
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in EDS Wellness Holdings Limited (the "Company"), you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank, licensed securities dealer or registered institution in securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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EDS Wellness Holdings Limited

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

(Stock Code: 8176)

- (1) SUBSCRIPTION OF NEW ORDINARY SHARES AND
NEW PREFERRED SHARES;**
- (2) CONTINUING CONNECTED TRANSACTION —
THE MASTER SUPPLY AGREEMENT;**
- (3) REDESIGNATION OF THE AUTHORIZED SHARE CAPITAL;**
- (4) AMENDMENT TO THE BYE-LAWS AND
ADOPTION OF NEW BYE-LAWS; AND**
- (5) NOTICE OF SPECIAL GENERAL MEETING**

**Financial adviser to
EDS Wellness Holdings Limited**



REORIENT Financial Markets Limited

**Independent Financial Adviser to
the Independent Board Committee and
the Independent Shareholders in relation to
the Master Supply Agreement**



Capitalised terms used in this cover have the same meanings as those defined in this circular.

A letter from the Board is set out on pages 10 to 59 of this circular.

A letter from the Independent Board Committee is set out on page 60 of this circular.

A letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders is set out on pages 61 to 79 of this circular.

A notice convening the special general meeting of the Company to be held at Meeting Room (Soho 2), 6/F., ibis Hong Kong Central & Sheung Wan Hotel, No. 28 Des Voeux Road West, Sheung Wan, Hong Kong on Friday, 30 October 2015 at 10:00 a.m. is set out on pages 110 to 113 of this circular. A form of proxy for use at the special general meeting is enclosed with this circular.

Whether or not you are able to attend the special general meeting, you are requested to complete the accompanying form of proxy, in accordance with the instructions printed thereon and deposit the same at the Hong Kong branch share registrar of the Company, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the special general meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the special general meeting or any adjournment thereof should you so wish and in such event, the proxy shall be deemed to be revoked.

7 October 2015

CHARACTERISTICS OF GEM

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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DEFINITIONS

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

“acting in concert”	has the same meaning as ascribed to it under the Takeovers Code and for the purposes of this circular include parties actually or presumed to be acting in concert (unless rebutted) to obtain or consolidate control of the Company
“associate(s)”	has the same meaning as ascribed to it under the Takeovers Code, unless the contexts otherwise specify
“Board”	the board of the Directors
“Business Day”	a day (except Saturday, and Sunday and public holiday) on which banks in Hong Kong are open for business
“Bye-laws”	Bye-laws of the Company
“China Honest”	China Honest Enterprises Limited, a company incorporated in Hong Kong with limited liability and a 51% owned subsidiary of the Company
“close associate(s)”	has the same meaning as ascribed to it under the GEM Listing Rules
“Company”	EDS Wellness Holdings Limited, a company originally incorporated in the Cayman Islands and continued in Bermuda as an exempted company on 22 April 2014, a 70.18% owned subsidiary of Eternity and the issued shares of which are listed on GEM under stock code: 8176
“Completion”	completion of the Subscription in accordance with the terms and conditions of the Subscription Agreement
“Completion Date”	the date on which Completion occurs
“Composite Document”	the composite offer and response document to be jointly issued by the Company and Xing Hang in relation to the Offer
“connected person(s)”	has the meaning as ascribed to it in the GEM Listing Rules or the Listing Rules (as the case may be)
“Consideration”	the consideration for the Subscription, being in total of HK\$150,000,000
“Conversion”	completion of the conversion of the Preferred Shares in accordance with the terms of the Preferred Shares

DEFINITIONS

“Conversion Period”	the period commencing from the Completion Date and ending on the third anniversary of the Completion Date
“Conversion Price”	the price of HK\$0.40 per Conversion Share, subject to the adjustments as stated in the Subscription Agreement
“Conversion Rights”	the rights attached to the Preferred Shares to convert the Preferred Shares into Conversion Shares
“Conversion Shares”	the new Ordinary Shares to be issued by the Company upon conversion of the Preferred Shares pursuant to the terms and conditions attached to or endorsed on the Preferred Shares
“Director(s)”	the director(s) of the Company
“Donica”	Shenzhen Donica Electronic Technology Co., Ltd., a company incorporated in the PRC and 41.9825% owned by Mr. Cai Zhaoyang (who is the majority shareholder and the sole director of Xing Hang), 18.75% by Mr. Xie Yuehui, 17.625% by Mr. Lin Fan (who is one of the shareholders of Xing Hang), 12% by Mr. Jin Yi, 6.5175% by Mr. Li Chengjun and 3.125% by Mr. Guo Pengcheng (who is one of the shareholders of Xing Hang)
“EDS Distribution”	EDS Distribution Limited, a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company
“Eternity”	Eternity Investment Limited, an exempted company incorporated in Bermuda with limited liability, the controlling shareholder (as defined under the GEM Listing Rules) of the Company and the issued shares of which are listed on the Main Board of the Stock Exchange under stock code: 764
“Eternity Board”	the board of directors of Eternity
“Eternity Group”	Eternity and its subsidiaries
“Eternity SGM”	a special general meeting of Eternity to be convened and held to consider and, if thought fit, to approve, among other things, the Subscription Agreement and the transactions contemplated thereunder
“Eternity Shareholder(s)”	the holder(s) of the ordinary share(s) of HK\$0.01 each in the issued share capital of Eternity

DEFINITIONS

“Excluded Shares”	Ordinary Shares owned or agreed to be acquired by Xing Hang and parties acting in concert with it, including the 345,000,000 Ordinary Subscription Shares which will be held by Xing Hang and parties acting in concert with it upon Completion, the 36,500,000 Ordinary Shares in respect of which the Eternity Group has undertaken not to accept the Offer and the 96 Ordinary Shares held by Kingston Securities (being an agent to make the Offer) (for the avoidance of doubt, the Excluded Shares do not include the 16,000,000 Ordinary Shares held by the Eternity Group)
“Exclusive Distribution Agreement”	the agreement entered into between EDS Distribution and Montaigne on 13 July 2012 (as supplemented by a supplemental agreement entered into on 29 August 2013 by the parties to the Exclusive Distribution Agreement) in relation to the exclusive distributorship of “Evidens de Beauté” products by EDS Distribution in Hong Kong and Macau
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
“Facility”	the term loan facility to be made available under the Term Loan Agreement
“First Bonus”	First Bonus International Limited, a company incorporated in the British Virgin Islands with limited liability
“Funding Undertaking”	the irrevocable funding undertaking dated 4 March 2015 entered into by Mr. Ko Chun Shun, Johnson in favour of Xing Hang in respect of Mr. Ko Chun Shun, Johnson’s undertakings to provide funding to Success Far as described in the section headed “Term Loan Agreement” of this circular
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Goldenland”	Goldenland Mining & Investment Limited, a company incorporated in the British Virgin Islands with limited liability
“Group”	the Company and its subsidiaries
“High Aim”	High Aim Global Limited, a company incorporated in the British Virgin Islands with limited liability
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“HLB”	HLB Hodgson Impey Cheng Limited, the Company’s auditors

DEFINITIONS

“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee established by the Board, comprising all the independent non-executive Directors, namely Mr. Tam B Ray, Billy, Mr. Chu Kin Wang, Peleus and Mr. Tse Joseph, to advise the Independent Shareholders in respect of the terms of the Master Supply Agreement, the Master Supply Transactions, the Proposed Annual Caps and the Offer
“Independent Financial Adviser” or “Investec”	Investec Capital Asia Limited, a corporation licensed to carry out Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO, being the independent financial adviser appointed by the Independent Board Committee to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Master Supply Agreement, the Master Supply Transactions, the Proposed Annual Caps and the Offer
“Independent Shareholders”	Shareholders other than the Subscribers, their respective associates and other Shareholders who have a material interest in any of the Subscription, the Specific Mandate, the Master Supply Agreement, the Master Supply Transactions, the Redesignation Resolution and the amendment to the Bye-laws
“In-flight WLAN and WIFI Equipment”	certain WLAN and WIFI equipment to be supplied by Donica to the Company under the Master Supply Agreement which allows connection that normally refers to as WIFI connection
“Joint Announcement”	the announcement jointly published by the Company, Xing Hang and Eternity dated 15 April 2015 in relation to, among others, the Subscription, the Specific Mandate, the Master Supply Agreement, the reclassification and redesignation of the existing authorized share capital of the Company, the amendment to the Bye-laws and the Offer
“Kingston Securities”	Kingston Securities Limited, a corporation licensed to carry out Type 1 (dealing in securities) regulated activities under the SFO which is making the Offer on behalf of Xing Hang
“Last Full Trading Day”	13 February 2015, being the last full trading day of the Ordinary Shares immediately prior to the date of the Joint Announcement
“Last Trading Day”	16 February 2015, being the last trading day of the Ordinary Shares immediately prior to the date of the Joint Announcement on which trading in Ordinary Shares was halted at 2:45 p.m.

DEFINITIONS

“Latest Practicable Date”	5 October 2015, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Loan”	the principal amount drawn and for the time being outstanding under the Facility
“Long Stop Date”	31 October 2015 (or such other date as may be agreed by the parties to the Subscription Agreement in writing)
“Macau”	Macau Special Administrative Region of the PRC
“Master Supply Agreement”	the master supply agreement to be entered into upon Completion between the Company and Donica in respect of the sale and purchase of the In-flight WLAN and WIFI Equipment and the provision of the Services by independent qualified engineering companies
“Master Supply Transactions”	the transactions contemplated under the Master Supply Agreement
“Montaigne”	Montaigne Limited, the brand owner of “Evidens de Beauté” products
“MRO”	the Maintenance, Repair and Operation qualification granted by the Civil Aviation Administration of China which is required for retrofitting an aircraft with WIFI equipment
“Net Assets Per Ordinary Share”	the consolidated net assets per Ordinary Share of approximately HK\$0.61 per Ordinary Share as at 31 December 2014
“Net Tangible Assets Per Ordinary Share”	the consolidated net tangible assets per Ordinary Share of approximately HK\$0.36 per Ordinary Share as at 31 December 2014
“New Business”	the provision of in-flight WLAN and WIFI engineering and service business
“New Cove”	New Cove Limited, a company incorporated in the British Virgin Islands with limited liability and an indirect wholly-owned subsidiary of Eternity

DEFINITIONS

“Offer”	subject to Completion, the unconditional mandatory cash offer to be made by Kingston Securities on behalf of Xing Hang to acquire all the issued Ordinary Shares (other than the Excluded Shares) at HK\$4.07 per Offer Share
“Offer Non-Acceptance Undertaking”	the deed of undertaking dated 17 February 2015 entered into by Eternity, Goldenland, Silver Empire, Truly Elite, High Aim and First Bonus in favour of Xing Hang in respect their respective undertakings not to accept the Offer as described in the section headed “Undertakings in relation to the Offer” of this circular
“Offer Share(s)”	the Ordinary Share(s) which are subject of the Offer
“Operating Services”	has the same meaning as ascribed to it in the section headed “Legal and regulatory overview” of this circular
“Operation Company”	has the same meaning as ascribed to it in the section headed “Legal and regulatory overview” of this circular
“Ordinary Share(s)”	ordinary share(s) of par value of HK\$0.10 each in the share capital of the Company
“Ordinary Subscription Shares”	345,000,000 new Ordinary Shares, in aggregate, to be subscribed for by any Subscriber(s)
“PRC” or “China”	The People’s Republic of China
“Preferred Shareholder(s)”	at any time the person who is (are) for the time being the registered holder(s) of the Preferred Shares
“Preferred Shares”	new preferred shares of par value of HK\$0.10 each in the share capital of the Company to be created pursuant to the Redesignation Resolution
“Proposed Annual Caps”	the proposed annual caps for each of the two years ending 31 December 2016 in respect of the Master Supply Transactions which are subject to the Independent Shareholders’ approval
“Qualifications”	certifications and/or approvals issued by the Civil Aviation Administration of China and/or the relevant quality certification bodies and/or any other relevant authorities to approve the in-flight WLAN and WIFI communication equipment designed and/or manufactured by the holder of the certificates and/or approvals to be used on airplanes in the PRC

DEFINITIONS

“Redesignation Resolution”	the ordinary resolution to be passed by the Independent Shareholders in the SGM reclassifying and redesignating the existing authorized share capital of the Company of HK\$500,000,000 comprising 5,000,000,000 Ordinary Shares of par value of HK\$0.10 each into HK\$500,000,000 comprising (i) 4,950,000,000 Ordinary Shares of par value of HK\$0.10 each; and (ii) 50,000,000 Preferred Shares of par value of HK\$0.10 each
“RFML”	REORIENT Financial Markets Limited, a corporation licensed to carry out Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO
“RMB”	Renminbi, the lawful currency of the PRC
“Services”	certain installation and related services for the In-flight WLAN and WIFI Equipment to be provided by independent qualified engineering companies which have MRO as specified in the Master Supply Agreement
“SFC”	the Securities and Futures Commission
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	the special general meeting of the Company to be convened and held to consider and, if thought fit, to approve the Subscription Agreement and the transactions contemplated thereunder, the granting of the Specific Mandate, the Master Supply Agreement, the Master Supply Transactions, the Proposed Annual Caps, the Redesignation Resolution and the amendment to the Bye-laws
“Share Option Scheme”	the share option scheme adopted by the Company on 7 November 2014
“Shareholder(s)”	holder(s) of the Ordinary Share(s)
“Silver Empire”	Silver Empire Holding Limited, a company incorporated in the British Virgin Islands with limited liability
“SMS”	short message service
“Specific Mandate”	the specific mandate to be granted by the Independent Shareholders to the Board at the SGM for the allotment and issue of the Ordinary Subscription Shares, the Preferred Shares and the Conversion Shares

DEFINITIONS

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber(s)”	Xing Hang, Goldenland, Silver Empire, Truly Elite, High Aim and First Bonus, or any of them as the contexts may suggest
“Subscribers’ Lock-Up Undertaking”	the deed of undertaking dated 17 February 2015 entered into by the Subscribers in favour of Eternity in respect of their respective lock-up undertakings as described in the section headed “Lock-up undertakings in relation to the Subscription Shares” of this circular
“Subscription”	the subscription of the Ordinary Subscription Shares and Preferred Shares under the Subscription Agreement
“Subscription Agreement”	the subscription agreement (as amended and supplemented by the Supplemental Agreements) in respect of the Subscription entered into between the Company and the Subscribers dated 17 February 2015
“Subscription Price”	HK\$0.40 per Subscription Share
“Subscription Shares”	collectively, the Ordinary Subscription Shares and the Preferred Shares
“Success Far”	Success Far Holdings Limited, a company incorporated in the British Virgin Islands with limited liability which is owned as to approximately 20.85% by Silver Empire, 22.93% by Truly Elite, 25% by Goldenland and 31.22% by High Aim
“Supplemental Agreements”	the supplemental agreements entered into on 19 June 2015 and 28 August 2015 respectively by parties to the Subscription Agreement to extend the Long Stop Date from 19 June 2015 to 31 August 2015 and further extend the Long Stop Date from 31 August 2015 to 31 October 2015 respectively
“Takeovers Code”	the Code on Takeovers and Mergers issued by the SFC as amended from time to time
“Term Loan Agreement”	the term loan agreement entered into between Xing Hang (as borrower) and Success Far (as lender) dated 17 February 2015 in respect of the Facility
“Trading Day”	a day on which the Ordinary Shares are traded on the Stock Exchange
“Truly Elite”	Truly Elite Limited, a company incorporated in the British Virgin Islands with limited liability

DEFINITIONS

“US”	United States of America
“USD”	United States dollars, the lawful currency of the US
“WIFI”	Wireless Fidelity, a set of standards for WLAN based on the IEEE 802.11 specifications developed by the Institute of Electrical and Electronics Engineers, an independent non-profit organization based in the US for establishing standards for computers formats and devices
“WLAN”	wireless local area network
“Xing Hang”	Xing Hang Limited, a company incorporated in the British Virgin Islands with limited liability
“Xing Hang’s Lock-Up Undertaking”	the deed of undertaking dated 17 February 2015 entered into by Xing Hang in favour of the Company in respect of its lock-up undertakings as described in the section headed “Lock-up undertakings in relation to the Subscription Shares” of this circular
“€”	Euro, the lawful currency of the European Union

LETTER FROM THE BOARD



EDS Wellness Holdings Limited

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

(Stock Code: 8176)

Executive Directors:

Mr. Chan Kin Wah, Billy (*Chairman*)
Mr. Lee Chan Wah

Independent non-executive Directors:

Mr. Tam B Ray, Billy
Mr. Chu Kin Wang, Peleus
Mr. Tse Joseph

Registered Office:

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

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

Unit 3811, 38/F.
Shun Tak Centre
West Tower
168–200 Connaught Road Central
Hong Kong

7 October 2015

To the Shareholders

Dear Sir or Madam,

- (1) SUBSCRIPTION OF NEW ORDINARY SHARES AND
NEW PREFERRED SHARES;**
- (2) CONTINUING CONNECTED TRANSACTION —
THE MASTER SUPPLY AGREEMENT;**
- (3) REDESIGNATION OF THE AUTHORIZED SHARE CAPITAL;**
- (4) AMENDMENT TO THE BYE-LAWS AND
ADOPTION OF NEW BYE-LAWS; AND**
- (5) NOTICE OF SPECIAL GENERAL MEETING**

LETTER FROM THE BOARD

INTRODUCTION

Reference is made to the Joint Announcement and the Company's announcement dated 6 October 2015 in relation to the following matters:

- (1) on 17 February 2015, the Company and the Subscribers entered into the Subscription Agreement pursuant to which the Subscribers have conditionally agreed to subscribe for, and the Company has conditionally agreed to allot and issue to the Subscribers a total of 375,000,000 Subscription Shares, comprising 345,000,000 Ordinary Subscription Shares and 30,000,000 Preferred Shares, at an issue price of HK\$0.40 per Subscription Share;
- (2) upon Completion, the Company and Donica shall enter into the Master Supply Agreement, pursuant to which the Company may purchase the In-flight WLAN and WIFI Equipment and the Services from Donica and Donica shall exclusively supply the In-flight WLAN and WIFI Equipment and engage independent qualified engineering companies to provide the Services to the Company from time to time during the term of the Master Supply Agreement to be used by customers of the Group;
- (3) as one of the conditions precedent to the Subscription, the Board proposes to reclassify and redesignate the existing authorized share capital of the Company of HK\$500,000,000 comprising 5,000,000,000 Ordinary Shares of par value of HK\$0.10 each to become HK\$500,000,000 comprising: (i) 4,950,000,000 Ordinary Shares of par value of HK\$0.10 each; and (ii) 50,000,000 Preferred Shares of par value of HK\$0.10 each, with the rights, privileges and restrictions set out in the new Bye-laws;
- (4) the Board further proposes to amend the existing Bye-laws to, among others, reflect (i) the above reclassification and redesignation of the authorized share capital of the Company; and (ii) the creation and issue of Preferred Shares with the rights, privileges and restrictions set out in the new Bye-laws; and
- (5) the Company and Donica have agreed to (i) amend the effective period of the Master Supply Agreement to a period from the Completion Date until and up to 31 December 2016 with options to extend the term of the Master Supply Agreement at the Company's absolute discretion; and (ii) revise the Proposed Annual Caps for each of the two years ending 31 December 2015 and 2016 to RMB23,670,000 and RMB82,098,000 respectively.

The Subscription, the Master Supply Agreement, the Master Supply Transactions, the Proposed Annual Caps, the reclassification and redesignation of the existing authorized share capital of the Company and the amendment to the Bye-laws require the approval of the Independent Shareholders.

LETTER FROM THE BOARD

The purpose of this circular is to provide you with, among other things, relevant information on (i) the Subscription; (ii) the Master Supply Agreement, the Master Supply Transactions and the Proposed Annual Caps; (iii) the reclassification and redesignation of the existing authorized share capital of the Company; (iv) the amendment to the Bye-laws; and (v) notice of the SGM.

THE SUBSCRIPTION

Date : 17 February 2015

Issuer : the Company

Subscribers : Xing Hang;
Goldenland;
Silver Empire;
Truly Elite;
High Aim; and
First Bonus

The Subscribers and their respective ultimate beneficial owners are third parties independent of the Company and its connected persons. None of the Subscribers are connected persons of the Company. Please refer to the section headed “Information of the Subscribers” for more information of the Subscribers.

Eternity is the controlling shareholder (as defined under the GEM Listing Rules) of the Company. It is regarded as a party acting in concert with the Subscribers in view of the undertakings given by Eternity to Xing Hang and the undertaking given by the Subscribers to Eternity as further detailed in the section headed “Lock-up Undertakings in relation to the Subscription Shares” and the section headed “Undertakings in relation to the Offer” under “POSSIBLE UNCONDITIONAL MANDATORY CASH OFFER”. As at the Latest Practicable Date, Eternity held 13,000,000 ordinary shares of REORIENT Group Limited, representing approximately 2.85% of the total issued share capital of REORIENT Group Limited, which in turn holds the entire issued share capital of First Bonus.

