii) The registered office of the Offeror is at Akara Building, 24 De Castro Street, Wickhams Cay I, Road Town, Tortola, British Virgin Islands and the correspondence address of the Offeror is at Suite 510, Chater House, 8 Connaught Road Central, Hong Kong. The registered address of Zhonghong is at No. 271 Huishui Road, Suzhou City, Anhui Province and the correspondence address of Zhonghong is at Building No. 32, Fei Center, Court No. 1, Wuliqiao 1st Street, Chaoyang District, Beijing. The registered address of 中弘卓業集團有限公司 (Zhonghong Zhuoye Group Company Limited) is at 2015-431 Shumagang Building, No. 258 Gouxin Street, Urumqi High-tech Industrial Development Zone, Xinjiang and the correspondence address of 中弘卓業集團有限公司 is at Building No. 8, Eastern District International Apartment, Ciyunsi Court No. 1, Chaoyang District, Beijing.
- (iii) The registered office of CICC is at 29/F One International Financial Centre, 1 Harbour View Street, Central, Hong Kong. The registered office of Southwest Securities HK is at Rooms 1601, 1606-1608, 16/F Central Plaza, 18 Harbour Road, Wanchai, Hong Kong. The registered office of Southwest Securities (HK) Brokerage is at Rooms 1601, 1606-1608, 16/F Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.
- (iv) The English text of this Composite Document and the Acceptance Form shall prevail over their respective Chinese texts in the case of inconsistency.

7. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection (i) on the SFC's website at <http://www.sfc.hk> and the website of the Company at <http://www.irasia.com/listco/hk/chanco/index.htm> and (ii) at the principal place of business of the Company in Hong Kong at 3/F., Victory Industrial Building, Nos. 151-157 Wo Yi Hop Road, Kwai Chung, New Territories, Hong Kong during normal business hours from the date of despatch of this Composite Document up to and including the Closing Date:

- (i) the memorandum and articles of association of the Offeror;
- (ii) the letter from CICC and Southwest Securities HK as set out on pages 7 to 15 to this Composite Document;
- (iii) the written consent from the experts referred to under the paragraph headed "Experts' qualification and consent" in this appendix; and
- (iv) the Agreement (which includes the Undertaking).

APPENDIX IV GENERAL INFORMATION DISCLOSURES PURSUANT
TO SCHEDULE II OF THE TAKEOVERS CODE

1. RESPONSIBILITY STATEMENT

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this Composite Document (other than information relating to the Offeror and parties acting in concert with it) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Composite Document (other than those expressed by the directors of the Offeror and parties acting in concert with it) have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document the omission of which would make any statement in this Composite Document misleading.

2. SHARE CAPITAL

As at the Latest Practicable Date, the authorised and issued share capital of the Company was as follows:

<i>Authorised:</i>	<i>HK\$'000</i>
<u>2,000,000,000 Shares</u>	<u>20,000</u>
 <i>Issued and fully paid up:</i>	
<u>347,904,000 Shares</u>	<u>3,479</u>

The number of Shares in issue at the end of the last financial year of the Company (being 31 March 2015) was 318,804,000.

All the Shares currently in issue rank pari passu in all respects with each other, including all rights in respect of dividends, voting and interest in capital. The Shares are listed and traded on the Stock Exchange and none of the securities of the Company are listed or dealt in on any other stock exchange and no such listing or permission to deal is being or is proposed to be sought.

As at the Latest Practicable Date, there were no outstanding warrants, derivatives, options or other securities which may confer any rights to the holder(s) thereof to subscribe for, convert or exchange into the Shares and the Company has not entered into any agreement for the issue of any Shares or any warrants, derivatives, options or other securities which may confer any rights to the holder(s) thereof to subscribe for, convert or exchange into the Shares.

Shares issued since the end of last financial year of the Company

Since 31 March 2015, being the date to which the latest published audited consolidated financial statements of the Company were made up, and up to the Latest Practicable Date, the Company issued a total of 29,100,000 Shares. Such new Shares were issued and allotted to the option holders on 10 August 2015 upon the exercise of all Share Options. These Share Options were granted under the share option scheme of the Company which was approved on 18 February 2003:

Save for the above, the Company had not issued any Shares since the end of the last financial year of the Company until the Latest Practicable Date. There were no Share Options outstanding as at the Latest Practicable Date.

Neither the Company nor any of its subsidiaries has made any repurchase of the Shares since the last financial year ended 31 March 2015.