LETTER FROM THE BOARD

The Subscription Shares

The following table sets out a summary of the Subscription Shares to be subscribed for by each of the Subscribers:

	Subscription of Ordinary Subscription Shares		Subscription of Preferred Shares	
	<i>Number of Ordinary Subscription Shares</i>	<i>Consideration (HK\$)</i>	<i>Number of Preferred Shares</i>	<i>Consideration (HK\$)</i>
Xing Hang	179,921,200	71,968,480.00	—	—
Goldenland	45,396,178	18,158,471.20	—	—
Silver Empire	37,861,665	15,144,666.00	—	—
Truly Elite	41,628,921	16,651,568.40	—	—
High Aim	26,697,946	10,679,178.40	30,000,000	12,000,000.00
First Bonus	<u>13,494,090</u>	<u>5,397,636.00</u>	<u>—</u>	<u>—</u>
	<u><u>345,000,000</u></u>	<u><u>138,000,000.00</u></u>	<u><u>30,000,000</u></u>	<u><u>12,000,000.00</u></u>

The 345,000,000 Ordinary Subscription Shares represent (i) approximately 461.21% of the number of Ordinary Shares in issue as at the Latest Practicable Date; (ii) approximately 82.18% of the number of Ordinary Shares in issue as enlarged by the allotment and issue of the Ordinary Subscription Shares but before conversion of any Preferred Shares (assuming that there is no other change in the number of Ordinary Shares in issue); and (iii) approximately 76.70% of the number of Ordinary Shares in issue as enlarged by the allotment and issue of the Ordinary Subscription Shares and the Conversion Shares upon conversion of the Preferred Shares in full (assuming that there is no adjustment to the Conversion Price and there is no other change in the number of Ordinary Shares in issue). The aggregate nominal value of the Ordinary Subscription Shares is HK\$34,500,000.00.

Upon conversion of the Preferred Shares in full, assuming that there is no adjustment to the Conversion Price, 30,000,000 Conversion Shares will be allotted and issued, representing (i) approximately 40.11% of the number of Ordinary Shares in issue as at the Latest Practicable Date; (ii) approximately 7.15% of the number of Ordinary Shares in issue as enlarged by the allotment and issue of the Ordinary Subscription Shares but before conversion of any Preferred Shares (assuming that there is no other change in the number of Ordinary Shares in issue); and (iii) approximately 6.67% of the number of Ordinary Shares in issue as enlarged by the allotment and issue of the Ordinary Subscription Shares and the Conversion Shares (assuming that there is no adjustment to the Conversion Price and there is no other change in the number of Ordinary Shares in issue). The aggregate nominal value of the 30,000,000 Conversion Shares under the Preferred Shares is HK\$3,000,000.00.

LETTER FROM THE BOARD

The Subscription Price

The Subscription Price of HK\$0.40 per Subscription Share represents:

- (i) a discount of approximately 93.55% to the closing price of HK\$6.20 per Ordinary Share as quoted on the Stock Exchange on 16 February 2015, being the Last Trading Day;
- (ii) a discount of approximately 91.84% to the closing price of HK\$4.90 per Ordinary Share as quoted on the Stock Exchange on 13 February 2015, being the Last Full Trading Day;
- (iii) a discount of approximately 91.68% to the average closing price of approximately HK\$4.81 per Ordinary Share for the last five consecutive Trading Days up to and including the Last Full Trading Day;
- (iv) a discount of approximately 92.06% to the average closing price of approximately HK\$5.04 per Ordinary Share for the last ten consecutive Trading Days up to and including the Last Full Trading Day;
- (v) a discount of approximately 92.73% to the closing price of HK\$5.50 per Ordinary Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (vi) a discount of approximately 34.43% to the Net Assets Per Ordinary Share of approximately HK\$0.61 as at 31 December 2014 (based on the audited consolidated net assets attributable to owners of the Company of approximately HK\$45,299,000 as at 31 December 2014 and the number of Ordinary Shares in issue as at the Latest Practicable Date); and
- (vii) a premium of approximately 11.11% over the Net Tangible Assets Per Ordinary Share of approximately HK\$0.36 per Ordinary Share as at 31 December 2014 (based on the audited consolidated net tangible assets attributable to owners of the Company of approximately HK\$27,033,000 as at 31 December 2014 and the number of Ordinary Shares in issue as at the Latest Practicable Date).

The price of the Ordinary Shares increased to HK\$9.50 per Ordinary Share on 16 April 2015 (being the trading day immediately after the date of the Joint Announcement) from HK\$6.20 per Ordinary Share on the Last Trading Day. The Subscription Price was arrived at after arm's length negotiation between the Company and the Subscribers after taking into account the prevailing market price of the Ordinary Shares, the trading volume of the Ordinary Shares, the Net Assets Per Ordinary Share, the Net Tangible Assets Per Ordinary Share and the trading position and prospect of the Group's existing business. Having considered (i) the liquidity of the Ordinary Shares on the Stock Exchange was low where the average daily turnover of the Ordinary Shares for the six months prior to and including the Last Trading Day merely represents approximately 0.13% of the number of Ordinary Shares in issue as at the date of the Subscription Agreement; (ii) the Group was loss making for the past four years and as set out in the Company's annual report for the six months ended 31 December 2014 and interim report for the six months ended 30 June 2015, the

LETTER FROM THE BOARD

Group did not meet the profit forecast of the Group as enlarged by the acquisition of a 51% equity interest in and the shareholders' loan due by China Honest for the 12-month period ending 30 June 2015 as set out in the circular of the Company dated 21 March 2014 (the "2015 Profit Forecast"), the Directors consider that the Subscription Price (including the discounts to the latest closing prices of Ordinary Shares prior to the date of the Subscription Agreement as described above) is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Upon Completion, the Subscription Shares shall be issued and credited as fully paid.

The Consideration amounts to HK\$150 million which shall be payable in cash by the Subscribers in proportion to their Subscription Shares subscribed for upon Completion, subject to the following arrangement:

RFML is the financial adviser to the Company in connection with the Subscription and the Offer. First Bonus and RFML are both wholly-owned subsidiaries of REORIENT Group Limited, the shares of which are listed on the Main Board of the Stock Exchange. RFML will apply part of the financial advisory fee payable by the Company to RFML to set off against the Consideration payable by First Bonus in connection with First Bonus's portion of the Subscription.

Information on the Preferred Shares

A summary of the principal terms of the Preferred Shares is set out below:

- Subscription price : HK\$0.40 per Preferred Share.
- Dividend : None of the Preferred Shares shall confer on the holders thereof the right to receive out of the funds of the Company available for distribution.
- Return on capital : The Preferred Shares shall rank *pari passu* in all respects for return of capital on liquidation, winding up or dissolution of the Company and participation in the distribution of surplus assets of the Company with all other shares in the capital of the Company for the time being in issue.
- Transferability : Any Preferred Share, subject to it having been fully paid up, shall be freely transferable, provided that such transfer shall be in compliance with the conditions under the Subscription Agreement and further subject to (where applicable) the conditions, approvals, requirements and any other provisions of or under the Stock Exchange (and any other stock exchange on which the Ordinary Shares may be listed at the relevant time) or its rules and regulations, the GEM Listing Rules, the Takeovers Code and all applicable laws and regulations.

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Voting : The Preferred Shareholder(s) will not be entitled to attend or vote at any general meeting of the Company by reason only of his/her/its being the holder(s) of the Preferred Shares, unless a resolution is to be proposed at a general meeting for winding up the Company or a resolution is to be proposed which if passed would vary or abrogate the rights or privileges of the holder(s) of the Preferred Shares, in which event the Preferred Shares shall confer on the holder thereof the right to receive notice of, and to attend and vote at, the general meeting, save that such holders may not vote upon any business dealt with at such general meeting except the election of a chairman, any motion for adjournment or relating to the proceedings of the general meeting and the resolution for winding-up or the resolution which if passed would (subject to any consents required for such purpose being obtained) vary or abrogate the rights and privileges of the holder(s) of the Preferred Shares. In such event, the votes of holders of Preferred Shares will be counted on as converted basis.

Conversion : Subject to the minimum public float requirement set out below, the Preferred Shares shall be convertible into Ordinary Shares by such Preferred Shareholder serving a notice of Conversion to the Company on any Business Day within 3 years of the Completion Date without the payment of any additional consideration therefor, into such number of fully-paid Ordinary Shares as determined in accordance with the Subscription Agreement.

The Company's obligation to effect conversion of fully paid Preferred Shares into Conversion Shares shall be subject to the minimum float requirement under the GEM Listing Rules being met.

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For fully paid Preferred Shares, the conversion right attaching to the Preferred Shares shall cease if the same is not exercised on the last date of the Conversion Period. Holders of Preferred Shares shall no longer be entitled to convert such Preferred Shares into Ordinary Shares after such date. Such fully paid but unconverted Preferred Shares will remain as Preferred Shares with the rights set out in the terms of the Preferred Shares and will not be redeemable, and the issued as well as authorised share capital of the Company shall remain comprising both the Ordinary Shares and the Preferred Shares (the latter of which having no conversion right attaching thereto). According to the terms of the Preferred Shares, the Preferred Shares shall rank *pari passu* in all respects for return of capital on liquidation, winding up or dissolution of the Company and participation in the distribution of surplus assets of the Company with all other shares in the capital of the Company for the time being in issue.

Conversion period : The period commencing from the Completion Date and ending on the third anniversary of the Completion Date.

The Company undertakes to the Preferred Shareholders that in the event that the Company is unable to effect conversion of any outstanding Preferred Shares for the reason of the minimum public float requirement under the GEM Listing Rules, it shall, once headroom for conversion of such outstanding Preferred Shares is available, effect conversion of such outstanding Preferred Share into Ordinary Shares to maximum extent possible even if such conversion may be made after the expiry of the Conversion Period.

Conversion price : HK\$0.40, subject to customary adjustment for, among other matters, consolidation or sub-division of Ordinary Shares and capitalization of profits or reserves.

Conversion rate : The conversion rate of each Preferred Share shall be determined by dividing the Subscription Price by the Conversion Price (subject to adjustment) in effect at the time of conversion, provided that the Conversion Price shall not be less than the then subsisting par value of an Ordinary Share into which such Preferred Share is convertible.

Redemption : The Preferred Shares shall be non-redeemable.

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Given that the Preferred Shares are non-redeemable, any outstanding fully paid Preferred Shares, which are not converted into Ordinary Shares, shall remain as part of the paid-up share capital in the statement of financial position of the Company after expiry of the three-year Conversion Period. According to the terms of the Preferred Shares, the Preferred Shares shall rank pari passu in all respects for return of capital on liquidation, winding up or dissolution of the Company and participation in the distribution of surplus assets of the Company with all other shares in the capital of the Company for the time being in issue.

The Specific Mandate for the issue of the Subscription Shares

The Ordinary Subscription Shares, the Preferred Shares and the Conversion Shares will be allotted and issued pursuant to the Specific Mandate to be sought from the Independent Shareholders at the SGM.

Ranking

The Ordinary Subscription Shares and the Conversion Shares will rank pari passu in all respects with the Ordinary Shares in issue as at the date of allotment and issue of the Ordinary Subscription Shares and the Conversion Shares respectively.

Listing application

No application will be made for the listing of, or permission to deal in, the Preferred Shares on the Stock Exchange or any other stock exchange. An application will be made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Ordinary Subscription Shares and the Conversion Shares.

Conditions of the Subscription

The Subscription is conditional upon satisfaction (or waiver (as described below)) of the following conditions:

1. the listing of the Ordinary Shares not having been cancelled or withdrawn, the Ordinary Shares continuing to be traded on GEM at all times from the date of the Subscription Agreement to the Completion Date (save for any temporary suspension pending announcement in connection with the Subscription Agreement (or such other period as the Subscriber may agree)) and neither the Stock Exchange nor the SFC having indicated that either one of them will qualify, object to, cancel or withdraw such listing and/or dealings in the Ordinary Shares for reasons related to or arising from the transactions contemplated under the Subscription Agreement;

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2. the passing of a resolution by the Independent Shareholders in the SGM approving, among other things:
 - 2.1 the execution, consummation and completion of the Subscription Agreement;
 - 2.2 the Redesignation Resolution;
 - 2.3 the Specific Mandate;
 - 2.4 where required under the GEM Listing Rules, the terms of Master Supply Agreement and the transactions contemplated thereunder and authorizing its execution thereof;
 - 2.5 a special resolution for amending the Bye-laws in respect of, among others, the creation, allotment and issue of a class of Preferred Shares with the rights, obligations and privileges attaching thereto;
3. the passing of a resolution by the Eternity Shareholders (or independent Eternity Shareholders, where applicable) in Eternity SGM approving, among other things, the Subscription which constitutes a deemed disposal and major transaction of Eternity under the Listing Rules;
4. the Stock Exchange having granted approval of the listing of, and permission to deal in, (i) the Ordinary Subscription Shares and (ii) the Conversion Shares and such approval and granting of permission not having been withdrawn or revoked;
5. the Company having obtained all consent from the relevant governmental or regulatory authorities which are necessary to be obtained for the execution and performance of the Subscription Agreement by the Company and any of the transactions contemplated under the Subscription Agreement and the Master Supply Agreement;
6. the warranties specified in the Subscription Agreement remaining true, accurate and not misleading in all material respects at Completion by reference to the facts and circumstances subsisting as at the Completion Date;
7. the Company having complied fully with the pre-Completion obligations specified in the Subscription Agreement (including the Company procuring each member of the Group to (i) carry on its business in the ordinary and usual course in accordance with all applicable laws, regulations and other requirements having the force of law in the same manner as it was operated prior to the date of the Subscription Agreement and use its reasonable endeavours to maintain its trade and trade connections; (ii) settle all debts incurred in the ordinary and usual course of business within the applicable periods of credit; and (iii) give to the Subscribers as soon as reasonably practicable full details of any material change in its business, financial position and/or assets until Completion) and otherwise having performed in all material respects all of the covenants and agreements required to be performed by it under the Subscription Agreement;

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8. there having been no material adverse change since the date of the Subscription Agreement;
9. the Company having obtained all consent from third parties which are necessary to be obtained for the execution and performance of the Subscription Agreement and the Master Supply Agreement by the Company and any of the transactions contemplated under the Subscription Agreement and the Master Supply Agreement;
10. no temporary restraining order, preliminary or permanent injunction or other order issued by any court of competent jurisdiction or other legal or regulatory restraint or prohibition preventing the consummation of the transactions contemplated under the Subscription Agreement and the Master Supply Agreement shall be in effect, nor shall any action have been taken by any person seeking any of the foregoing, and no statute, rule, regulation or order shall have been enacted, enforced or deemed applicable to the transactions contemplated under the Subscription Agreement or the Master Supply Agreement, which makes the consummation of which illegal;
11. no statute, regulation or decision which would prohibit or restrict the execution, delivery or performance of the Subscription Agreement or the Master Supply Agreement, the consummation of the transactions contemplated under the Subscription Agreement and the Master Supply Agreement having been proposed, enacted or taken by any governmental or official authority whether in Hong Kong, the PRC or elsewhere; and
12. Xing Hang having procured the delivery of a legal opinion (in the agreed form) addressed to the Company to be issued by a PRC law firm acceptable to the Company confirming, among other matters: (i) the power and authority of Donica to perform its obligations under the Master Supply Agreement; (ii) the legality, validity and enforceability of the Master Supply Agreement and the transactions contemplated thereunder; (iii) the validity of the relevant consents required to be obtained by the Group for the transactions contemplated under the Master Supply Agreement; and (iv) such other matters as may be reasonably required by the Company.

The Subscribers may, jointly but not severally, in their absolute discretion waive conditions 6, 7 and 8 at any time by notice in writing to the Company. The Company may in its absolute discretion waive condition 12 at any time by notice in writing to the Subscribers. Conditions 1, 2, 3, 4, 5, 9, 10 and 11 cannot be waived by any party to the Subscription Agreement. Condition 12 cannot be waived by the Subscribers.

In the event that any of the above conditions shall not have been fulfilled or waived (as applicable) prior to the Long Stop Date, then none of the Company nor the Subscribers shall be bound to proceed with the transactions contemplated under the Subscription Agreement and the Subscription Agreement shall cease to be of any effect save for, among others, as to any antecedent breach of the Subscription Agreement. As at the Latest Practicable Date, none of the above conditions precedent had been fulfilled or waived.

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Completion

Completion shall take place within five Business Days from and excluding the day on which the last of the conditions precedent of the Subscription Agreement has been fulfilled or waived. At Completion, the Subscribers shall subscribe for, and the Company shall allot and issue to such Subscribers, their respective number of Ordinary Subscription Shares and Preferred Shares.

Lock-up undertakings in relation to the Subscription Shares

Xing Hang has entered into the Xing Hang's Lock-Up Undertaking, pursuant to which Xing Hang has undertaken to the Company that, effective from Completion, it will not, and will procure that none of its intermediate company(ies) (i.e. company(ies) through which Xing Hang directly or indirectly holds interests in the Subscription Shares) will, unless with the prior written consent of the Company, dispose of, transfer or sell all and any of (i) the Ordinary Subscription Shares; and (ii) any Ordinary Shares deriving therefrom as a result of share consolidation, subdivision or bonus issue, for a period during two years from Completion Date (the "**Xing Hang's Lock-up Period**"), provided that such restriction may be released and discharged by the Company with the consent of the Board.

Pursuant to the Xing Hang's Lock-Up Undertaking, Xing Hang has also undertaken to the Company that, effective from Completion, it will procure that Mr. Cai Zhaoyang (who is the majority shareholder and the sole director of Xing Hang) will continue to hold not less than 50% shareholding (whether directly and indirectly) in Xing Hang during the Xing Hang's Lock-up Period, provided that such restriction may be released and discharged by the Company with the consent of Board.

The Subscribers have entered into the Subscribers' Lock-Up Undertaking, pursuant to which each of the Subscribers has severally (but not jointly) undertaken to Eternity that, effective from Completion, it will not, and will procure that none of its respective intermediate company(ies) (i.e. company(ies) through which the respective Subscriber(s) directly or indirectly hold(s) interests in the Subscription Shares) will, unless with the prior written consent of Eternity, dispose of, transfer or sell all and any of (i) the Ordinary Subscription Shares and/or Preferred Shares; and (ii) any Conversion Shares, for the period during which Eternity remains directly or indirectly interested in 22,490,150 Ordinary Shares (representing 5.00% of the issued share capital of the Company as enlarged by the allotment and issue of the Ordinary Subscription Shares and the Conversion Shares (assuming there is no adjustment to the Conversion Price in accordance with the terms of the Preferred Shares and that there is no other change in the number of the Ordinary Shares in issue)) or more, or for one year from the Completion Date, whichever is earlier (the "**Subscribers' Lock-up Period**"), provided that such restriction may be released and discharged by Eternity with the consent of Eternity Board.

Pursuant to the Subscribers' Lock-Up Undertaking, each of the Subscribers has also severally (but not jointly) undertaken to Eternity that, effective from Completion, it will procure that its beneficial owner(s) (direct or indirect) will not, unless with the prior written consent of Eternity, dispose of, transfer or sell all and any of his/her/its shareholding in the

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relevant Subscriber of which he/she/it is a beneficial owner, whether directly or indirectly held, during the Subscribers' Lock-up Period, provided that such restriction (or any part thereof) may be released and discharged by Eternity with the consent of Eternity Board.

Reasons for and benefits of the Subscription

The Group is principally engaged in the development, distribution and marketing of personal care treatments, products and services.

As mentioned in the Company's annual report for the six months ended 31 December 2014, the management of the Company noted detrimental factors affecting the local retail market in Hong Kong, including the slowdown of the growth of Mainland visitors to Hong Kong and the weakening of Mainland tourists' spending powers. As mentioned in the announcement of the Census & Statistics Department of the Hong Kong Government in June 2014, the total retail sales value in April 2014 fell 9.8% year-on-year. After netting out the effect of price changes over the same period, the total retail sales volume in April 2014 fell 9.5% year-on-year.

The Directors are of the view that the Subscription represents a valuable opportunity for the Group to bring in the Subscribers as strategic investors. The Subscribers (in particular the background of Mr. Cai Zhaoyang, who is the majority shareholder and the sole director of Xing Hang) have extensive experience, strong expertise and a wide business network in the avionic engineering and service business industry in the PRC. The Directors consider that entering into of the Subscription Agreement represents a good opportunity for the Group to (i) raise a substantial amount of additional funds, which provides the Group with the financial flexibility necessary for future business development in the New Business in parallel to its existing business; (ii) improve its financial position and liquidity; and (iii) leverage the expertise and business network of Mr. Cai Zhaoyang to take advantage of the expected strong growth in the avionic engineering and service business sector in the PRC.

WIFI connection and telecommunication have become a trend in ground-air connectivity for European and American airlines in recent years. The European Union has already approved in-flight cell phone calls, SMS, and email services in its airspace. Various countries are paying increasing attention to this market. It is reported that nearly all of the major American airlines now provide internet access for ground-air connectivity, with service charges ranging from USD5.00 to USD9.00 per hour.

In view of the increasingly fierce global competition of the civil aviation market, the Company understands that Chinese airline companies are also considering providing internet access services similar to what their foreign counterparts are currently doing. To date, certain state-owned Chinese airlines have started in-flight WIFI service trials, indicating that the Chinese civil aviation industry has realized the demand for ground-air connectivity and the inconvenience that information isolation during flights may bring.

Compared to the booming of in-flight WIFI service abroad, such services in the PRC are still at the start-up stage, and have not yet been put into mass commercial use. In December 2014, the Civil Aviation Administration of China, which is the Chinese civil

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aviation authority, forecasted that the number of air travelers in the PRC would reach approximately 390 million in 2014, representing a 10.10% year-on-year increase, and that the civil aviation market would have targeted passenger traffic of 430 million in 2015.

According to a statistical report issued by China Internet Network Information Center (being an organization set up by the Computer Internet Information Center of Chinese Academy of Sciences pursuant to a decision of the Office of the Information Work Leading Group of the State Council of the PRC responsible for (i) the operation and administration of the internet in the PRC; (ii) security of the internet in the PRC; (iii) research on internet development and technology; (iv) provision of consultancy services; and (v) promotion of global cooperation and exchange of internet technology) in July 2014, by the end of June 2014, the PRC had 632 million internet users, representing an increase of 14.42 million as compared with that at the end of 2013. The internet penetration rate was 46.9%, representing a growth of 1.1% as compared with that at the end of 2013. In the first half of 2014, internet users who surfed the internet via mobile phones rose from 81.0% to 83.4% during such period.

As the majority of the PRC's air passengers are now frequent flyers, the Company believes that in-flight WIFI services will become an increasingly influential factor for many passengers when making flight purchase decisions and therefore it is expected that Chinese airline companies will allocate more resources to introduce new innovative services, such as in-flight shopping, through in-flight WIFI service that enhance passengers' travel experience. As such, the Company believes that there are good opportunities to develop business relating to the New Business in the PRC which will facilitate the provision of in-flight WLAN or WIFI connections.

The majority shareholder and the sole director of Xing Hang, Mr. Cai Zhaoyang, is also the controlling shareholder (as defined in the GEM Listing Rules) of Donica, which is a manufacturer of, among others, in-flight entertainment systems and avionic systems, and a service provider for repairment of the in-flight entertainment systems (please refer to the section headed "Information on Donica" under "THE MASTER SUPPLY AGREEMENT" for further information on Donica). As further detailed in the section headed "Use of Proceeds", the Company plans to use the net proceeds from the Subscription substantially to finance the development of the New Business in the PRC and other regions by stages in cooperation with Donica as stipulated under the Master Supply Agreement. The Company plans that the Group will source and sign contracts with airline companies to provide them with different in-flight WLAN and WIFI engineering and services, which is expected to include the provision of WLAN and WIFI equipment, and installation and maintenance services. Depending on the mode of cooperation between the Group and the airline companies, the Group may or may not charge the airline companies for the provision of WLAN or WIFI equipment to them but may earn/share any income from the use of the WLAN or WIFI systems for advertising and shopping on the airplanes which use the Group's in-flight technology and connectivity solutions. The Company envisages that the first stage of the in-flight WLAN or WIFI services to be provided by the Group will only cover in-flight connection to the airplane's server system which will enable the provision of a wider choice of information and entertainment services and in-flight shopping experience to the passengers while connection to the internet will be

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available when the airplane's server system is connected to the internet via satellites or ground-air stations. As at the Latest Practicable Date, the Company had not entered into any agreements or memorandum of understanding with any airline companies.

Subject to the Group's obtaining of the Qualifications, the Group will further expand into the production of the in-flight WLAN or WIFI connection equipment.

In terms of the provision of on-line contents via the Group's in-flight WLAN or WIFI network in the future, the Operation Company will apply for all necessary licenses and/or enter into cooperative arrangements with entities holding required licenses for the Operating Services.

The Company intends to nominate Mr. Cai Zhaoyang as a new executive Director to the Board and such appointment will not take effect earlier than the date of posting of the Composite Document, subject to the requirements of the Takeovers Code. Further information of Mr. Cai Zhaoyang is set out in the section headed "Information on the Subscribers". In preparation, the Group has recently set up a wholly foreign-owned enterprise in the PRC and is in the process of building its own team for the New Business. The Company understands from Xing Hang that Xing Hang will use its best endeavours to procure the Group to obtain the Qualifications within 18 months after the Loan is advanced pursuant to the undertaking given by Xing Hang to Success Far under the Term Loan Agreement as detailed in the section headed "Term Loan Agreement". The Qualifications will enable the Group to manufacture the in-flight WLAN or WIFI connection equipment to be used on airplanes in the PRC.

The Directors consider that the terms of the Subscription Agreement are fair and reasonable and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole.

Effect on shareholding structure of the Company

As at the Latest Practicable Date, the Company had no outstanding convertible securities, options, warrants or derivatives in issue which are convertible or exchangeable into Ordinary Shares.

The table below sets out the effect of the Subscription on the shareholding structure of the Company immediately upon (i) Completion, assuming no Preferred Shares are converted; and (ii) Completion and conversion in full of the Preferred Shares, assuming no further Ordinary Shares will be issued between Completion and the date until all of the Preferred Shares have been fully converted.

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	As at the Latest Practicable Date		Immediately upon Completion assuming no Preferred Shares are converted		Immediately upon Completion and conversion in full of the Preferred Shares, assuming no further Ordinary Shares are issued ^(Note 10)	
	Numbers of		Numbers of		Numbers of	
	Ordinary Shares	Approximate %	Ordinary Shares	Approximate %	Ordinary Shares	Approximate %
Eternity ^(Note 1)	52,500,000	70.18%	52,500,000	12.51%	52,500,000	11.67%
The Subscribers, who are parties acting in concert						
Xing Hang ^(Note 2)	—	0.00%	179,921,200	42.86%	179,921,200	40.00%
Goldenland ^(Note 3)	—	0.00%	45,396,178	10.81%	45,396,178	10.09%
Silver Empire ^(Note 4)	—	0.00%	37,861,665	9.02%	37,861,665	8.42%
Truly Elite ^(Note 5)	—	0.00%	41,628,921	9.92%	41,628,921	9.25%
High Aim ^(Note 6)	—	0.00%	26,697,946	6.36%	56,697,946	12.61%
First Bonus ^(Note 7)	—	0.00%	13,494,090	3.21%	13,494,090	3.00%
Existing public Shareholders						
Kingston Securities ^(Note 8)	96	0.00%	96	0.00%	96	0.00%
Other public Shareholders	<u>22,302,904</u>	<u>29.82%</u>	<u>22,302,904</u>	<u>5.31%</u>	<u>22,302,904</u>	<u>4.96%</u>
Total	<u>74,803,000</u>	<u>100.00%</u>	<u>419,803,000</u>	<u>100.00%</u>	<u>449,803,000</u>	<u>100.00%</u>
Total public shareholding ^(Note 9)	<u>22,303,000</u>	<u>29.82%</u>	<u>141,985,622</u>	<u>33.82%</u>	<u>101,793,586</u>	<u>22.63%</u>
Xing Hang and parties acting in concert with it ^(Note 9)	<u>52,500,096</u>	<u>70.18%</u>	<u>397,500,096</u>	<u>94.69%</u>	<u>427,500,096</u>	<u>95.04%</u>
Number of Ordinary Shares subject to the Offer	<u>38,302,904</u>	<u>51.21%</u>	<u>38,302,904</u>	<u>9.12%</u>	<u>38,302,904</u>	<u>8.52%</u>

Notes:

- As at the Latest Practicable Date, New Cove was interested in 52,500,000 Ordinary Shares. As New Cove is an indirect wholly-owned subsidiary of Eternity, Eternity is deemed to be interested in such 52,500,000 Ordinary Shares.
- Xing Hang is ultimately owned as to 82.5% by Mr. Cai Zhaoyang, 7.5% by Mr. Lin Fan, 3.75% by Ms. Xu Yaping, 3.75% by Mr. Guo Pengcheng and 2.5% by Mr. Chen Jie.
- Goldenland is ultimately owned as to 50% by Mr. Liu Jin and 50% by Ms. Xue Siman. Goldenland is a party acting in concert with Xing Hang.
- Silver Empire is wholly owned by Genius Earn Limited which is ultimately wholly owned by Mr. Liu Xiao Lin. As (i) Silver Empire is not a director, chief executive or substantial shareholder of the Company or any of its subsidiaries or a close associate of any of them (collectively, “**Core Connected Person(s)**”); (ii) its subscription of its portion of the Subscription Shares is not financed by any Core Connected Person; and (iii) it is not accustomed to take instructions from any Core Connected Persons in relation to the acquisition, disposal, voting or other disposition of its portion of the Subscription Shares; and (iv) given that Silver Empire will not as a result of the Subscription or otherwise become a Core Connected Person upon Completion and upon full conversion of the

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Preferred Shares as shown above, it shall be regarded as a public Shareholder upon Completion and upon full conversion of the Preferred Shares. Silver Empire is a party acting in concert with Xing Hang.

5. Truly Elite is ultimately wholly owned by Mr. Yeung Heung Yeung. As (i) Truly Elite is not a Core Connected Person; (ii) its subscription of its portion of the Subscription Shares is not financed by any Core Connected Person; and (iii) it is not accustomed to take instructions from any Core Connected Persons in relation to the acquisition, disposal, voting or other disposition of its portion of the Subscription Shares; and (iv) given that Truly Elite will not as a result of the Subscription or otherwise become a Core Connected Person upon Completion and upon full conversion of the Preferred Shares as shown above, it shall be regarded as a public Shareholder upon Completion and upon full conversion of the Preferred Shares. Truly Elite is a party acting in concert with Xing Hang.
6. High Aim is ultimately wholly owned by Mr. Ko Chun Shun, Johnson. As (i) High Aim is not a Core Connected Person; (ii) its subscription of its portion of the Subscription Shares is not financed by any Core Connected Person; and (iii) it is not accustomed to take instructions from any Core Connected Persons in relation to the acquisition, disposal, voting or other disposition of its portion of the Subscription Shares; and (iv) given that High Aim will not as a result of the Subscription or otherwise become a Core Connected Person upon Completion as shown above, it shall be regarded as a public Shareholder upon Completion. High Aim is a party acting in concert with Xing Hang. Upon full conversion of the Preferred Shares (assuming no further Ordinary Shares are issued), High Aim will become a Core Connected Person and therefore will not be regarded as a public Shareholder upon full conversion of the Preferred Shares.
7. First Bonus is a wholly-owned subsidiary of Reorient Limited, a company incorporated in the British Virgin Islands with limited liability and is wholly owned by REORIENT Group Limited, a company incorporated in Hong Kong with limited liability and the shares of which are listed on the Main Board of the Stock Exchange. Mr. Ko Chun Shun, Johnson is an executive director and the controlling shareholder (as defined under the Listing Rules) of REORIENT Group Limited. As (i) First Bonus is not a Core Connected Person; (ii) its subscription of its portion of the Subscription Shares is not financed by any Core Connected Person; and (iii) it is not accustomed to take instructions from any Core Connected Persons in relation to the acquisition, disposal, voting or other disposition of its portion of the Subscription Shares; and (iv) given that First Bonus will not as a result of the Subscription or otherwise become a Core Connected Person upon Completion as shown above, it shall be regarded as a public Shareholder upon Completion. First Bonus is a party acting in concert with Xing Hang. Upon full conversion of the Preferred Shares (assuming no further Ordinary Shares are issued), First Bonus will become a Core Connected Person and therefore will not be regarded as a public Shareholder upon full conversion of the Preferred Shares.
8. As (i) Kingston Securities is not a Core Connected Person; and (ii) will not as a result of the Subscription or otherwise become a Core Connected Person of the Company upon Completion and upon full conversion of the Preferred Shares as shown above, it shall be regarded as a public Shareholder upon Completion and upon full conversion of the Preferred Shares. Kingston Securities is a party acting in concert with Xing Hang.
9. Some of the Subscribers (being parties acting in concert with Xing Hang) will be regarded as public Shareholders upon Completion and/or full conversion of the Preferred Shares. Accordingly, there are overlaps between the public Shareholders and Xing Hang and parties acting in concert with it and therefore the aggregate of the percentage shareholding of public Shareholders and the percentage shareholding of Xing Hang and parties acting in concert with it add up to over 100%.
10. This scenario is shown for illustrative purposes only. Conversion of any Preferred Shares will be limited by the Company being able to comply with the minimum public float requirements under the GEM Listing Rules immediately after Conversion.

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Information on the Group

The Group is principally engaged in the development, distribution and marketing of personal care treatments, products and services.

The table below sets out the audited consolidated net loss of the Group for the two years ended 30 June 2013 and 2014 and the six months ended 31 December 2014 and the unaudited consolidated net loss of the Group for the six months ended 30 June 2015 (being the latest financial information of the Group published in compliance with the GEM Listing Rules):

	For the six months ended 30 June 2015	For the six months ended 31 December 2014	For the year ended 30 June 2014	For the year ended 30 June 2013
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>
Loss before tax	(7,110)	(46,216)	(10,131)	(23,568)
Loss for the period/year	(7,458)	(47,043)	(10,618)	(23,568)

Note: The financial year end date of the Company has been changed from 30 June to 31 December commencing from the financial year ended 31 December 2014 (further information is described in the Company's announcement dated 15 October 2014).

As set out in the interim report of the Company for the six months ended 30 June 2015, the decline in growth of the number of Mainland visitors to Hong Kong and in their spending powers have adversely affected the whole retail sector in Hong Kong. The revenue derived from the sale of beauty products and provision of therapy services under the brand name "Evidens de Beauté" recorded a substantial decrease as compared with that of the last corresponding period. In view of the aforesaid, the Company intends to focus the operations under the brand name "Evidens de Beauté" on the sale of products on a wholesale basis at Lyndhurst Terrace. In connection with such plan, the sales office in Kwun Tong will be relocated to Lyndhurst Terrace and the spa, facial sahos, body treatments and wellness massages services at Lyndhurst Terrace have ceased. With regard to the operation of China Honest in view of its satisfactory performance, the Group will maintain its present scale of operations in the sale of beauty products and provision of therapy and consultancy services. The Group will allocate resources to China Honest to promote the brand name "COLLAGEN+", broaden its client base and enhance its competitiveness.

Information on the Subscribers

Xing Hang is an investment holding company incorporated in the British Virgin Islands with limited liability and is ultimately owned as to 82.5% by Mr. Cai Zhaoyang (who is the majority shareholder and the sole director of Xing Hang), 7.5% by Mr. Lin Fan, 3.75% by Ms. Xu Yaping, 3.75% by Mr. Guo Pengcheng and 2.5% by Mr. Chen Jie. Mr.

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Cai Zhaoyang, is also the controlling shareholder (as defined in the GEM Listing Rules) of Donica which is a manufacturer of, among others, in-flight entertainment systems and avionic systems, and a service provider for repairment of the in-flight entertainment systems (please refer to the section headed “Information on Donica” under “THE MASTER SUPPLY AGREEMENT” for further information on Donica).

Mr. Cai Zhaoyang, aged 38, is a founder of Donica (details of Donica are set out in the section headed “Information on Donica” under “THE MASTER SUPPLY AGREEMENT” below). He has been a shareholder of Donica since the incorporation of Donica in 2003. Mr. Cai joined Donica as a supervisor in May 2007 and has become a director of Donica since October 2007. Mr. Cai is the sole director of Xing Hang. Mr. Cai has extensive experience, strong expertise and a wide business network in the avionic engineering and service business industry in the PRC. Mr. Cai also serves as a deputy director and a council member of Shenzhen Institute of Avionics Technology (深圳市航電技術研究院), which is a non-state owned institute established by Mr. Cai focusing on, among others, (i) technology research in the field of avionics; and (ii) research in the standards for avionics technology.

Leveraging Mr. Cai’s experience, Donica developed avionics products which obtained, among others, the certificates and approvals from the Civil Aviation Administration of China, Federal Aviation Administration and European Aviation Safety Agency. Donica’s quality management system also obtained AS9100 certificate (being a standardized quality management system for the aerospace industry released by The International Aerospace Quality Group) and complies with requirements of the Civil Aviation Administration of China, Federal Aviation Administration and European Aviation Safety Agency. Mr. Cai graduated from Xidian University majoring in electromagnetic field and microwave technology in 1998 in the PRC.

Goldenland is an investment holding company incorporated in the British Virgin Islands with limited liability and is ultimately owned as to 50% by Mr. Liu Jin and 50% by Ms. Xue Siman.

Silver Empire is an investment holding company incorporated in the British Virgin Islands with limited liability and is wholly owned by Genius Earn Limited which is ultimately wholly owned by Mr. Liu Xiao Lin.

Truly Elite is an investment holding company incorporated in the British Virgin Islands with limited liability and is ultimately wholly owned by Mr. Yeung Heung Yeung.

High Aim is an investment holding company incorporated in the British Virgin Islands with limited liability and is ultimately wholly owned by Mr. Ko Chun Shun, Johnson.

First Bonus, a company incorporated in the British Virgin Islands with limited liability, is a wholly-owned subsidiary of Reorient Limited, a company incorporated in the British Virgin Islands with limited liability which is wholly owned by REORIENT Group Limited, a company incorporated in Hong Kong with limited liability and the shares of which are listed on the Main Board of the Stock Exchange. REORIENT Group Limited is principally engaged in securities broking, placing and underwriting, and provision of

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consultancy and advisory services. Mr. Ko Chun Shun, Johnson is an executive director and the controlling shareholder (as defined under the Listing Rules) of REORIENT Group Limited.

Apart from the aforesaid relationship between High Aim and First Bonus, and the Subscribers being parties to (as the case may be) the Subscription Agreement, the Term Loan Agreement entered into between Xing Hang (as borrower) and Success Far (as lender) for the purpose of financing the Subscription, the Subscribers' Lock-up Undertaking, the Offer Non-Acceptance Undertaking and the loan agreement entered into between Xing Hang (as borrower) and High Aim (as lender) dated 17 February 2015 for the purpose of financing the cash consideration payable by Xing Hang under the Offer, each Subscriber and its ultimate beneficial owners are independent from each of the other Subscribers and their respective ultimate beneficial owners. Apart from the aforesaid agreements and undertakings, there are no other agreements or arrangements (either explicit or implicit) or understanding (whether formal or informal) entered into between the Subscribers in connection with or relating to the Subscription.

Term Loan Agreement

Xing Hang and Success Far entered into the Term Loan Agreement, the principal terms of which are as follows:

Date	:	17 February 2015
Borrower	:	Xing Hang
Lender	:	Success Far
Facility	:	Up to HK\$71,968,480
Interest	:	18% per annum
Repayment date	:	Unless otherwise waived by Success Far under the conditions to waiver of Loan below, Xing Hang shall repay the outstanding Loan in one lump sum on the date falling 18 months after the Loan is advanced.
Security	:	A share charge to be given by Xing Hang in favour of Success Far over the 179,921,200 Ordinary Subscription Shares to be issued to Xing Hang under the Subscription will be duly executed and dated as soon as practicable and in any event no later than three Business Days after the Loan is advanced.
Use of proceeds	:	To finance the Subscription only

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Conditions to waive the Loan : Xing Hang undertakes to use its best endeavours to procure the obtaining of the Qualifications by the Company. To provide incentive for Xing Hang to procure the Company to obtain the Qualifications, if on or prior to the date falling 18 months after the date of the loan advance, Xing Hang has provided evidence in form and substance satisfactory to Success Far that all the Qualifications have been obtained by the Company, then 100% of the then outstanding amount of the Loan and the accrued interest thereon shall be waived and/or forgiven by Success Far.

Success Far is a company incorporated in the British Virgin Islands with limited liability which is legally and beneficially owned as to approximately 20.85% by Silver Empire, 22.93% by Truly Elite, 25% by Goldenland and 31.22% by High Aim. Success Far is a party acting in concert with Xing Hang but Success Far and its ultimate beneficial owners are third parties independent of the Company and its connected persons. On 4 March 2015, Mr. Ko Chun Shun, Johnson and Xing Hang entered into the Funding Undertaking, pursuant to which Mr. Ko Chun Shun, Johnson has undertaken to Xing Hang to, among other things: (i) provide sufficient funding on behalf of High Aim and procure High Aim to in turn provide funding to Success Far by way of unsecured and interest-free shareholder's loan pro-rata to High Aim's shareholding in Success Far for the purpose of Success Far's performance of its lending obligation under the Term Loan Agreement; (ii) procure each of Silver Empire, Truly Elite and Goldenland and/or their respective beneficial owners to provide sufficient funding by way of unsecured and interest-free shareholder's loan pro-rata to their respective shareholdings in Success Far for the purpose of Success Far's performance of its lending obligation under the Term Loan Agreement; and (iii) if any of Silver Empire, Truly Elite and/or Goldenland shall fail to perform its undertaking in (ii) above (each a "**Defaulting Lender Shareholder**"), Mr. Ko Chun Shun, Johnson shall provide the necessary funding to High Aim, and shall procure High Aim to in turn provide the necessary funding to Success Far by way of unsecured and interest-free shareholder's loan(s) in place of such Defaulting Lender Shareholder for the purpose of Success Far's performance of its lending obligation under the Term Loan Agreement.