There was no re-organisation of the capital of the Company during the two financial years preceding the date of the Joint Announcement.

3. INTERESTS

Interests discloseable under Schedule II to the Takeovers Code

In this section, references to “shareholdings” mean (i) in the case of shareholdings in the Company, any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares or (ii) in the case of shareholdings in the Offeror, any equity share capital of the Offeror or any convertible securities, warrants, options or derivatives in respect of the shares of the Offeror, as the case may be.

Immediately after Completion and as at the Latest Practicable Date, Green Parade and Mr. Pong owned in aggregate 17,360,000 Shares (i.e. the Remaining Shares), representing approximately 4.99% of the total issued share capital of the Company. Green Parade and Mr. Pong have irrevocably undertaken in the Agreement not to accept the Offer in respect of the Remaining Shares and, before the final closing of the Offer, not to transfer or sell or otherwise dispose of any of the Remaining Shares or any interests in the Remaining Shares.

As at the Latest Practicable Date:

- (a) the Company did not have any interest in any shareholdings in the Offeror;
- (b) save for Mr. Lee Wing Yin being a director of Green Parade, no Directors had any interest in any shareholdings in the Company;
- (c) no Director had any interest in any shareholdings in the Offeror;

- (d) no subsidiary of the Company, nor any pension fund of the Company or any of its subsidiaries, nor any adviser to the Company as specified in class (2) of the definition of “associate” under the Takeovers Code owned or controlled any shareholdings in the Company;
- (e) there was no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code, including any arrangement involving rights over shares, any indemnity agreement, and any agreement or understanding, formal or informal, of whatever nature, relating to Relevant Securities which may be an inducement to deal or refrain from dealing, between any person and the Company or any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of “associate” under the Takeovers Code;
- (f) no shareholdings in the Company were managed on a discretionary basis by fund managers connected with the Company; and
- (g) none of the Company and any of Directors had borrowed or lent any shareholdings in the Company (as defined under Note 4 to Rule 22 of the Takeovers Code).

4. DEALING IN SECURITIES

Dealings in Shares discloseable under Schedule II to the Takeovers Code

- (a) During the Relevant Period, the Company did not deal for value in any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Offeror.
- (b) During the Relevant Period, save for Mr. Lee Wing Yin being a director of Green Parade and a Director of the Company, and (i) the entering into of the Agreement between Green Parade as vendor, Mr. Pong as guarantor and the Offeror as purchaser in relation to the sale and purchase of the Sale Shares; (ii) the entering into of a sale and purchase agreement dated 14 July 2015 among Green Parade as purchaser, Leopark Worldwide Inc., New Paramount Profits Limited, Prevail Assets Limited and Smarty Worldwide Limited as vendors and Chan King Hong Edwin, Chan King Yuen Stanley and Chan Wai Po Rebecca as guarantors in relation to the acquisition of 226,140,000 Shares at the price of HK\$1.415 per Share by Green Parade as disclosed in the announcement of the Company dated 28 July 2015; and (iii) the acquisition of 20,792,000 Shares at the offer price of HK\$1.415 per Share under the mandatory offer by Green Parade of Shares as disclosed in the announcement of the Company dated 21 September 2015, no Director dealt for value in any shareholdings of the Company.

- (c) During the Relevant Period, no Director dealt for value in any shareholdings in the Offeror.
- (d) As at the Latest Practicable Date, no subsidiary of the Company, nor any pension fund of the Company or any of its subsidiaries, nor any adviser to the Company as specified in class (2) of the definition of “associate” under the Takeovers Code dealt for value in any shareholdings in the Company during the Relevant Period.
- (e) As at the Latest Practicable Date, no fund managers managing funds on a discretionary basis (other than exempt fund managers) which are connected with the Company dealt for value in any shareholdings in the Company during the Relevant Period.

5. ARRANGEMENTS AFFECTING DIRECTORS

As at the Latest Practicable Date,

- (a) no benefit (other than statutory compensation) was or will be given to any Directors as compensation for loss of office or otherwise in connection with the Offer;
- (b) there was no agreement or arrangement between any Director and any other person which was conditional on or dependent upon the outcome of the Offer or otherwise connected with the Offer; and
- (c) save for the Agreement, there was no material contract entered into by the Offeror in which any Director has a material personal interest.