Future intention of the Subscribers regarding the Group

To the best of the Directors' information, knowledge and belief after due enquiry with Xing Hang, Xing Hang, together with other Subscribers, intends to assist the Group to develop the New Business in the PRC. As at the Latest Practicable Date, save for the possible sale and purchase of the In-flight WLAN and WIFI Equipment from Donica under the Master Supply Agreement, which is a revenue transaction necessary for the development of the New Business and the intention of Mr. Cai Zhaoyang in helping the Group to obtain the Qualifications and other than in the ordinary course of the Group's business which is considered by the Directors to be necessary in the course of carrying out its principal activities, the Subscribers have not entered into any agreement, arrangements, understandings or negotiations in relation to the continued employment of the

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employees, disposal and/or redeployment of the assets (including the fixed assets) of the Group, nor do the Subscribers have any intention to terminate or scale down any of the Group's business.

Use of proceeds

The gross proceeds and the net proceeds from the Subscription are HK\$150 million and approximately HK\$135 million respectively. The net proceeds are to be applied as follows:

- as to HK\$125 million for acquiring equipment and developing the New Business which include the provision of in-flight WLAN or WIFI connection equipment and/or other in-flight WLAN or WIFI connection solutions to airline companies; and
- as to the remaining balance of approximately HK\$10 million for general working capital of the Group.

Fund raising activities in the past 12 months

Apart from the Subscription, the Company did not conduct any fund raising activities in the past 12 months prior to the Latest Practicable Date.

THE MASTER SUPPLY AGREEMENT

Pursuant to the Subscription Agreement, upon Completion, the Company and Donica shall enter into the Master Supply Agreement, pursuant to which the Company may purchase the In-flight WLAN and WIFI Equipment and the Services from Donica and Donica shall exclusively supply the In-flight WLAN and WIFI Equipment (including servers, wireless routers and monitors which are certified by the relevant aviation authorities in the PRC for use on airplanes) and engage independent qualified engineering companies to provide the Services to the Company from time to time during the term of the Master Supply Agreement to be used by customers of the Group.

Principal terms of the Master Supply Agreement

Supplier	:	Donica
Purchaser	:	The Company
Subject matter	:	Subject to purchase order(s) placed by the Company, Donica may from time to time during the term of the Master Supply Agreement supply to the Company the In-flight WLAN and WIFI Equipment and engage independent qualified engineering companies to provide the Services.

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Term : The Master Supply Agreement will become effective upon Completion until and up to 31 December 2016. Upon expiry, the term of the Master Supply Agreement can be extended for one year (the “**1st Extended Period**”) in the Company’s absolute discretion. Upon expiry of the 1st Extended Period, the term of the Master Supply Agreement can be further extended for one more year in the Company’s absolute discretion.

If the Company chooses to extend the term of the Master Supply Agreement, it needs to serve at least one month’s notice in writing to Donica and will comply with the relevant requirements of the GEM Listing Rules as and when appropriate.

Pricing : For the In-flight WLAN and WIFI Equipment supplied by Donica and the Services supplied by independent qualified engineering companies which are engaged by Donica under the Master Supply Agreement, the Company shall pay to Donica an aggregate price equivalent to the quantity purchased at the agreed unit prices of the In-flight WLAN and WIFI Equipment as specified in the Master Supply Agreement (which is based on the current price charged by Donica to its existing customers less a discount), the service charges based on the units to be installed at the prices specified in the Master Supply Agreement (which is determined based on the fees charged to Donica by the independent qualified engineering company for similar Services, subject to an adjustment of 15% in each calendar year due to factors such as inflation) and the applicable value added tax rate. Further discount for the In-flight WLAN and WIFI Equipment may be given if the Company purchases up to a certain quantity within a certain period of time exceeding the amount as set out in the Master Supply Agreement.

The In-flight WLAN and WIFI Equipment and the Services shall satisfy the necessary requested standards of DO-160, Environmental Conditions and Test Procedures for Airborne Equipment, a standard for the environmental testing of avionics hardware published by the Radio Technical Commission for Aeronautics. All In-flight WLAN and WIFI Equipment supplied by Donica must pass the aforesaid standard.

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The Master Supply Agreement specifies the unit price of the In-flight WLAN and WIFI Equipment (which is based on the current price charged by Donica to its existing customers less a certain percentage as a discount to the Company) and the unit price of the Services (which is determined based on the fee charged to Donica by the independent qualified engineering company for similar Services, subject to an adjustment of 15% in each calendar year due to factors such as inflation). Depending on the type of aircraft and before taking into account any of the aforesaid adjustments, the unit price of the Services represents approximately 41.0% to 49.3% of the total unit price of the In-flight WLAN and WIFI Equipment and the Services. For the avoidance of doubt, the unit price of the Services is stated in the Master Supply Agreement and is not charged on a back-to-back basis by Donica based on the invoices received by Donica from the independent qualified engineering companies.

During the term of the Master Supply Agreement, the Company shall periodically obtain quotations on the relevant In-flight WLAN and WIFI Equipment and the Services from other WLAN and WIFI equipment suppliers and independent qualified engineering companies in the PRC and overseas to perform market price comparisons to ensure the unit prices and terms of the Master Supply Agreement are fair and reasonable and comparable to those offered by independent third parties. In the event that the unit prices and the terms offered by other overseas suppliers and independent qualified engineering companies are more favourable, the Company may acquire such equipment from other overseas suppliers and the Services directly from independent qualified engineering companies.

Payment : The Company shall pay 20% of the total amount of purchase to Donica within 15 days of order submission and the remaining 80% of the total amount upon receipt of invoice from Donica.

The payments for the transactions contemplated under the Master Supply Agreement will initially be funded using the net proceeds from the Subscription.

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Undertaking : Donica will undertake to the Company that it will not carry out any business or activities which may be in conflict with and/or compete with the provision of the In-flight WLAN and WIFI Equipment by the Company to its customers; or any other business carried on by the Company.

The Board proposes to set the Proposed Annual Caps in respect of the the Master Supply Transactions for the two years ending 31 December 2015 and 2016 as follows:

For the year ending	Total value not exceeding (Note) RMB\$'000
31 December 2015	23,670
31 December 2016	82,098

Note: The Proposed Annual Caps are merely based on the two-year business plan for the New Business formulated by the Company. They do not reflect the profitability and the level of business of the Group in the future and do not represent the purchase commitments of the Company.

Having discussed its business plan on the New Business with the Subscribers and Donica, the Company has determined the Proposed Annual Caps based on the following principal factors: (i) the target numbers of aircraft to be contracted by the Group for the installation of the In-flight WLAN and WIFI Equipment and the provision of the Services which in turn were determined based on (a) the growing global trend of providing in-flight WLAN or WIFI engineering and services and such trend in the PRC; (b) the number of aircraft operated by the target airlines in the PRC which have not installed in-flight WLAN connection equipment; and (c) the estimated growth in the demand for in-flight WLAN or WIFI services in the PRC; (ii) the selling prices of the In-flight WLAN and WIFI Equipment under the Master Supply Agreement; and (iii) the current service charges payable by Donica to independent qualified engineering companies for the installation of Donica's In-flight WLAN and WIFI Equipment in aircraft with a possible inflation and other adjustments of 15% per year.

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The Proposed Annual Caps are determined based on the two-year business plan for the New Business formulated by the Company as follows:

- (a) the New Business will commence in the fourth quarter of 2015;
- (b) for the year ending 31 December 2015, the Group targets to cooperate with four airline companies which comprise small to medium domestic airline companies with a total fleet of approximately 40 aircraft and represent approximately 7.8% of the total number domestic airline companies in the PRC as at the end of 2014. The Group, with Donica's assistance, has been in discussions with these four airline companies, and as soon as the discussions are concluded after Completion, the Group plans to enter into cooperation agreements with these four airline companies to install the in-flight WLAN or WIFI connection equipment for trial run and testing purpose for a portion of their fleet of aircraft during the year. In carrying out the above plan, the Company estimates that it would purchase no more than 30 units of In-flight WLAN and WIFI Equipment from Donica. The Proposed Annual Cap for the year ending 31 December 2015 is calculated based on 30 units of In-flight WIFI and WLAN Equipment and the Services to be purchased from Donica at the pricing as set out in the Master Supply Agreement. Considering the installation time required for the In-flight WLAN and WIFI Equipment, the number of the In-flight WLAN and WIFI Equipment that can be provided by Donica and the availability of independent qualified engineering companies in the market to provide the Services as well as the Company's existing team of over 40 members of staff established so far, the Company considers that the Proposed Annual Cap for the year ending 31 December 2015 is reasonable for the requirements of the Group's business plan in 2015; and
- (c) in view of the experience, expertise and capability of Donica in the making and provision of the In-flight WLAN and WIFI Equipment and cooperation with independent qualified engineering companies in the provision of the Services, and that the equipment to be provided by Donica will meet the required standards, the Company anticipates that those airline companies with which the Group plans to enter into cooperation agreements in 2015 will satisfactorily complete their trial run of the Group's In-flight WLAN and WIFI Equipment during the year ending 31 December 2016, and that the Group will continue to implement the in-flight WLAN or WIFI services on their other aircraft. Apart from the aforesaid, the Company also targets to cooperate with another ten airline companies primarily comprising medium to large domestic and international airline companies which have a total fleet of approximately 2,300 aircraft. These ten airline companies consist of seven domestic airline companies (together with the four domestic airline companies with which the Group plans to enter into cooperation agreements in 2015, representing approximately 21.6% of the total number of domestic airline companies in the PRC as at the end of 2014) and three international airline company with routes to the PRC. The Group, with Donica's assistance, has been in discussions with eight of the these ten airline companies and plans to commence discussions with the other two airline companies shortly. Following the Group's continuous marketing efforts, the Company plans to enter

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into cooperation agreements with these ten airline companies in 2016. In carrying out the above business plan for 2016, as detailed in the paragraph headed “Equipment and services” in the section headed “Business” under “FURTHER INFORMATION IN RELATION TO THE NEW BUSINESS”, the Company estimates that it would purchase no more than 95 units of In-flight WLAN and WIFI Equipment from Donica. The Proposed Annual Cap for the year ending 31 December 2016 is calculated based on 95 units of In-flight WLAN and WIFI Equipment and the Services to be purchased from Donica at the pricing as set out in the Master Supply Agreement. Taking into account the aforesaid and that the New Business would be in operation for the entire year ending 31 December 2016, the Company considers that the Proposed Annual Cap for the year ending 31 December 2016 is reasonable for the requirements of the Group’s business plan in 2016.

Other than above factors, the Company has also taken into account the production capacity of Donica in formulating its business plan during the term of the Master Supply Agreement. Considering that (i) the in-flight WIFI service business is at the start-up stage in the PRC as compared to the booming of such service business abroad; (ii) the in-flight WIFI service has not yet been put into mass commercial use in the PRC; (iii) state-owned Chinese airline companies have started trial run on the in-flight WIFI service; (iv) a majority of the aircraft operated by domestic airline companies in the PRC has not yet installed with the in-flight WLAN or WIFI connection equipment; and (v) a number of airline companies have been in discussion with the Group, the Directors consider that the two-year business plan formulated by the Company is feasible and is appropriate to use for determining the Proposed Annual Caps to facilitate the Group’s business development. The Company considers that if the Proposed Annual Caps are not sufficient for the New Business, this may hinder the Group’s development and would not be in the best interests of the Company.

The Company has taken into account the obtaining of the Qualifications as soon as in the fourth quarter of 2016 for producing the in-flight WLAN or WIFI connection equipment in determining the Proposed Annual Cap for the year ending 31 December 2016.

The Directors would like to draw the attention of the Shareholders and the potential investors of the Company that, given that the in-flight WIFI service business in the PRC is at the start-up stage and the majority of the aircraft operated by the airline companies has not yet installed the in-flight WLAN or WIFI connection equipment, **the Proposed Annual Caps are merely based on the two-year business plan for the New Business formulated by the Company.** In addition, if the Company obtains the Qualifications, the Group shall produce the in-flight WLAN or WIFI connection equipment by itself and engage independent qualified engineering companies to provide the Services, instead of purchasing them from Donica. As such, the actual orders for the In-flight WLAN and WIFI Equipment placed by the Company during the term of the Master Supply Agreement may or may not be the same as the Proposed Annual Caps and **the Proposed Annual Caps do not reflect the profitability and the level of business of the Group in the future.** According to the Master Supply Agreement, **the Proposed Annual Caps do not represent the purchase commitments of the Company** and the Company is not required to make any upfront payment to Donica based

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on the Proposed Annual Caps. In addition, there is no penalty for placing orders below the Proposed Annual Caps. Payment to Donica is only made following the order is actually placed by the Company.

Based on the two-year business plan, the Directors are of the opinion that, taking into account the Group's available financial resources including internally generated cash flow, credit facilities, cash on hand and the proceeds to be raised from the Subscription, the Group will have sufficient working capital to carry out the New Business for the two years ending 31 December 2016. In case the Group requires further capital to develop its business including the New Business, the Group will consider equity and/or debt fund raising in order to satisfy such capital need.

The Shareholders and potential investors of the Company should note that depending on the mode of cooperation between the Group and the airline companies, the Group may or may not charge the airline companies for the provision of in-flight WLAN or WIFI connection equipment to them but may earn/share any income derived from the use of the in-flight WLAN or WIFI systems supplied by the Group for advertising and shopping. Please refer to the paragraph headed "The New Business may record net cash outflows in its development" in the section headed "Risk Factors" in this letter from the Board below.

Reasons for and benefits of the Master Supply Agreement

As mentioned in the section headed "Reasons for and benefits of the Subscription" under "THE SUBSCRIPTION", the Directors are of the view the Subscription represents a good opportunity to, among others, enable the Group to develop the New Business in parallel to its existing business.

The Company considers that it is beneficial to the Group to leverage the experience, expertise and capability of Donica in the making and provision of the In-flight WLAN and WIFI Equipment and cooperation with independent qualified engineering companies in the provision of the Services for the development of the Group's New Business through the Master Supply Agreement. With the assistance of Xing Hang, the Company anticipates to obtain the Qualifications relating to the production of the in-flight WLAN or WIFI connection equipment and thereafter reduce reliance on Donica to supply such equipment. Furthermore, the Company will also acquire such equipment from other overseas suppliers and the Services directly from independent qualified engineering companies. Therefore, the Board considers that the risk of reliance on Donica to supply the In-flight WLAN and WIFI Equipment is acceptable and the Master Supply Agreement is in the interests of the Company and the Shareholders as a whole.

In view of the above, the Directors (including the independent non-executive Directors) are of the view that the terms of the Master Supply Agreement and the Master Supply Transactions are fair and reasonable, the Master Supply Agreement and the Master Supply Transactions are on normal commercial terms, in the ordinary and usual course of business of the Company and in the interests of the Company and the Shareholders as a whole, and that the Proposed Annual Caps set out above (i.e.

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RMB23,670,000 and RMB82,098,000 for the year ending 31 December 2015 and 2016 respectively) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Information on Donica

Donica is owned by Mr. Cai Zhaoyang (who is the majority shareholder and the sole director of Xing Hang) as to 41.9825%, Mr. Xie Yuehui as to 18.75%, Mr. Lin Fan (who is a minority shareholder of Xing Hang) as to 17.625%, Mr. Jin Yi as to 12%, Mr. Li Chengjun as to 6.5175% and Mr. Guo Pengcheng (who is a minority shareholder of Xing Hang) as to 3.125%. The Company understands from Donica that it is a manufacturer of, among others, in-flight entertainment systems and avionic systems, and a service provider for repairment of the in-flight entertainment systems. The Company understands from Donica that the In-flight WLAN and WIFI Equipment is part of the products manufactured and offered by Donica and taking into account the Company's interest in the business of providing in-flight WLAN or WIFI services and the Company's resources (including the fund generated from the Subscription), Donica wishes to join force with the Company to develop the New Business in the PRC.

Donica is a third party independent of the Company, Eternity and their respective connected persons.

Information on the Group

Please refer to the section headed "Information on the Group" under "THE SUBSCRIPTION" for further information on the Group.

GEM Listing Rules Implications

Donica is owned as to 41.9825% by Mr. Cai Zhaoyang (who is the majority shareholder and the sole director of Xing Hang), 18.75% by Mr. Xie Yuehui, 17.625% by Mr. Lin Fan (who is a minority shareholder of Xing Hang), 12% by Mr. Jin Yi, 6.5175% by Mr. Li Chengjun and 3.125% by Mr. Guo Pengcheng (who is a minority shareholder of Xing Hang). Upon Completion, Xing Hang will become the controlling shareholder (as defined under the GEM Listing Rules) of the Company, and therefore Donica will become an associate (as defined under the GEM Listing Rules) of Xing Hang and accordingly a connected person of the Company upon Completion. Accordingly, the transactions contemplated under the Master Supply Agreement will constitute continuing connected transactions for the Company under Chapter 20 of the GEM Listing Rules. Since the highest applicable percentage for the Proposed Annual Caps for the transactions contemplated under the Master Supply Agreement is more than 5%, the transactions contemplated under the Master Supply Agreement shall be subject to approval by the Independent Shareholders and the announcement, reporting and annual review requirements under Chapter 20 of the GEM Listing Rules.

None of the Directors have a material interest in the transactions contemplated under the Master Supply Agreement. Accordingly, no Director was required to abstain from voting on the board resolutions in respect of the Master Supply Agreement.

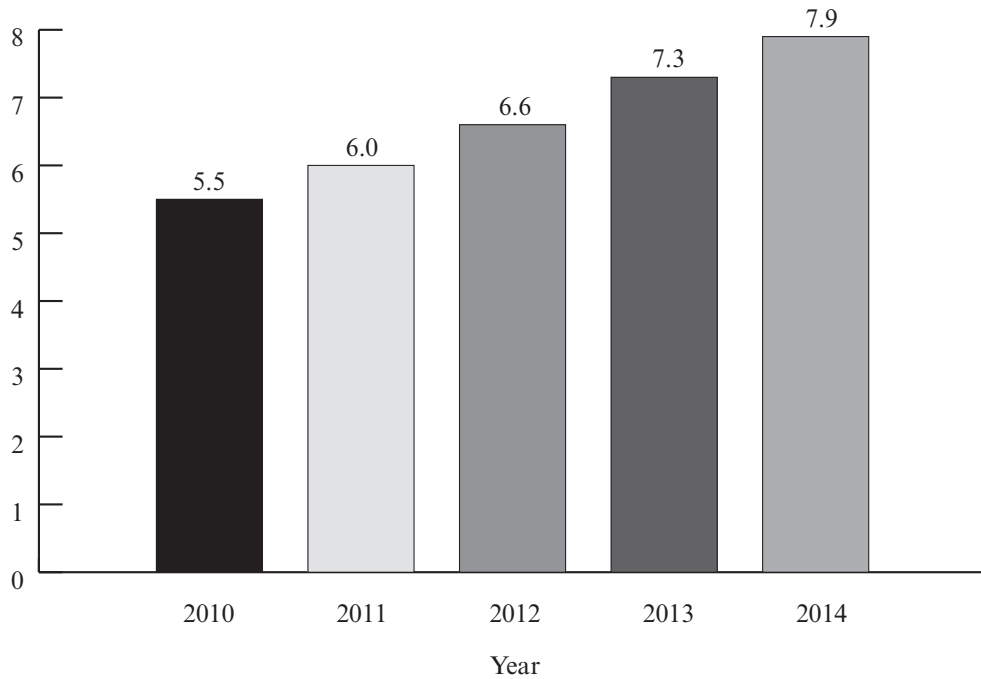
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FURTHER INFORMATION IN RELATION TO THE NEW BUSINESS

Industry overview

The in-flight WIFI service business in the PRC are still at the start-up stage. State-owned Chinese airlines have started in-flight WIFI service trials but such in-flight WIFI services have not yet been put into mass commercial use. With regard to the growth in the air travel industry, based on the statistics issued by the Civil Aviation Administration of China, there were approximately 7.9 million flights that took place during the year of 2014 as compared to approximately 7.3 million flights in 2013. During 2010–2014, the growth in the number of flights in the PRC recorded a compound annual growth rate of approximately 9.5%. Set out below are the numbers of flights in the PRC from 2010 to 2014:

Number of flights (million)

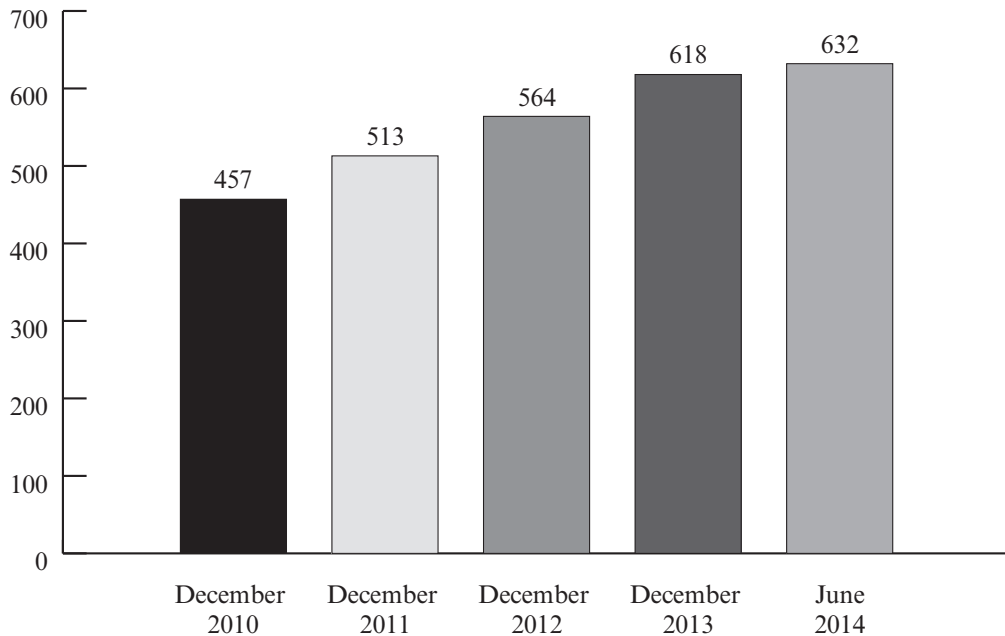


Source: Civil Aviation Administration of China

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With regard to the use of internet in the PRC, as mentioned in the section headed “Reasons for and benefits of the Subscription”, by the end of June 2014, the PRC had approximately 632 million internet users, representing an increase of approximately 14.42 million as compared with that at the end of 2013. During 2010–2013, the growth of the number of internet users recorded a compound annual growth rate of approximately 8.4%. Set out below is the number of internet users from 2010 to 2014:

Number of internet users (million)



Source: Civil Internet Network Information Center

With the increasing number of flights and the internet users in the PRC, the Company believes that there will be considerable demand of in-flight WIFI service.

Major customer base

The New Business’s target customers/cooperation partners will comprise domestic airline companies in the PRC as well as international airlines with routes to the PRC. Based on the statistics issued by the Civil Aviation Administration of China, there were 51 domestic airline companies in the PRC and 2,370 units of aircraft by the end of 2014.

Major market players and competition

The in-flight WIFI service business in the PRC is still at the start-up stage and has not yet been put into mass commercial use. After discussing with Donica and to the best knowledge and information of the Directors, there are overseas service providers such as Gogo Inc., Global Eagle Entertainment Inc., Panasonic Avionics Corporation and domestic companies in the process of developing in-flight WLAN or WIFI services in the PRC.

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Entry/exit barriers

As set out in the section headed “Legal and regulatory overview”, the production of the in-flight WLAN or WIFI connection equipment is subject to the obtaining of the Qualifications and the provision of related Services is subject to the obtaining of the MRO. Any potential entrant to the in-flight WIFI service business will need to obtain the Qualifications to manufacture the In-flight WLAN and WIFI Equipment and the MRO to provide the relating Services and/or obtain the qualified equipment and services from third party suppliers. Depending on the mode of cooperation with the airline companies, the Group may or may not charge the airline companies for the equipment supplied to them. Therefore, the New Business may involve substantial investment in in-flight WLAN and/or WIFI connection equipment. The Group may enter into a cooperation agreement with the airline companies in relation to the provision of in-flight WLAN or WIFI services, which may limit the opportunities that potential entrants may be able to seize in terms of soliciting customers. On the other hand, such cooperation agreements with the airline companies as well as any significant investments in the in-flight WIFI service business may hinder such companies engaging in the provision of in-flight WLAN or WIFI services to exit the business.

Risk factors

The New Business may not be successful or marketable

The in-flight WIFI service business in the PRC is still at the start-up stage and has not yet been put into mass commercial use. As stated in the section headed “Reasons for and benefits of the Subscription”, the Group may or may not charge the airline companies for the provision of in-flight WLAN or WIFI connection equipment to them but may earn/share any income derived from the use of the in-flight WLAN or WIFI systems supplied by the Group for advertising and shopping. The New Business is a new business of the Group under development and there is no guarantee that the New Business will turn out to be successful or marketable.

The New Business may not be able to keep up with technological changes

The in-flight WLAN and WIFI industry is fast moving and customers’ preference change quickly. The introduction of new technology may render the Group’s services to be obsolete and uncompetitive. Accordingly, the Group’s future success will depend on its ability to adapt to changing technologies and continually improving the know-how of its staff in response to evolving demands of the market place. Failing to adapt to such changes may result in the New Business losing its customers, which would have a material adverse effect on the New Business.

The New Business may record net cash outflows in its development

Net cash outflows may be recorded for the development of the New Business. Depending on the mode of cooperation between the Group and the airline companies, the Group may or may not charge the airline companies for the provision of in-flight WLAN or WIFI connection equipment to them but may earn/share any income derived from the use

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of the in-flight WLAN or WIFI systems supplied by the Group for advertising and shopping. Therefore, at the initial stage of development, the Group may be required to purchase and pay for the in-flight WLAN or WIFI connection equipment and the related installation services before generating substantial cash inflow from the use of the Group's in-flight WLAN or WIFI systems, which may be a burden on the Group's working capital and financial condition.

Reliance on the PRC market

The Group's target customers under the New Business comprise airlines in the PRC and small to medium international airlines with routes to the PRC. Any unexpected economic, political and social events or changes in the PRC may have a significant impact on the New Business. Moreover, if there is any event that leads to consistently low demand for in-flight WLAN or WIFI services, the performance of the Group could be significantly and adversely affected.

Compliance with PRC laws and regulations

As set out in the section headed "Legal and regulatory overview" below, the operation of the New Business is subject to compliance with various rules and regulations in the PRC. In order to expand into the production of the in-flight WLAN or WIFI connection equipment, the Group must obtain the Qualifications. While pursuant to the Term Loan Agreement, Xing Hang has undertaken to use its best endeavours to procure the obtaining of the Qualifications by the Company, the Group may still not be able to obtain such Qualifications and may therefore be unable to expand into the production of the in-flight WLAN or WIFI connection equipment. The Group also plans to provide online contents via the Group's in-flight WLAN or WIFI network by way of entering into certain contractual arrangements with the Operation Company. As set out in the section headed "Legal and regulatory overview" below, the provision of online contents is subject to compliance with various rules and regulations in the PRC. Failure to comply with such requirements shall be liable to penalties as specified in the section headed "Legal and regulatory overview" below.

Reliance on key personnel

Xing Hang is an investment holding company incorporated in the British Virgin Islands with limited liability and is ultimately owned as to 82.5% by Mr. Cai Zhaoyang (who is the majority shareholder and the sole director of Xing Hang), 7.5% by Mr. Lin Fan, 3.75% by Ms. Xu Yaping, 3.75% by Mr. Guo Pengcheng and 2.5% by Mr. Chen Jie. Upon completion of the Subscription, Xing Hang will become the controlling shareholder (as defined under the GEM Listing Rules) of the Company and will be obliged to make the Offer. As set out in the section headed "Information on the Subscribers", Mr. Cai has extensive experience, strong expertise and a wide business network in the avionic engineering and service business industry in the PRC. The Company intends to nominate Mr. Cai as a new executive Director to the Board and such appointment will not take effect earlier than the date of posting of the Composite Document in relation to the Offer, subject to the requirements of the Takeovers Code. The Group is in the process of building its own team for the New Business. The success of the New Business depends, to a significant

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extent, on the expertise and experience of Mr. Cai and the Group's team of the New Business. There is no assurance that Mr. Cai will be appointed as an executive Director and the Group can recruit sufficient qualified staff to operate the New Business. If Mr. Cai is not appointed as an executive Director or the Group cannot recruit and retain qualified teams of staff to operate the New Business, the New Business may be materially and adversely affected.

Product liability

The products provided by the Group under the New Business may contain defects or errors. The Group may incur costs in correcting the defects or errors or defending any legal proceedings and claims brought by its customers. Defects or errors that may be contained in the Group's products may also affect the Group's relationship with such customers and result in negative publicity, hence adversely affecting the Group's reputation. The Group does not currently maintain any product liability insurance for the New Business but may consider doing so in future. There is no assurance that there will not be any product liability claims against the Group for the loss or damage caused by defective products. If any of the Group's customers make any claim against the Group which is in excess of any insurance coverage of the Group or otherwise falls outside such coverage, the Group will need to bear the costs of settling such claims, and may result in the Group's business and financial condition being adversely affected.

Price fluctuations of equipment and services

Pursuant to the Subscription Agreement, upon Completion, the Company and Donica shall enter into the Master Supply Agreement, pursuant to which the Company may purchase the In-flight WLAN and WIFI Equipment and the Services from Donica, and Donica shall supply the In-flight WLAN and WIFI Equipment exclusively and engage the independent qualified engineering companies to provide the Services to the Company from time to time during the term of the Master Supply Agreement. The Master Supply Agreement specifies the unit price of the In-flight WLAN and WIFI Equipment (which is based on the current price charged by Donica to its existing customers less a certain percentage as a discount to the Group) and the unit price of the Services (which is based on the service charge charged to Donica by the independent service provider(s) and subject to an adjustment of 15% per annum due to factors such as inflation). The cost of the Services will be subject to price fluctuations in the market. Furthermore, in addition to purchasing the in-flight WLAN or WIFI connection equipment from Donica, the Group will purchase such equipment from other suppliers, and the price of such purchases will also be subject to price fluctuations in the market. Such price fluctuations in equipment and services may affect the Group's profitability and operations.

Reliance on major customers and major supplier

The Group intends to focus on domestic airlines in the PRC and international airlines with routes to PRC. The airlines that make recurring orders to acquire WLAN or WIFI services may become major customers of the Group under the New Business. In the event

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that such customers terminate their respective business relationships with the Group at any time, the Group may not be able to solicit new customers in time, and the Group's business, results of operations and financial condition may be materially and adversely affected.

Upon Completion, the Company and Donica shall enter into the Master Supply Agreement, whereby the Company may purchase the In-flight WLAN and WIFI Equipment and the Services from Donica and Donica shall supply the In-flight WLAN and WIFI Equipment exclusively and engage the independent qualified engineering companies to provide the Services to the Company from time to time during the term of the Master Supply Agreement. In case of the Master Supply Agreement not being approved by the Independent Shareholders or any interruptions of supply of the In-flight WLAN and WIFI Equipment by Donica and the Services by independent qualified engineering companies and the Company fails to source the required equipment and services from other suppliers in a cost effective and timely manner, the reputation, the business operations and financial performance of the Group may be adversely affected.

Legal and regulatory overview

The Company has established a wholly-owned subsidiary (“WFOE”) in the PRC to engage in the New Business. The WFOE will procure In-flight WLAN and WIFI Equipment from Donica and provide the same to airline companies. The major regulations governing this business are the Administrative Measures on Foreign Investments in Commercial Sector (外商投資商業領域管理辦法) issued by the Ministry of Commerce (“MOFCOM”) and effective as of 1 June 2004. Pursuant to these Administrative Measures, (i) foreign investments in wholesale business, defined as sales of goods to retailers and industrial, commercial or institutional users or other wholesalers as well as provision of ancillary services, must be approved by MOFCOM, and (ii) types of goods for wholesales must be specified. The establishment of the WFOE has been approved by MOFCOM and the scope of business described in its articles of association and business license of the WFOE includes wholesale of in-flight WIFI equipment for aircraft. As advised by the Company's PRC legal advisers, the Company is in compliance with the Administrative Measures.

The WFOE will provide airline companies with technical support services in relation to the in-flight WLAN or WIFI connection equipment it provides. Such services will include technical support for installation, certification, usage and testing of the in-flight WLAN or WIFI connection equipment (the “**Technical Support Services**”). There are no special regulations or licensing requirements on the Company's provision of the Technical Support Services. However, retrofitting an aircraft with WIFI equipment must be done by a service provider with the MRO granted by Civil Aviation Administration of China. The WFOE does not have the MRO and will not carry out retrofitting work for its customers. At the customers' request, the WFOE will recommend or engage independent service provider(s) possessing the MRO to complete the required retrofitting work. The WFOE and independent service provider(s)' responsibilities will be defined in the contractual documents between them and airline companies.

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The WFOE will expand into the production of the in-flight WLAN or WIFI connection equipment. For this purpose, the WFOE is required to (i) expand the scope of business recorded on its Business License to include manufacture and provision of related services, which is subject to the approval of the competent environmental protection department, approval of the local branch of MOFCOM and registration with the local Administration for Industry and Commerce, and (ii) obtain the Qualifications from the Civil Aviation Administration of China (“CAAC”) including the Parts Manufacturer Approval (零部件製造人批准書) (the “PMA”) and Repair License for Civil Aircraft Repair Entity (民用航空器維修單位維修許可) (the “Repair License”). Below is a summary of required approvals and licenses and applicable regulations for engaging in production of the in-flight WLAN or WIFI connection equipment and legal consequence for operating above business without the required approvals or licenses:

License	Regulations	Legal consequence for non-compliance
(1) Approval on Environmental Impact Assessment for Construction Project (建設項目環境影響審批)	Law on Environmental Impact Assessment of the PRC (中華人民共和國環境影響評價法); Administrative Regulations on Environmental Protection for Construction Projects of Guangdong Province (廣東省建設項目環境保護管理條例)	Being ordered to discontinue the construction and production and rectify the situation; fines up to RMB200,000.
(2) Pollutants Discharge Permit (污染物排放許可) (if applicable)	Administrative Measures on Pollutants Discharge Permits (廣東省排污許可證管理辦法)	Being ordered to cease pollutants discharge; fines up to RMB100,000; in case of serious environmental pollution, being ordered to discontinue production and business.
(3) Acceptance of Environment Protection Facility for Construction Project (建設項目環境保護設施專項驗收)	Administrative Regulations on Environmental Protection for Construction Projects (建設項目環境保護管理條例); Administrative Regulations on Environmental Protection for Construction Projects of Shenzhen Special Economic Zone (深圳經濟特區建設項目環境保護條例)	Being ordered to discontinue production; fines up to RMB1,000,000 depending upon the nature of the project.
(4) Approval of local branch of MOFCOM on expansion of scope of business	Law on Wholly Foreign Owned Enterprises of the PRC (中華人民共和國外資企業法)	Being ordered to discontinue the business; confiscation of illegal revenues; fines up to RMB500,000; confiscation of equipment, tools or other assets used for the illegal business activities.

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License	Regulations	Legal consequence for non-compliance
(5) Registration with the local Administration for Industry and Commerce for expansion of scope of business	Administrative Regulations on Company Registration of the PRC (中華人民共和國公司登記管理條例)	Being ordered to complete registration within the specified period; in case of failure to do that, fines up to RMB100,000; in serious circumstance, revocation of business license.
(6) Parts Manufacturer Approval (零部件製造人批准書)	Regulations on Certification of Qualification of Civil Aviation Products and Parts (民用航空產品和零部件合格審定規定) (CCAR-21-R3) issued by CAAC and effective as of 15 April 2007	Being ordered to discontinue production; confiscation of illegal revenues; fines up to the amount of the illegal revenues or (in case of no illegal revenues generated) RMB500,000.
(7) Repair License for Civil Aircraft Repair Entity (民用航空器維修單位維修許可)	Regulations on Certification of Qualification of Civil Aircrafts Repair Entities (民用航空器維修單位合格審定規定) (CCAR-145-R3) issued by CAAC and effective as of 31 December 2005	Being ordered to discontinue repair business and illegal activities; fines up to RMB30,000; confiscation of illegal revenues.

The Company will also provide to airline companies services relating to online-shopping, game, video and other contents which can be accessed by passengers via wireless network on retrofit aircraft which are equipped with the in-flight WLAN or WIFI connection equipment supplied by the Group (the “**Operating Services**”). Below is a summary of the applicable regulations and required licenses for engaging in the Operating Services and legal consequences for engaging in the Operating Services without the required licenses:

License	Regulations	Legal consequence for non-compliance
(1) Value Added Telecommunication Business Operation License (增值電信業務經營許可證)	Regulations on Telecommunication of the PRC (中華人民共和國電信條例) promulgated by the State Council and effective as of 25 September 2000; Administrative Measures on Licenses for Operating Telecommunication Business (電信業務經營許可管理辦法) issued by the Ministry of Industry and Information Technology (“MIIT”) and effective as of 10 April 2009	Being ordered to rectify the situation; confiscation of illegal revenues; fines up to 5 times the illegal revenues or RMB1,000,000; in serious circumstance, being ordered to discontinue business for rectification.

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License	Regulations	Legal consequence for non-compliance
(2) Online Culture Business License (網絡文化經營許可證)	Interim Administrative Regulations on Internet Culture (互聯網文化管理暫行規定) issued by the Ministry of Culture (“MOC”) and effective as of 1 April 2011; Interim Administrative Measures on Online Games (網絡遊戲管理暫行辦法) issued by MOC and effective as of 1 August 2010	Being ordered to discontinue the business; confiscation of illegal revenues; fines up to RMB500,000; confiscation of equipment, tools or other assets used for the illegal business activities.
(3) Internet Publishing License (互聯網出版許可證)	Interim Administrative Regulations on Internet Publishing (互聯網出版管理暫行規定) issued by the then General Administration of Press and Publication (“GAPP”) and Ministry of Information Industry (“MII”) and effective as of 1 August 2002	Being ordered to discontinue the business; confiscation of equipment and tools employed in the illegal publishing activities and illegal revenues; fines up to 10 times the illegal business revenues.
(4) Internet Audio/Video Program Transmission License (信息網絡傳播視聽節目許可證)	Administrative Regulations on Internet Audio/Video Program Services (互聯網視聽節目服務管理規定) jointly issued by the then State Administration of Radio, Film, and Television (“SARFT”) and MII and effective as of 31 January 2008	Warning; being ordered to rectify the situation; fines up to RMB30,000; in serious circumstance, being ordered to discontinue business, confiscation of equipment employed in the illegal business activities and fines up to twice the total investment.

Furthermore, provision of the Operating Services is subject to the restriction on foreign participation imposed by the Guiding Catalogue on Foreign Investment Industries (2015 Revision) (外商投資產業指導目錄(2015年修訂)) (the “**Catalogue**”) jointly issued by the National Development and Reform Commission (國家發展和改革委員會) (“**NDRC**”) and MOFCOM and effective from 10 April 2015. Pursuant to the aforesaid catalogue, (i) value added telecommunication business is a restricted sector for foreign investments, where a foreign investor’s shareholding percentage shall be no more than 50% except that the Catalogue allows 100% foreign ownership in e-commerce business; and (ii) internet publishing services, online audio and video program services and online culture business (other than online music business) fall within the category prohibiting any foreign investments.

On 19 June 2015, the Ministry of Industry and Information Technology (“**MIIT**”) issued a circular that expressly allows foreign investors to hold 100% equity interests in online data processing and transaction processing business (operating e-commerce) (the “**E-commerce Business**”) subject to the conditions and procedures provided in the Regulations on Administration of Foreign Invested Telecommunications Enterprises (外商投資電信企業

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管理規定)。 Pursuant to these regulations, the major foreign investors in foreign invested enterprises engaged in value added telecommunications business shall have good business operation record and experience in providing value added telecommunications service. The E-commerce Business is classified as a type of value added telecommunications business. The Group has not conducted any value added telecommunications business and are not qualified for investing in the E-commerce Business in the PRC. Therefore, the WFOE is unable to operate online shopping business and will enter into certain contractual arrangements as follows.

Pursuant to the Administrative Regulations on Internet Audio/Video Program Services jointly issued by the then State Administration of Radio, Film and Television (“SARFT”) and MII and effective as of 31 January 2008, online transmission of audio and video programs requires an Internet Audio/Video Program Transmission License and online audio/video service providers must be state-owned enterprises. Neither the WFOE nor the Operation Company (as defined below) is a state-owned enterprise and qualified for applying for the Internet Audio/Video Program Transmission License.

To comply with the Catalogue and relevant laws and regulations on foreign investments, the WFOE will enter into a series of contractual arrangements with a PRC domestic company (the “**Operation Company**”) to operate business in connection with the Operating Services. The Operating Company will apply for all necessary licenses (including the Value Added Telecommunication Operation License, Online Culture Business License, Internet Publishing License) and/or enter into cooperative arrangements with entities holding other required licenses for the Operating Services. The Operation Company plans to enter into cooperative arrangements with entities holding the Internet Audio/Video Program Transmission License (信息網絡傳播視聽節目許可證) to provide video contents to passengers in aircraft equipped with the in-flight WLAN or WIFI connection equipment supplied by the Group. Under the cooperative arrangements, the Operation Company will outsource to the entities possessing the Internet Audio/Video Program Transmission License to provide, manage and update the audio/video contents library and offer the online transmission services, and the Operation Company will share revenues generated from the related advertising services with the license owners.