6. DIRECTORS' SERVICE CONTRACTS

Each of Mr. Lung Hung Cheuk (“Mr. Lung”), Mr. Leung Ka Tin (“Mr. Leung”) and Mr. Li Wai Ming (“Mr. Li”), all being independent non-executive Directors, have on 21 September 2015 entered into a letter of appointment with the Company respectively.

Mr. Lung has entered into a letter of appointment with the Company dated 21 September 2015 in relation to his appointment as an independent non-executive Director for a term of one year with effect from 21 September 2015. Such appointment is subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the articles of association of the Company (the “Articles”). Mr. Lung is entitled to an annual remuneration of HK\$50,000. Such remuneration is covered in Mr. Lung’s letter of appointment with the Company.

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Mr. Leung has entered into a letter of appointment with the Company dated 21 September 2015 in relation to his appointment as an independent non-executive Director for a term of one year with effect from 21 September 2015. Such appointment is subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Articles. Mr. Leung is entitled to an annual remuneration of HK\$50,000. Such remuneration is covered in Mr. Leung's letter of appointment with the Company.

Mr. Li has entered into a letter of appointment with the Company dated 21 September 2015 in relation to his appointment as an independent non-executive Director for a term of one year with effect from 21 September 2015. Such appointment is subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Articles. Mr. Li is entitled to an annual remuneration of HK\$50,000. Such remuneration is covered in Mr. Li's letter of appointment with the Company.

As at the Latest Practicable Date, save as disclosed above, there was no service contract with the Company or any of its subsidiaries or associated companies in force for Directors (i) which (including both continuous and fixed term contracts) has been entered into or amended within 6 months before the date on which the Offer Period commenced; (ii) which is a continuous contract with a notice period of 12 months or more; or (iii) which is a fixed term contract with more than 12 months to run irrespective of the notice period.

7. LITIGATION

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

8. MATERIAL CONTRACTS

The Group did not enter into any contract which are or may be material (other than those entered into in the ordinary course of business carried on or intended to be carried on by the Company or any of its subsidiaries) within the two years immediately preceding the date on which the Offer Period commenced and up to the Latest Practicable Date.

9. EXPERTS AND CONSENTS

The following are the qualifications of the experts who have given opinion or advice which are contained in this Composite Document:

Name	Qualifications
Messis Capital	a licensed corporation under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities

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Messis Capital has given and have not withdrawn their written consent to the issue of this Composite Document with the inclusion of their advice, letter/report or recommendation and the references to their names and logos in the form and context in which they respectively appear.

10. MISCELLANEOUS

- (a) The registered office of the Company is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.
- (b) The principal place of business of the Company in Hong Kong is at 3rd Floor, Victory Industrial Buildings, Nos. 151–157 Wo Yi Hop Road, Kwai Chung, New Territories, Hong Kong.
- (c) The Board comprises two executive Directors, namely Mr. Lee Wing Yin and Mr. Ngan Man Ho, and three independent non-executive Directors, namely Mr. Lung Hung Cheuk, Mr. Leung Ka Tin and Mr. Li Wai Ming.
- (d) The company secretary of the Company is Mr. Lee Wing Yin who is also an executive Director. Mr. Lee Wing Yin is an associate member of the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and a fellow member of The Association of Chartered Certified Accountants (“ACCA”).
- (e) The Hong Kong share registrar is Computershare Hong Kong Investor Services Limited, being the share registrar of and the receiving agent for receiving and processing the acceptance of the Offer, located at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong.
- (f) This Composite Document is prepared in both English and Chinese. In the event of inconsistency, the English texts shall prevail.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection (i) on the websites of the SFC (www.sfc.hk) and the Company (www.irasia.com/listco/hk/chanco/index.htm) and (ii) at the principal place of business of the Company in Hong Kong at 3/F., Victory Industrial Building, Nos. 151–157 Wo Yi Hop Road, Kwai Chung, New Territories, Hong Kong during normal business hours during the period from the date of despatch of this Composite Document up to and including the Closing Date:

- (a) the memorandum and articles of association of the Company;
- (b) the annual reports of the Company for the two years ended 31 March 2014 and 2015;

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- (c) the letter from the Board, the letter from the Independent Board Committee and the letter from Messis Capital, the texts of which are set out in this Composite Document;
- (d) the written consents from Messis Capital referred to in the section headed “Experts and consents” in this appendix; and
- (e) the letters of appointment all dated 21 September 2015 executed by each of the independent non-executive Directors as referred to in the section headed “Directors’ service contracts” in this appendix.