Such setup of constructural arrangement with the Operation Company will comply with the relevant requirements of the GEM Listing Rules including the guidance letter of GL77-14 issued by the Stock Exchange.

Business

Under the New Business, the Group will provide in-flight WLAN or WIFI services, which include supplying the in-flight WLAN or WIFI connection equipment for installation in passenger aircraft. The Company envisages that the first stage of the in-flight WLAN or WIFI services to be provided will only cover an in-flight connection to the airplane’s server system which will enable the provision of a wider choice of information and entertainment services and in-flight shopping experience to the passengers while connection to the internet will be available when the airplane’s server system is connected to the internet via satellites or ground-air stations. The Group plans to provide entertainment contents such as gaming,

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videos, destination information to be sourced from third parties or produced by the Group and online shopping services that can be accessed by the passengers of the aircraft through the in-flight WLAN or WIFI connection equipment supplied by the Group. Depending on the mode of cooperation between the Group and the airline companies, the Group may or may not charge the airline companies for the provision of in-flight WLAN or WIFI connection equipment and the relating Services to them but may earn/share any income generated from the use of the in-flight WLAN or WIFI connection equipment supplied by the Group for advertising and shopping.

It is intended that the targeted customers of the Group's New Business will comprise airline companies in the PRC and international airlines with routes to PRC. The Group will introduce its New Business gradually taking into account the demand of the Group's New Business from the airline companies. The Group will price any in-flight WLAN or WIFI connection equipment and the Services sold to its customers taking into account prices charged by the overseas providers of similar equipment and services. With regard to the pricing for advertising through the in-flight WLAN or WIFI connection equipment, the Group will make reference to online advertising charges in the market.

Equipment and services

The expenditures of the New Business will primarily comprise the in-flight WLAN or WIFI connection equipment, including servers, wireless routers and monitors which are certified by the relevant aviation authorities in the PRC for use on airplanes and the related installation, testing and repair services. The in-flight WLAN or WIFI connection equipment is subject to upgrade, maintenance, and replacement depending on the functionality of the equipment and the relevant technological advancement.

Upon Completion, the Company and Donica shall enter into the Master Supply Agreement, whereby the Company will purchase the In-flight WLAN and WIFI Equipment and the Services from Donica and Donica shall supply the In-flight WLAN and WIFI Equipment exclusively and engage independent qualified engineering companies to provide the Services to the Company from time to time during the term of the Master Supply Agreement. As set out in the section headed "The Master Supply Agreement", it is estimated that the Company's purchases of the In-flight WLAN and WIFI Equipment and the Services from Donica will not exceed RMB23,670,000 and RMB82,098,000 for each of the years ending 31 December 2015 and 2016.

To fulfil the demand of equipment as required under the Company's business plan, the Company will source from other overseas suppliers of in-flight WLAN or WIFI connection equipment. After discussion with Donica and to the best knowledge of the Directors, the Company has identified several overseas suppliers of in-flight WLAN or WIFI connection equipment as set out below. The Group can purchase in-flight WLAN or WIFI connection equipment from such overseas suppliers' offices in the PRC or their overseas offices. As advised by the Company's PRC legal advisers, there is no legal impediment for the Group to source from the overseas suppliers of in-flight WLAN or WIFI connection equipment to the PRC.

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According to the annual report of one of the overseas suppliers, it designs, produces and supports communications and aviation systems for commercial and military customers and provides information management service through voice and data communication networks and solutions worldwide and its common stocks are listed on the New York Stock Exchange. As stated in the annual report of such overseas supplier, its Commercial Systems segment supplies aviation electronics systems, products, and services to customers located throughout the world with customer base comprising OEMs of commercial air transport, business and regional aircraft, commercial airlines and business aircraft operators and such segment reported revenue of approximately US\$2,299 million for the year ended 30 September 2014.

According to the website of another overseas supplier, which is based in the US, such supplier designs, develops, manufactures and installs customized in-flight entertainment and communications solutions and it collaborates with over 275 airline customers to develop in-flight entertainment and communications solutions.

According to the website and annual report of a further overseas supplier, such supplier is a German stock corporation and its shares are listed on the Regulated Market of the Frankfurt Stock Exchange. It is stated in its website that it develops and produces embedded computer systems at various locations worldwide and is a supplier of integrated hardware systems for the commercial aerospace industry with products including critical system components to enable in-flight broadband services and customer base including aircraft manufacturers, sub-contractors and original equipment manufacturer/in-flight entertainment systems manufacturers. According to the annual report 2014 of such supplier, the avionics business which is under the business unit of Avionics/Transportation/Defense generated revenue of approximately €140.4 million (equivalent to approximately HK\$1,193.4 million). Given the scale and experience of such suppliers, the Company considers that they should be able to satisfy the Company's demand of equipment (if needed) based on the Company's business plan for the period up to 31 December 2016.

The WFOE (a wholly-owned subsidiary of the Company) has been in discussions with two of the above overseas suppliers. In particular, the WFOE has entered into a proprietary information exchange agreement with one of the overseas suppliers for the purpose of purchasing in-flight WLAN or WIFI connection equipment from that overseas supplier based on the understanding that the overseas supplier is willing to supply in-flight WLAN or WIFI connection equipment to the WFOE which will sufficiently satisfy the Company's requirement in 2016 as estimated in the Company's business plan.

Furthermore, the Group will further expand into the production of the in-flight WLAN or WIFI connection equipment. For this purpose, the WFOE needs to (i) expand the scope of business recorded on its Business License to include manufacture, which is subject to the approval of the competent environmental protection department, approval of the local branch of MOFCOM and registration with the local Administration for Industry and Commerce, and (ii) obtain the Qualifications from the Civil Aviation Administration of China including the PMA and Repair License for Civil Aircrafts Repair Entity (民用航空器

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維修單位維修許可) (the “**Repair License**”). Further details in relation to the rules and regulations regarding production of the in-flight WLAN or WIFI connection equipment are set out in the section headed “Legal and regulatory overview”.

While Xing Hang does not hold the Qualifications, it has undertaken to use its best endeavours to procure the obtaining of the Qualifications by the Company within 18 months after the Loan has been advanced pursuant to the Term Loan Agreement. Xing Hang will assist the Company with the submission of the required documents to Civil Aviation Administration of China for the purposes of applying for the Qualifications. It is estimated that after Completion, it will take six months to prepare and submit the formal application to Civil Aviation Administration of China for the Qualifications and it may take up to a year after the application for the Civil Aviation Administration of China to review the application and grant the Qualifications. The Company does not expect any legal impediment for obtaining the Qualifications based on the application process and regulations set out by Civil Aviation Administration of China.

The supply of the in-flight WLAN or WIFI connection equipment by which supplier (i.e. Donica, overseas suppliers or the Group after it obtains the Qualifications and commences production of the in-flight WLAN or WIFI connection equipment) is subject to agreement by the airline companies.

Taking into account that the Company may obtain the Qualifications and commence production of the in-flight WLAN or WIFI connection equipment as soon as in the fourth quarter of 2016 and the Company’s purchase of the in-flight WLAN or WIFI connection equipment from any of the overseas suppliers, provided that their equipment at competitive prices meets the technical specifications and delivery schedule as required by the airline companies, and based on the Company’s business plan, the Company estimates that the Company will purchase no more than 95 units of the In-flight WLAN and WIFI Equipment from Donica, representing no more than 49% of the total number of units of the in-flight WLAN or WIFI connection equipment required by the Group in 2016. After obtaining the Qualifications and commencing the production of the in-flight WLAN or WIFI connection equipment, the Company’s reliance on Donica to supply the in-flight WLAN or WIFI connection equipment will be substantially reduced and the Company estimates that most of the in-flight WLAN or WIFI connection equipment required by the Group will be manufactured by the itself in 2017.

The Company undertakes to the Stock Exchange that its purchase of In-flight WLAN and WIFI Equipment from Donica will not exceed 49% of the total units of in-flight WIFI or WLAN connection equipment required by the Group for each year from 2016 and onwards (the “**Requirement**”). The Company will formulate a business plan taking into account the aforesaid Requirement and review the implementation of such business plan on a quarterly basis. Should the implementation deviate from the business plan which may result the Requirement not being met, the Company will make adjustment to the implementation of the business plan with a view to fulfilling the Requirement.

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Taking into account that the business risks associated with reliance on Donica will be mitigated by the purchase from alternative suppliers as mentioned above, the pricing and payment terms offered by Donica under the Master Supply Agreement, the experience, expertise and capability of Donica in the making and provision of the In-flight WLAN and WIFI Equipment and cooperation with independent qualified engineering companies in the provision of the Services, and the Group's plan to expand into the production of the in-flight WIFI or WLAN connection equipment, the Company considers that its reliance on Donica for the time being is acceptable and the business model of the New Business with interim reliance on Donica is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Quality control

Upon completion of the installation of the in-flight WLAN or WIFI connection equipment, the Group will carry out a user acceptance test which generally comprises a series of performance checking to ensure that the installed equipment and installation services are up to the standards as agreed with the customers.

Personnel

Xing Hang is an investment holding company incorporated in the British Virgin Islands with limited liability and is ultimately owned as to 82.5% by Mr. Cai Zhaoyang (who is the majority shareholder and the sole director of Xing Hang), 7.5% by Mr. Lin Fan, 3.75% by Ms. Xu Yaping, 3.75% by Mr. Guo Pengcheng and 2.5% by Mr. Chen Jie. Upon completion of the Subscription, Xing Hang will become the controlling shareholder of the Company and will be obliged to make the Offer. As set out in the section headed "Information on the Subscribers", Mr. Cai has extensive experience, strong expertise and a wide business network in the avionic engineering and service business industry in the PRC. The Company intends to nominate Mr. Cai as a new executive Director to the Board and such appointment will not take effect earlier than the date of posting of the Composite Document in relation to the Offer, subject to the requirements of the Takeovers Code. The Group at present is in the process of building its own team for the New Business. The Directors consider that the Group will be able to establish a professional team with relevant knowledge and experience to carry out the New Business.

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Competition

The in-flight WIFI service business in the PRC is still at the start-up stage. After discussing with Donica and to the best knowledge and information of the Directors, there are overseas service providers such as Gogo Inc., Global Eagle Entertainment Inc., Panasonic Avionics Corporation and domestic companies in the process of developing in-flight WLAN or WIFI services in the PRC.

The Group considers that its source of the In-flight WLAN and WIFI Equipment from Donica at a discounted rate will be a competitive advantage of the Group. Furthermore, the Company anticipates that, as undertaken by Xing Hang pursuant to the Term Loan Agreement, it will obtain the Qualifications to manufacture the in-flight WLAN or WIFI connection equipment which would further strengthen its competitive advantage in providing the equipment.

RECLASSIFICATION AND REDESIGNATION OF AUTHORIZED SHARE CAPITAL AND AMENDMENT TO BYE-LAWS AND ADOPTION OF NEW BYE-LAWS

As one of the conditions precedent to the Subscription, the Board proposes to reclassify and redesignate the existing authorized share capital of the Company of HK\$500,000,000 comprising 5,000,000,000 Ordinary Shares of par value of HK\$0.10 each to become HK\$500,000,000 comprising: (i) 4,950,000,000 Ordinary Shares of par value of HK\$0.10 each; and (ii) 50,000,000 Preferred Shares of par value of HK\$0.10 each, with the rights, privileges and restrictions set out in the new Bye-laws.

The Board further proposes to amend the existing Bye-laws to, among others, reflect (i) the reclassification and redesignation of the authorized share capital of the Company such that the authorized share capital of the Company will be changed from HK\$500,000,000 divided into 5,000,000,000 Ordinary Shares to HK\$500,000,000 comprising (a) 4,950,000,000 Ordinary Shares of par value of HK\$0.10 each; and (b) 50,000,000 Preferred Shares of par value of HK\$0.10 each; and (ii) the creation and issue of Preferred Shares with the rights, privileges and restrictions set out in the new Bye-laws.

The existing Bye-laws are proposed to be amended in the manner as set out in Appendix III to this circular and be incorporated in a new Bye-laws to be adopted by the Company at the SGM conditional upon, among others, the passing of the special resolution for amending the existing Bye-laws and adopting a new Bye-laws by the Independent Shareholder at the SGM. Save for the proposed amendment in relation to the reclassification and redesignation of the Company's authorized share capital and the creation of the Preferred Shares, there is no other amendment to the new Bye-laws to be adopted.

POSSIBLE UNCONDITIONAL MANDATORY CASH OFFER

Subject to fulfillment (or waiver as applicable) of the conditions precedent of the Subscription Agreement and following Completion, Xing Hang will own 179,921,200 Ordinary Subscription Shares, representing approximately 240.53% of the Ordinary Shares in issue as at the Latest Practicable Date and approximately 42.86% of the Ordinary Shares

LETTER FROM THE BOARD

in issue as at the Latest Practicable Date as enlarged by the allotment and issue of the Subscription Shares (assuming that no Preferred Shares are converted into Conversion Shares and that there is no other change in the number of Ordinary Shares in issue). Goldenland, Silver Empire, Truly Elite, High Aim and First Bonus, who are the other Subscribers, are considered parties acting in concert with Xing Hang. Eternity, being the controlling shareholder (as defined under the GEM Listing Rules) of the Company, has undertaken to Xing Hang not to accept the Offer in respect of the 36,500,000 Ordinary Shares held by the Eternity Group (further details in respect of Eternity's undertaking are set out in the section headed "Undertakings in relation to the Offer" below) and the Subscribers have undertaken to Eternity, among other things, not to sell their respective holdings in the Subscription Shares (including any Conversion Shares) within one year after Completion or during the period which Eternity remains directly or indirectly interested in 22,490,150 Ordinary Shares (representing 5.00% of the issued share capital of the Company as enlarged by the allotment and issue of the Ordinary Subscription Shares and the Conversion Shares (assuming that there is no adjustment to the Conversion Price in accordance with the terms of the Preferred Shares and that there is no other change in the number of Ordinary Shares in issue)) (whichever period is shorter). In view of these undertakings between Eternity and the Subscribers, Eternity is regarded as a party acting in concert with Xing Hang. Kingston Securities, being an agent to make the Offer, is also regarded as a party acting in concert with Xing Hang.

Upon Completion, Xing Hang and parties acting in concert with it will in aggregate be interested in 397,500,096 Ordinary Shares, representing approximately 94.69% of the number of Ordinary Shares in issue as enlarged by the allotment and issue of the Subscription Shares (assuming that no Preferred Shares are converted into Conversion Shares and that there is no other change in the number of Ordinary Shares in issue). Upon full conversion of the Preferred Shares, Xing Hang and parties acting in concert with it will in aggregate be interested in 427,500,096 Ordinary Shares, representing approximately 95.04% of the number of Ordinary Shares in issue as enlarged by the allotment and issue of the Ordinary Subscription Shares and the Conversion Shares (assuming that there is no adjustment to the Conversion Price in accordance with the terms of the Preferred Shares and that there is no other change in the number of Ordinary Shares in issue).

Pursuant to Rule 26.1 of the Takeovers Code, Xing Hang will make the Offer. Save for the Eternity Group holding 52,500,000 Ordinary Shares and Kingston Securities holding 96 Ordinary Shares as at the Latest Practicable Date, to the best of the Directors' information, knowledge and belief after due enquiry with Xing Hang, Xing Hang or the parties acting in concert with it do not own any Ordinary Shares or securities in the Company.

The Offer will be made to all Shareholders (excluding the holders of the Excluded Shares). For the avoidance of doubt, the Offer will not be extended to: (i) the other Subscribers in respect of the Subscription Shares; (ii) Kingston Securities in respect of the 96 Ordinary Shares held by it; and (iii) Eternity in respect of 36,500,000 Ordinary Shares held by the Eternity Group, whilst the Offer will be extended to, among others, Eternity in respect of 16,000,000 Ordinary Shares held by the Eternity Group.

LETTER FROM THE BOARD

Principal terms of the Offer

Pursuant to the Subscription Agreement, Xing Hang has undertaken to the Company, following and subject to Completion, to comply with its obligations under the Takeovers Code, and in particular to make the Offer to the holders of the Offer Shares on the terms to be set out in the Composite Document to be issued in accordance with the Takeovers Code. The Offer will be made by Kingston Securities on behalf of Xing Hang in accordance with the Takeovers Code on the following basis:

For each Offer Share HK\$4.07 payable in cash

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

Apart from the 74,803,000 Ordinary Shares in issue, the Company had no other class of relevant securities (as defined in note 4 to Rule 22 of the Takeovers Code) in issue as at the Latest Practicable Date. The Offer, if and when made, will be unconditional in all respects. Acceptance of the Offer will be irrevocable and not capable of being withdrawn, except as permitted under the Takeovers Code.

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Tam B Ray, Billy, Mr. Chu Kin Wang, Peleus and Mr. Tse Joseph, has been established to advise the Independent Shareholders as to whether the Offer is fair and reasonable and as to the acceptance of the Offer. The Independent Board Committee has appointed the Independent Financial Adviser to advise the Independent Board Committee in respect of the Offer and in particular as to whether the Offer is fair and reasonable and as to the acceptance of the Offer.

Xing Hang and the Company intend that the Composite Document in connection with the Offer setting out, among other things, details of the Offer (accompanied by the acceptance and transfer form) and incorporating the respective letters of advice from the Independent Board Committee and the Independent Financial Adviser on the Offer will be issued and despatched by Xing Hang and the Company jointly to the Shareholders in accordance with the Takeovers Code. Pursuant to Rule 8.2 of the Takeovers Code, the Composite Document should be posted to the Shareholders within 21 days of the date of the Joint Announcement or such other date as may be permitted by the Takeovers Code and agreed by the Executive and in compliance with the requirements of the Takeovers Code.

The making of the Offer is conditional on Completion. Completion shall take place within five Business Days from but excluding the day on which the last of the condition precedent of the Subscription Agreement has been fulfilled or waived (as the case may be as agreed among the parties to the Subscription Agreement). As set out in the Company's announcement dated 6 May 2015, it was expected that Completion would take place on or before 26 June 2015 and would not take place within 21 days after the date of Joint Announcement. As such, an application was made to seek the Executive's consent to extend

LETTER FROM THE BOARD

the deadline for the despatch of the Composite Document. The Executive granted the consent under Rule 8.2 of the Takeovers Code to extend the deadline for the despatch of the Composite Document to be within seven days after Completion or 3 July 2015, whichever was earlier. As set out in the Company's announcement dated 19 June 2015, given more time was required to fulfill the conditions precedent of the Subscription, in particular condition (2) in relation to the passing of a resolution by the Independent EDS Shareholders regarding the Subscription, the Redesignation Resolution, the Specific Mandate, the Master Supply Agreement and the amendments to the Bye-laws, and condition (3) in relation to the passing of a resolution by the Eternity Shareholders (or independent Eternity Shareholders, where applicable) in Eternity SGM approving, among others, the Subscription, a supplemental agreement was entered into by the parties to the Subscription Agreement on 19 June 2015 to extend the Long Stop Date from 19 June 2015 to 31 August 2015 or such other date as may be agreed by the parties to the Subscription Agreement in writing. Therefore it was expected that Completion would take place on or before 7 September 2015 and would not take place on or before 26 June 2015. As such, an application was made to seek the Executive's consent to extend the latest time for the despatch of the Composite Document. The Executive granted consent under Rule 8.2 of the Takeovers Code to the further extension of the latest time for the despatch of the Composite Document to 7 days after completion of the Subscription Agreement or 14 September 2015, whichever was earlier. As set out in the joint announcement of the Company and Xing Hang dated 28 August 2015, given more time is required to fulfill the conditions precedent of the Subscription Agreement, in particular conditions (2) and (3) as set out above, a second supplemental agreement was entered into by the parties to the Subscription Agreement on 28 August 2015 to further extend the Long Stop Date from 31 August 2015 to 31 October 2015 or such other date as may be agreed by the parties to the Subscription Agreement in writing. Therefore it is expected that Completion will take place on or before 6 November 2015 and will not take place on or before 7 September 2015. As such, an application has been made to seek, and the Executive has granted, consent to extend the latest time for the despatch of the Composite Document to seven days after Completion or 13 November 2015, whichever is earlier.

Undertakings in relation to the Offer

Eternity held indirectly 52,500,000 Ordinary Shares as at the Latest Practicable Date. Eternity has entered into the Offer Non-Acceptance Undertaking, pursuant to which Eternity has undertaken to Xing Hang that Eternity will not, and will procure that none of its intermediate company(ies) (i.e. company(ies) through which Eternity directly or indirectly holds interests in the Ordinary Shares) will, unless with the prior written consent of Xing Hang, accept the Offer in respect of 36,500,000 Ordinary Shares held indirectly by Eternity or any part thereof during the period while the Offer remains open for acceptance.

The Subscribers (other than Xing Hang) have also entered into the Offer Non-Acceptance Undertaking, pursuant to which each of Goldenland, Silver Empire, Truly Elite, High Aim and First Bonus, each being a Subscriber, has severally (and not jointly) undertaken to Xing Hang that, each of them will not, and will procure that none of their respective intermediate company(ies) (i.e. company(ies) through which the respective

LETTER FROM THE BOARD

Subscriber(s) directly or indirectly hold(s) interests in the Ordinary Shares) will, unless with the prior written consent of Xing Hang, accept the Offer in respect of any of the Ordinary Shares (including any the Ordinary Subscription Shares or Conversion Shares held by any of them) during the period while the Offer remains open for acceptance.

Maintaining the listing status of the Company

The Stock Exchange has stated that if, at the close of the Offer, less than the minimum prescribed percentage applicable to the Company, being 25% of the number of Ordinary Shares in issue, are held by the public at all time, or if the Stock Exchange believes that:

- (a) a false market exists or may exist in the trading of the Ordinary Shares; or
- (b) there are insufficient Ordinary Shares in public hands to maintain an orderly market,

then, it will consider exercising its discretion to suspend dealings in the Ordinary Shares.

Xing Hang intends to maintain the listing of the Ordinary Shares on the Stock Exchange after the close of the Offer and will 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 Ordinary Shares. Xing Hang does not intend to avail itself to any right or power which may be available to it in respect of the compulsory acquisition of any Ordinary Shares outstanding after the close of the Offer. The sole director of Xing Hang, the existing Directors and the new Directors to be appointed to the Board will jointly and severally undertake to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in the Ordinary Shares.

Please refer to the Joint Announcement for further information of the Offer.

IMPLICATION OF RULE 10 OF THE TAKEOVERS CODE

Reference is made to the announcements of the Company dated 4 November 2013 (the “**VSA Announcement**”) and 11 April 2014 and the circular of the Company dated 21 March 2014 (the “**Acquisition Circular**”) regarding the Group’s acquisition (the “**Acquisition**”) of a 51% equity interest in and the shareholders’ loan due by China Honest.

Under the sale and purchase agreement regarding the Acquisition, the vendors (being independent third parties) irrevocably and unconditionally warranted and guaranteed to the purchaser (being a wholly-owned subsidiary of the Company), among other things, that the profits before taxation and extraordinary items of China Honest for the year ended 31 March 2015 will not be less than HK\$9,000,000 (the “**2015 Profit Guarantee**”). The Acquisition was completed on 11 April 2014 and China Honest is now a 51% owned subsidiary of the Company. The 2015 Profit Guarantee constitutes an existing profit forecast on public record under the note to Rule 10.1 of the Takeovers Code. The 2015 Profit Guarantee was agreed by the parties to the Acquisition as a compensation provided by the vendors to the purchaser if the profits before taxation and extraordinary items of China Honest for the year ended 31 March 2015 are less than HK\$9,000,000. The unaudited

LETTER FROM THE BOARD

results of the management accounts of China Honest for the year ended 31 March 2015 supports that the profits before taxation and extraordinary items of China Honest for the year ended 31 March 2015 are not less than HK\$9,000,000. As set out in the announcement of the Company dated 6 July 2015, based on the certificate issued by HLB on 30 June 2015, the 2015 Profit Guarantee has been fulfilled. Your attention is drawn to the reports issued by HLB and RFML in relation to the 2015 Profit Guarantee set out in Appendix I and Appendix II to this circular respectively.

GENERAL

The issue of the Subscription Shares will be subject to, amongst other things, the approval of the Independent Shareholders for the granting of the Specific Mandate, the Master Supply Agreement, the Master Supply Transactions, the Proposed Annual Caps, the Redesignation Resolution and the amendment to the Bye-laws at the SGM.

To the best knowledge of the Directors, apart from Eternity and Kingston Securities which are regarded as parties acting in concert with the Subscribers, no existing Shareholder has a material interest in the above matters and therefore no Shareholder (other than Eternity, Kingston Securities and their respective associates (as defined under the GEM Listing Rules)) are required to abstain from voting in relation to the resolutions concerning the Subscription Agreement and the transactions contemplated thereunder, the granting of the Specific Mandate, the Master Supply Agreement, the Master Supply Transactions, the Proposed Annual Caps, the Redesignation Resolution and the amendment to the Bye-laws to be proposed at the SGM. Accordingly, Eternity, Kingston Securities and each of their associates (as defined under the GEM Listing Rules) shall abstain from voting on the resolutions to be proposed at the SGM. As at the Latest Practicable Date, the Subscribers and parties acting in concert with Xing Hang, apart from Eternity and Kingston Securities which indirectly owned 52,500,000 Ordinary Shares and directly owned 96 Ordinary Shares respectively as at the Latest Practicable Date, did not hold any Ordinary Shares and accordingly will not be entitled to vote on any resolutions at the SGM.

Pages 110 to 113 of this circular contain a notice convening the SGM which will be held at Meeting Room (Soho 2), 6/F., ibis Hong Kong Central & Sheung Wan Hotel, No. 28 Des Voeux Road West, Sheung Wan, Hong Kong on Friday, 30 October 2015 at 10:00 a.m.. At the SGM, resolutions will be proposed to approve the Subscription Agreement and the transactions contemplated thereunder, the granting of the Specific Mandate, the Master Supply Agreement, the Master Supply Transactions, the Proposed Annual Caps, the Redesignation Resolution and the amendment to the Bye-laws, which will be decided by poll in accordance with the GEM Listing Rules.

A form of proxy for use by the Shareholders at the SGM is enclosed herewith. Whether or not you intend to be present at the SGM, you are requested to complete the enclosed form of proxy and return it to the Company's branch share registrar in Hong Kong, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong in accordance with the instructions printed thereon as soon as practicable but in any event not later than 48 hours before the time appointed for holding the SGM.

LETTER FROM THE BOARD

Completion and return of the form of proxy will not preclude you from attending and voting at the SGM in person should you so wish.

RECOMMENDATION

The Directors (including the independent non-executive Directors) are of the opinion that the Subscription Agreement and the transactions contemplated thereunder, the granting of the Specific Mandate, the Master Supply Agreement, the Master Supply Transactions, the Proposed Annual Caps, the Redesignation Resolution and the amendment to the Bye-laws are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (including the independent non-executive Directors) recommend that all the Independent Shareholders should vote in favour of the resolutions proposed at the SGM to approve the aforesaid matters.

By Order of the Board
EDS Wellness Holdings Limited
Chan Kin Wah, Billy
Chairman



EDS Wellness Holdings Limited

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

(Stock Code: 8176)

7 October 2015

Dear Independent Shareholders,

CONTINUING CONNECTED TRANSACTION

We refer to the circular dated 7 October 2015 of the Company (the “**Circular**”) of which this letter forms part. Terms defined in the Circular bear the same meanings herein unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to advise you regarding the fairness and reasonableness of the Master Supply Transactions and the Proposed Annual Caps. Investec Capital Asia Limited has been appointed as the independent financial adviser to advise us and the Independent Shareholders in this regard.

Having considered the terms of the Master Supply Agreement, the Master Supply Transactions and the Proposed Annual Caps, and having taken into account the principal factors and reasons considered by, and the opinion of, Investec Capital Asia Limited as stated in its letter dated 7 October 2015, we consider that (i) the entering into of the Master Supply Transactions is in the ordinary and usual course of business of the Group; (ii) the terms of the Master Supply Agreement and the Master Supply Transactions are fair and reasonable; (iii) the Master Supply Agreement and the Master Supply Transactions are on normal commercial terms and in the interests of the Company and the Shareholders as a whole; and (iv) the Proposed Annual Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole. We therefore recommend the Independent Shareholders to vote in favour of the ordinary resolutions proposed at the SGM approving the Master Supply Agreement, the Master Supply Transactions and the Proposed Annual Caps.

We also draw the attention of the Independent Shareholders to (i) the letter from the Board; (ii) the letter from the Independent Financial Adviser; and (iii) the appendices to the Circular.

Yours faithfully,

Independent Board Committee

Mr. Tam B Ray, Billy

Mr. Chu Kin Wang, Peleus

Mr. Tse Joseph

Independent Non-executive Directors

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the text of the letter of advice from Investec Capital Asia Limited to the Independent Board Committee and the Independent Shareholders in relation to the transactions contemplated under the Master Supply Agreement prepared for the purpose of incorporation in this circular.



Investec Capital Asia Limited
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7 October 2015

*To: The Independent Board Committee and
the Independent Shareholders of
EDS Wellness Holdings Limited*

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTION IN RELATION TO THE MASTER SUPPLY AGREEMENT

A. INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the continuing connected transactions in relation to the Master Supply Agreement (the “**Continuing Connected Transactions**”), details of which are set out in the circular of the Company dated 7 October 2015 (the “**Circular**”), of which this letter forms part. This letter contains our advice to the Independent Board Committee and the Independent Shareholders as to whether the Continuing Connected Transaction (together with the Proposed Annual Caps) is fair and reasonable and in the interests of the Company and the Shareholders as a whole. Unless otherwise stated, terms defined in the Circular have the same meanings in this letter.

As stated in the Circular, on 17 February 2015, the Company and the Subscribers entered into the Subscription Agreement pursuant to which the Subscribers have conditionally agreed to subscribe for, and the Company has conditionally agreed to allot and issue to the Subscribers a total of 375,000,000 Subscription Shares, comprising 345,000,000 Ordinary Subscription Shares and 30,000,000 Preferred Shares, at an issue price of HK\$0.40 per Subscription Share. The 375,000,000 Subscription Shares (upon conversion of the 30,000,000 Preferred Shares in full) represent (i) approximately 501.32% of the number of Ordinary Shares in issue as at the Latest Practicable Date; and (ii) approximately 83.37% of the number of Ordinary Shares in issue as enlarged by the allotment and issue of the Ordinary Subscription Shares and Conversion Shares upon conversion of the Preferred Shares in full.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Upon Completion, Xing Hang and parties acting in concert with it will in aggregate be interested in 397,500,096 Ordinary Shares, representing approximately 94.69% of the number of Ordinary Shares in issue as enlarged by the allotment and issue of the Subscription Shares (on the basis that no Preferred Shares are converted into Conversion Shares and that there is no other change in the number of Ordinary Shares in issue). Upon full conversion of the Preferred Shares, Xing Hang and parties acting in concert with it will in aggregate be interested in 427,500,096 Ordinary Shares, representing approximately 95.04% of the number of Ordinary Shares in issue as enlarged by the allotment and issue of the Ordinary Subscription Shares and the Conversion Shares (assuming there is no adjustment to the Conversion Price in accordance with the terms of the Preferred Shares and that there is no other change in the number of Ordinary Shares in issue).

Pursuant to the Subscription Agreement, upon Completion, the Company and Donica shall enter into the Master Supply Agreement, whereby the Group may purchase the In-flight WLAN and WIFI Equipment and Services from Donica and Donica shall supply the In-flight WLAN and WIFI Equipment (including servers, wireless routers and monitors which are certified by the relevant aviation authorities in the PRC for use on airplanes) exclusively and engage independent qualified engineering companies to provide the Services to the Group from time to time during the term of the Master Supply Agreement to be used by customers of the Group.

Since Donica is owned as to approximately 41.98% by Mr. Cai Zhaoyang (who is the majority shareholder and sole director of Xing Hang Limited), approximately 18.75% by Mr. Xie Yuehui, approximately 17.63% by Mr. Lin Fan (who is a minority shareholder of Xing Hang), approximately 12.00% by Mr. Jin Yi, approximately 6.52% by Mr. Li Chengjun and approximately 3.13% by Mr. Guo Pengcheng (who is a minority shareholder of Xing Hang), upon Completion, Xing Hang will become the controlling shareholder (as defined under the GEM Listing Rules) of the Company, and therefore Donica will become an associate (as defined under the GEM Listing Rules) of Xing Hang and accordingly a connected person of the Company upon Completion.

Accordingly, the transactions contemplated under the Master Supply Agreement will constitute continuing connected transactions for the Company under Chapter 20 of the GEM Listing Rules. Since the highest applicable percentage for the Proposed Annual Caps for the transactions contemplated under the Master Supply Agreement is more than 5%, the transactions contemplated under the Master Supply Agreement shall be subject to approval by the Independent Shareholders and the announcement, reporting and annual review requirements under Chapter 20 of the GEM Listing Rules.

B. THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Tam B Ray, Billy, Mr. Chu Kin Wang, Peleus and Mr. Tse Joseph has been established to advise the Independent Shareholders as to the Continuing Connected Transactions. As the Independent Financial Adviser to the Independent Board Committee and Independent Shareholders, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders as to (i) whether the terms of the Master Supply Agreement and the Master Supply Transactions contemplated thereunder are fair and reasonable so far as the Shareholders (including the Independent Shareholders) are concerned, are on normal commercial terms, in the ordinary and usual course of business of the Group and in the interests of the Group and the Shareholders as a whole; (ii) whether the Proposed Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole; and (iii) how the Independent Shareholders should vote for the relevant resolution to be proposed at the SGM in respect of the Master Supply Agreement, the Master Supply Transactions and the Proposed Annual Caps.

C. BASIS OF OUR OPINION

In formulating our advice, we have relied solely on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Group and/or the Directors. We have assumed that all such statements, information, opinions and representations contained or referred to in the Circular or otherwise provided or made or given by the Group and/or the Directors and/or its senior management staff (the “**Management**”) and for which it is/they are solely responsible were true and accurate and valid at the time they were made and given and continue to be true and valid as at the date of the Circular. We have assumed that all the opinions and representations made or provided by the Directors and/or the Management contained in the Circular have been reasonably made after due and careful enquiry. We have also sought and obtained confirmation from the Company and/or the Directors and/or the Management that no material facts have been omitted from the information provided and referred to in the Circular.

We consider that we have reviewed all information and documents which are made available to us to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our advice. We have no reason to doubt the truth, accuracy and completeness of the statements, information, opinions and representations provided to us by the Group and/or the Directors and/or its Management and their respective advisers or to believe that material information has been withheld or omitted from the information provided to us or referred to in the aforesaid documents. We have not, however, carried out any independent verification of the information provided, nor have we conducted any independent investigation into the businesses and affairs of the Group, Xing Hang, Donica or their respective affiliates.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

D. PRINCIPAL FACTORS CONSIDERED

In formulating our opinion regarding the Master Supply Agreement and the Master Supply Transactions contemplated thereunder, we have taken into consideration the following principal factors:

1. Background information

i. Information on the Group

The shares of the Company were first listed on the Growth Enterprise Market (“GEM”) of the Stock Exchange on 19 February 2002. The Group is principally engaged in the sale of beauty products and provision of therapy services. As stated in the Company’s annual report for the six months ended 31 December 2014 (the “2014 Annual Report”), the Group offers a variety of beauty products under the brand name “Evidens de Beauté”, and a variety of medical skincare products, including the brand “Activa”. For the provision of therapy services, the Group operates a spa centre with the brand “La Spa Evidens de Beauté” to offer spa, facial sahos, body treatments and wellness massages services at Lyndhurst Terrace in Central and a medical skincare centre under the trade name “COLLAGEN+” at Soundwill Plaza in Causeway Bay.

ii. Historical financial performance of the Group

Set out below is a summary of the Group’s consolidated statements of profit or loss as extracted from the 2014 Annual Report for the six months ended 31 December 2014:

	For the year ended 30 June		For the
	2013	2014	six months
	<i>HK\$’000</i>	<i>HK\$’000</i>	ended
	(Audited)	(Audited)	31 December
			2014
			<i>HK\$’000</i>
			(Audited)
Turnover	8,140	27,582	22,084
Cost of sales	(11,686)	(16,597)	(15,155)
Gross (loss)/profit	(3,546)	10,985	6,929
Impairment loss in respect of other receivables	(1,254)	(80)	(46,519)
Loss for the year/period	(23,568)	(10,618)	(47,043)
Loss for the year/period attributable to owners of the Company	(23,568)	(11,768)	(48,939)

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Group recorded turnover of approximately HK\$27.6 million for the year ended 30 June 2014, representing an increase of approximately 240.7% from approximately HK\$8.1 million for the year ended 30 June 2013. Such increase was primarily due to the increase in the sales of beauty products and the provision of therapy services and was slightly mitigated by the decrease in sales of beauty equipment. The consolidated loss attributable to owners of the Company decreased from approximately HK\$23.6 million for the year ended 30 June 2013 to approximately HK\$11.8 million for the year ended 30 June 2014, representing a decrease of approximately 50.0%. The improvement in the Group's results was mainly due to the turnaround in the Group's operation from a gross loss margin to gross profit margin and the contribution from China Honest, the newly acquired 51% owned subsidiary during the year.

For the six months ended 31 December 2014, the Group recorded turnover of approximately HK\$22.1 million compared to approximately HK\$27.6 million for the twelve months ended 30 June 2014. China Honest, the 51% owned subsidiary, contributed approximately HK\$20.5 million to the turnover of the Group, representing approximately 92.8% of the total turnover, of which approximately HK\$0.7 million and HK\$19.8 million were generated from the sale of beauty products and provision of therapy services, respectively.

The Group recorded a gross profit of approximately HK\$6.9 million for the six months ended 31 December 2014, which represented a gross profit margin of approximately 31.4%. The Group recorded a gross profit of approximately HK\$11.0 million for the twelve months ended 30 June 2014, which represented a gross profit margin of approximately 39.8%. The decrease in gross profit margin was mainly a result of the operations under the "Evidens de Beauté" brand which recorded a gross loss of approximately HK\$0.6 million.

We further note that the Company changed its financial year end from 30 June to 31 December in 2014. Therefore, there are no comparable financial results for the six months ended 31 December 2014.

iii. Historical financial position of the Group

Set out below is a summary of the Group's consolidated statements of financial position as extracted from the 2014 Annual Report:

	As at 30 June 2014	As at 31 December 2014
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Audited)	(Audited)
Total assets	141,874	90,366
Total liabilities	140,932	41,310
Total equity	942	49,056

During the year ended 30 June 2014 and six-month period ended 31 December 2014, the Group financed its operations with internally generated cash flows, proceeds from the issuance of new shares of the Company by way of open offer and placing and the issuance of convertible bonds. The Group issued HK\$40.0 million of convertible bonds (the “**Convertible Bonds**”) on 22 May 2014 which are interest-free and convertible into 40,000,000 ordinary shares of the Company at a conversion price of HK\$1.00 per share at any time up to the maturity date on 22 November 2016. By 30 September 2014, all Convertible Bonds had been converted into 40,000,000 shares of the Company. On 11 August 2014, the Company allotted and issued 19,061,000 new shares at a subscription price of HK\$3.0 per share by way of open offer (the “**Open Offer**”), raising approximately HK\$54.0 million (net of expenses). All net proceeds were used to repay a loan due to Hong Kong Builders Finance Limited. On 28 August 2014, the Company allotted and issued 2,620,000 new shares at a price of HK\$3.15 by way of placing (the “**Placing**”), raising approximately HK\$7.86 million (net of expenses), which was used to repay a loan due to Hong Kong Builders Finance Limited.

The total equity of the Company increased from approximately HK\$0.9 million as at 30 June 2014 to approximately HK\$49.1 million as at 31 December 2014, which was mainly due to the conversion of the Convertible Bond and the new shares allotted under the Open Offer and the Placing.

2. Information on Donica

Donica is owned as to approximately 41.98% by Mr. Cai Zhaoyang (who is the majority shareholder and the sole director of Xing Hang), approximately 18.75% by Mr. Xie Yuehui, approximately 17.63% by Mr. Lin Fan (who is a minority shareholder of Xing Hang), approximately 12.00% by Mr. Jin Yi, approximately 6.52% by Mr. Li Chengjun and approximately 3.13% by Mr. Guo Pengcheng (who is a minority shareholder of Xing Hang). The Company understands from Donica that it is a manufacturer of, among others, in-flight entertainment systems and avionic systems, and a service provider for repairment of the in-flight entertainment systems. The Company understands from Donica that the In-flight WLAN and WIFI Equipment is part of the products manufactured and offered by Donica and taking into account the Company’s interest in the business of providing in-flight WLAN and WIFI service and the Company’s resources (including the fund generated from the Subscription), Donica wishes to join force with the Company to develop the New Business in the PRC.

Donica is a third party independent of the Company, Eternity and their respective connected persons.

3. Reasons for and benefits of the Master Supply Agreement

As set out in the 2014 Annual Report, Hong Kong retail sales decreased by approximately 14.60% in January 2015 from the same month in the previous year. As a result thereof, the management does not expect any growth in the Group’s sale of beauty products and provision of therapy services for the twelve months ending 31 December 2015. In addition, the management of the Company noted detrimental

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factors affecting the local retail market in Hong Kong, including the slowdown of the growth of Mainland visitors to Hong Kong and the weakening of Mainland tourists' spending power. As mentioned in the announcement of the Census & Statistics Department of the Hong Kong Government in June 2014, the total retail sales value in April 2014 fell 9.8% year-on-year. After netting out the effect of price changes over the same period, the total retail sales volume in April 2014 fell 9.5% year-on-year. As a result, management considers the diversification of its business to be an appropriate strategic action for the Group.

According to the 34th statistical report on Internet development in China produced by the China Internet Network Information Center (the “CNNIC Report”), China's Internet users increased by approximately 7.0% from approximately 590.6 million internet users as at 30 June 2013 to approximately 632.0 million Internet users as at 30 June 2014, representing an Internet penetration rate of approximately 46.9% of the PRC's total population. Furthermore, China's mobile Internet users increased by approximately 13.6% from approximately 463.8 million as at 30 June 2013 to approximately 527.1 million as at 30 June 2014. Therefore, China's proportion of mobile Internet users to total Internet users is approximately 83.4%. Furthermore, according to the CAAC, China's total aircraft fleet increased by approximately 12.7% from 3,422 aircrafts in 2012 to 3,857 aircrafts in 2013. As disclosed in the Letter from the Board, we note that in-flight WIFI services in the PRC are still in the start-up stage, and have not yet been widely used in commercial flights. WIFI connection and telecommunication have become a trend in ground-air connectivity for European and American airlines in recent years. The European Union has already approved in-flight cell phone calls, SMS, and email services in its airspace. Various countries, including the PRC, are paying increasing attention to this market. It is reported that nearly all of the major American airlines now provide internet access for ground-air connectivity, with service charges ranging from USD5.00 to USD9.00 per hour. As the majority of the PRC's air passengers are currently frequent flyers, the Company believes that in-flight WIFI services will become an increasingly influential factor for many passengers when making flight purchase decisions and Chinese airline companies will allocate more resources to introduce new innovative services, such as in-flight shopping, through in-flight WIFI service that enhance passengers' travel experience. As such, the Company believes that demand for in-flight WLAN and WIFI engineering and services in the PRC may have significant growth in the future.

We understand from our own research that there are currently over 50 airlines, internationally, which offer or are planning to offer WIFI/GSM internet access on all or certain of their aircrafts and to make such WIFI services available on certain of their routes. We also understand from a survey conducted in 2015 in respect of airline IT trends, that by the end of 2018, approximately 66% of airlines are expected to offer wireless internet and multimedia services on passenger's devices. Based on the 2014 annual report of Air China Limited (stock code: 0753), we understand that they have accelerated construction of their the in-flight network project and taken the lead in the establishment of the “In-flight Internet Industry Alliance” with its partners from relevant industries, including over 30 leading Chinese Internet companies. In addition, according to the 2014 annual report of China Eastern Airlines Corporation Limited

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(stock code: 0670), in July 2014 they completed trial operations of the first WIFI-equipped commercial passenger flight in Mainland China. As at 31 December 2014, Air China Limited and China Eastern Airlines Corporation Limited together operated a fleet of 1,055 aircraft. We understand that although the use of in-flight WLAN and WIFI services on the whole is still at an early stage and is hindered to some extent by regulatory approvals, data transfer speeds and costs, it is believed that the take up will increase as more airlines install in-flight WIFI, in-flight WIFI is made available on more routes, data transfer speeds increase and the costs of usage decline. Given the current plans of airlines, globally as well as two of the PRC's leading airlines, to install and introduce WIFI on their commercial flights, we concur with the view of the Company that the demand for in-flight WLAN and WIFI engineering and services in the PRC may have significant growth in the future.

According to the CAPA World Aviation Yearbook 2014, flights between the United States and the PRC increased by more than 60% between September 2011 and September 2014. The Directors believe, and we concur, as airlines in the United States have adopted in-flight WLAN and WIFI services, in order for PRC airline companies to remain competitive they will need to rapidly adopt the provision of in-flight WLAN and WIFI services. In recent years, direct foreign investment and off-shore business activities of the PRC have increased substantially. More international travel is required to meet the increase in business activities. For example, passengers flying from the PRC to the United States increased from approximately 40,000 passengers per week in July 2012 to over 60,000 passengers per week in July 2014. Furthermore, as detailed by the CAPA World Aviation Yearbook 2014, the number of low cost carriers operating in the PRC is limited at present, as such, 2014 saw the introduction of four additional low cost carriers. The continued growth in low cost carrier providers is expected to further increase air traffic and increase competition between airlines.

Due to the growth potential of in-flight WLAN and WIFI business, we believe that the entering into the Master Supply Agreement would be beneficial to the Company as it would allow the Group to develop such business at this current nascent stage. As stated in the Letter from the Board, the Company plans to source and enter into contracts with airline companies to provide them with in-flight WLAN and WIFI engineering and services, including the provision of WLAN and WIFI equipment, and technical support for installation and maintenance services done by a third party service provider. Depending on the mode of cooperation with the airline companies, the Group may or may not charge the airline companies for the provision of WLAN or WIFI equipment to them but may earn/share any income from the use of the WLAN or WIFI systems for advertising or shopping on the airplanes which use the Group's in-flight technology and connectivity solutions. The Company envisages that the first stage of the in-flight WLAN or WIFI services to be provided will only cover in-flight connection to the airplane's server system which will enable passengers to access a wider choice of information, entertainment services and in-flight shopping experience on their personal mobile devices, while connection to the Internet (as part of the second stage of the in-flight WLAN or WIFI services) will be available when the airplane's server system is connected to the Internet via satellites or ground-air stations.

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As stated in the Circular, we further note that given the Subscribers' (in particular the background of Mr. Cai Zhaoyang) extensive experience, strong expertise and wide business network in the avionic engineering and service business industry in the PRC, the Directors consider that entering into of the Subscription Agreement represents a good opportunity for the Group to (i) raise a substantial amount of additional funds, which provides the Group with the financial flexibility necessary for future business development in in-flight WLAN and WIFI business in parallel to its existing business; (ii) improve its financial position and liquidity; and (iii) leverage the expertise and business network of Mr. Cai Zhaoyang to take advantage of the expected strong growth in in-flight WLAN and WIFI business in the PRC. The Company considers that it is beneficial to the Group to leverage the experience, expertise and capability of Donica in the provision of the In-flight WLAN and WIFI Equipment and the ability to provide technical support for related installation and maintenance services for the development of the Group's new in-flight WLAN or WIFI business through the Master Supply Agreement. The price set out in the Master Supply Agreement also represents a substantial discount over similar equipment supplied by other suppliers.

We understand from the Company that the principal capital expenditure for the development of this new business is the purchase of in-flight WLAN and WIFI equipment for installation. During initial stage of development, the new business will be focused on the provision of in-flight WLAN and WIFI equipment and services. The Company will purchase such In-flight WLAN and WIFI Equipment from Donica and outsource installation to a third party through Donica or directly contracting by itself. As stated in the Letter from the Board, we also understand that the initial capital expenditure investments will be funded by the net proceeds from the Subscription. The Company presently has an experienced team of over 40 staff to manage and grow the new business. We understand from the Company that the team has experience in system integration and maintenance of in-flight WLAN equipment as well as software development. As a result of the foregoing, we believe that the additional capital expenditure will not have a material impact on the financial capacity of the Group, which may, in turn, affect the current Group's financial position.

Having considered (i) the current business and financial position of the Group; (ii) the industry environment of and market prospects of in-flight WLAN and WIFI business; (iii) the capital expenditure of the WLAN and WIFI business is considered to be material impacts on the current financial position of the Group; (iv) the Company's experience in system integration and maintenance of in-flight WLAN and WIFI equipment; and (v) the reasons for and benefits of entering into the Subscription Agreement and the Master Supply Agreement as set out above, we concur with the Directors' view that the entering into the Master Supply Agreement is (a) fair and reasonable; (b) will enable the Group to develop a business parallel to its existing business; and (c) is in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

4. Principal terms of the Master Supply Agreement

Pursuant to the Subscription Agreement, upon Completion, the Company and Donica shall enter into the Master Supply Agreement, whereby the Group may purchase the In-flight WLAN and WIFI Equipment and the Services from Donica and Donica shall supply the In-flight WLAN and WIFI Equipment (including servers, wireless routers and monitors which are certified by the relevant aviation authorities in the PRC for use on airplanes) exclusively and engage independent qualified engineering companies to provide the Services to the Company from time to time during the term of the Master Supply Agreement to be used by customers of the Group.

The principal terms of the Master Supply Agreement are set out below:

i. Supplier

Donica

ii. Purchaser

The Company

iii. Subject Matter

Subject to purchase order(s) placed by the Company, Donica may from time to time during the term of the Master Supply Agreement supply to the Company the In-flight WLAN and WIFI Equipment and engage independent qualified engineering companies to provide the Services.

iv. Term

The Master Supply Agreement will become effective upon Completion up to 31 December 2016. Upon expiry, the term of the Master Supply Agreement can be extended for one year (the “**1st Extended Period**”) in the Company’s absolute discretion. Upon expiry of the 1st Extended Period, the term of the Master Supply Agreement can be extended for one year further in the Company’s absolute discretion.

If the Company chooses to extend the term of the Master Supply Agreement, it needs to serve at least one month’s notice in writing to Donica and will comply with the relevant requirements of the GEM Listing Rules as and when appropriate.

v. Pricing

Under the Master Supply Agreement, the Company will regard Donica as a preferred supplier and cooperation partner for the modification of the In-flight WLAN and WIFI Equipment on the condition that Donica can provide the equipment and related installation and maintenance services of the necessary

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requested standards at market prices. For the In-flight WLAN and WIFI Equipment supplied by Donica and the Services supplied by independent qualified engineering companies which are engaged by Donica under the Master Supply Agreement, the Company shall pay to Donica an aggregate price equivalent to the quantity purchased at the agreed unit prices of the In-flight WLAN and WIFI Equipment as specified in the Master Supply Agreement (which represent a substantial discount to the comparable listed prices from independent third parties), the service charges based on the units to be installed at the prices specified in the Master Supply Agreement (which is determined based on the fees charged to Donica by the independent qualified engineering company for similar Services), subject to an adjustment of 15% in each calendar year due to factors such as inflation and the applicable value added tax. Further discount for the In-flight WLAN and WIFI Equipment may be given if the Group purchases up to a certain quantity within a certain period of time exceeding the amount as set out in the Master Supply Agreement.

The In-flight WLAN and WIFI Equipment and the Services shall satisfy the necessary requested standards refer of DO-160, Environmental Conditions and Test Procedures for Airborne Equipment, a standard for the environmental testing of avionics hardware published by the Radio Technical Commission for Aeronautics. All In-Flight WLAN and WIFI Equipment supplied by Donica must pass the aforesaid standard.

The Master Supply Agreement specifies the unit price of the In-flight WLAN and WIFI Equipment (which is based on the current price charged by Donica to its existing customers less a discount) and the unit price of the Services (which is determined based on the fee charged to Donica by the independent qualified engineering company for similar Services and subject to an adjustment of 15% in each calendar year due to factors such as inflation). Depending on the type of aircraft and before taking into account any of the aforesaid adjustments, the unit price of the Services represents approximately 40.5% to 49.3% of the unit price of the In-flight WLAN and WIFI Equipment and the Services. For the avoidance of doubt, the unit price of the Services is stated in the Master Supply Agreement and is not charged on a back-to-back basis by Donica based on the invoices received by Donica from the independent qualified engineering companies.

During the term of the Master Supply Agreement, the Group shall periodically obtain quotations on the relevant In-flight WLAN and WIFI Equipment and the Services from WLAN and WIFI equipment suppliers and independent qualified engineering companies in the PRC and overseas to perform market price comparisons to ensure the unit prices and terms of the Master Supply Agreement are fair and reasonable and comparable to those offered by the independent third parties. In the event that the unit prices and the terms offered by other overseas suppliers and independent qualified engineering companies are more favourable, the Company may acquire such equipment from other overseas suppliers and the Services directly from independent qualified engineering companies.

vi. Payment

The Company shall pay 20% of the total amount of purchase to Donica within 15 days of order submission and the remaining 80% of the total amount upon receipt of invoice from Donica. The payments for the transactions contemplated under the Master Supply Agreement will initially be funded using the net proceeds from the Subscription.

vii. Undertaking

Donica will undertake to the Company that it will not carry out any business or activities which may be in conflict with and/or compete with the provision of the In-flight WLAN and WIFI Equipment by the Company to its customers; or any other business carried on by the Company.

5. Analysis of the principle terms of the Master Supply Agreement

In respect of the prices for the In-flight WLAN and WIFI Equipment, we understand from the Master Supply Agreement that the Company and Donica have agreed the purchase price (exclusive of applicable tax) for a single unit of the In-flight WLAN and WIFI Equipment according to the size of the aircraft (i.e. the agreed unit price). Such agreed unit price is based on the purchase price offered by comparable suppliers (i.e. the comparable listed prices from independent third parties) less a substantial discount. However, where the number of units exceeds an agreed threshold, further discount will be given for the unit price for the In-flight WLAN and WIFI Equipment.

In respect of the Services, we understand from the Master Supply Agreement, that the Company and Donica have agreed the prices for the supply of design, modification and installation services of In-flight WLAN and WIFI Equipment according to the current prices for supply of such services by independent qualified engineering companies currently engaged by Donica. Under the Master Supply Agreement, the Company could also choose to contract with independent engineering companies directly. Donica may also charge an annual adjustment (exclusive of applicable tax) of no greater than 15%, such adjustment is in anticipation of expected inflation of input prices and a buffer for any unforeseeable factors affecting the future input prices, such as change in material prices.

We have also compared the terms of the Master Supply Agreement to the terms offered by Donica to independent third parties for the purchase and installation of in-flight WLAN and WIFI equipment. The payment terms offered by Donica to independent third parties are in line to those offered to the Company. Furthermore, the pricing terms offered to the Company are at a substantial discount to those offered to independent third parties. As such, we believe that the terms under the Master Supply Agreement are fair and reasonable in comparison to those offered to independent third parties.

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Furthermore, we have compared the pricing terms between In-flight WLAN and WIFI Equipment and the Services under the Master Supply Agreement to two comparable equipment purchase and installation proposals provided by independent third parties (the “**Comparables**”). The equipment and services provided by the Comparables include the sale of in-flight WIFI systems and instalment service, annual service and maintenance fees which are similar to the equipment and services to be provided by the Company. We note that the principal terms under the Master Supply Agreement in particular (a) the pricing of the associated installation services fees; and (b) the pricing adjustments for various sizes of aircraft were similar to those of the Comparables. However, the prices of the WLAN and WIFI Equipment supplied under the Master Supply Agreement represent substantial discounts to the market prices of similar equipment supplied by the Comparables. Furthermore, we consider the pricing terms and in particular the service charges to be fair and reasonable due to the complexity and nature of the installation services with particular reference to the stringent security requirements. Accordingly, we are of the view that (i) the terms of the Master Supply Agreement and the Master Supply Transactions (including both pricing and payment terms) are fair and reasonable due to the significant discount to the Comparables; (ii) are in-line and/or discounted to those terms offered by Donica to independent third parties; and (iii) the Master Supply Agreement is entered into on normal and commercial terms, which, in turn, is in the interests of the Company and the Shareholders as a whole due to the significant growth prospects of the In-flight WLAN and WIFI Equipment business.

We understand from the Company, that there is a stringent purchase process which is applied by the Company. Qualified suppliers are (i) initially vetted by the manager of the applicable department; (ii) followed by either the president or the finance manager of the Company; and (iii) approved by either the financial controller or managing director of the Company. Once a supplier is accepted, the Company uses purchase orders (a “**Purchase Order**”) or a purchase contract to initiate purchases. Such Purchase Order is the equivalent of a purchase contract. Each Purchase Order will be internally approved by the respective department manager and finance manager prior to placing the order with the supplier. Such internal approval will take into account current market prices and payment terms. We believe the internal controls are sufficient to ensure that the actual pricing basis stipulated in the Master Supply Agreement would be followed. Furthermore, as detailed in the “Letter from the Board” the Company carries out a user acceptance test prior to final handover of the installed In-flight WLAN and WIFI Equipment.

In respect of the payment terms, we note that payment for the In-flight WLAN and WIFI Equipment and provision of Services by Donica is divided into two tranches. The first, being 20% of the total amount of purchase, is payable within 15 days of order submission, while the second and final payment, being 80% of the total amount of purchase, upon receipt of invoice from Donica, which is receivable upon delivery of the equipment. We have also considered the payment terms offered by Donica to independent third parties. Given that the payment terms are conducted as normal commercial practice, and given that the majority of the payment is only provided once

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the equipment has been received and accepted, as stipulated in the Purchase Order, we consider such payment terms under the Master Supply Agreement to be fair and reasonable.

6. The Proposed Annual Caps

The Board proposes to set the Proposed Annual Caps in respect of the Master Supply Transactions for the two years ending 31 December 2015 and 2016 as follows:

i. Proposed annual caps in respect of the Master Supply Transactions

<i>In RMB'000 unless otherwise stated</i>	For the year ended 31 December	
	2015	2016
Master Supply Agreement	23,670	82,098
Year-on-year growth	—	246.8%

ii. Basis for determining the Proposed Annual Caps

We understand from the Company that the Proposed Annual Caps for the Master Supply Transactions are determined after taking into account the following factors:

- (i) the target numbers of aircraft to be contracted by the Group for the installation of the In-flight WLAN and WIFI Equipment and provision of in-flight WLAN and WIFI services which in turn were determined based on (a) the growing global trend of providing in-flight WLAN or WIFI engineering and services and such trend in the PRC; (b) the number of aircraft owned by the target airlines in the PRC which have not installed in-flight WLAN and WIFI connection equipment; and (c) the estimated growth in the demand for in-flight WLAN or WIFI services in the PRC;
- (ii) the selling prices of the In-flight WLAN and WIFI Equipment under the Master Supply Agreement; and
- (iii) the current service charges payable by Donica to the independent qualified engineering companies for the installation of Donica's In-flight WLAN and WIFI Equipment in aircraft with inflation and other adjustments of not greater than 15% per year.

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As such business is new to the Company and it has no track record, in considering the fairness and reasonableness for the Proposed Annual Caps, we have discussed with the Company the assumptions and basis of deriving the expected transaction value in determining the Proposed Annual Caps and reviewed the relevant operational forecast of the Company together with market information (including the market prospect and the sample market price of the In-flight WLAN and WIFI Equipment and supporting installation, testing and maintenance services under the Master Supply Agreement) provided by the Company. In particular, the Company's assumptions in respect of this new business, we have considered the size of the target market for in-flight WLAN and WIFI business.

As set out in the section headed "Industry Overview" in the Letter from the Board, the Company's target customers are comprised of domestic airline companies in the PRC as well as small to medium international airlines. According to the CAAC, as at December 2014 there were 51 Chinese commercial airline companies in the PRC. We understand from the Company that as at 30 June 2015 the total WLAN and WIFI installed capacity of domestic airline companies in the PRC was approximately 49 aircraft, representing approximately 2.1% of the Chinese commercial airlines' total fleet of 2,365 aircraft as at December 2014. In-flight WIFI services in the PRC are still at the start-up stage and have not yet been introduced on a mass commercial scale. Due to such a low in-flight WIFI penetration rate, there is an expectation of significant growth in the provision of WLAN and WIFI services.

Furthermore, as set out in the Letter from the Board, after discussing with Donica, save for the overseas service providers such as Gogo Inc., Global Eagle Entertainment Inc., Panasonic Avionics Corporation, the Directors are not aware of any in-flight WLAN and WIFI service providers in the PRC and are of the view that the competition in the current market in the PRC is low. As such, in 2015, the Company intends to target a small number of aircrafts, which represents less than 5% of Chinese commercial airlines' total fleet as at the end of 2014. In 2016, assuming that there is no increase in Chinese commercial airlines' total fleet, the Company will target less than 10% of the total fleet.

As disclosed above, given that (i) the current low penetration of WLAN and WIFI services on domestic airlines; (ii) the expected penetration of WLAN and WIFI services on domestic airlines by 2018; (iii) the expected increase in the size of aircraft fleets of domestic airline companies; (iv) the expected increase in air travel in terms of total number of passengers; and (v) the increase in Internet use, in particular mobile Internet usage in the PRC, we consider the assumptions and forecasts made by the Company to be fair and reasonable.

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As at the Latest Practicable Date, the Company has not entered into any agreements or memorandum of understanding with any airline companies. However, as set out in the section headed “Principal terms of the Master Supply Agreement” in the Letter from the Board, the Group, with Donica’s assistance, has been in discussions with four airline companies, which comprise small to medium domestic airline companies (representing approximately 7.8% of the total number domestic airline companies in the PRC as at the end of 2014), and plans to enter into cooperation agreements with them as soon as the discussions are concluded after Completion. We have considered (i) the terms of the Master Supply Agreement and the Master Supply Transactions (including both pricing and payment terms); (ii) the terms (including both pricing and payment terms) offered by Donica to independent third parties; (iii) the pricing terms offered by the Comparables; (iv) the achievability of the new business based on (1) the lack of track record; and (2) the target number of aircraft to be contracted by the Group for the installation of the In-flight WLAN and WIFI Equipment and provision of in-flight WLAN and WIFI services which in turn were determined based on (a) the growing global trend of providing in-flight WLAN or WIFI engineering and services and such trend in the PRC; (b) the number of aircraft owned by the target airlines in the PRC which have not installed in-flight WLAN and WIFI connection equipment; and (c) the estimated growth in the demand for in-flight WLAN or WIFI services in the PRC; and (v) we understand from the Company that more than ten target airlines have expressed an interest in the provision of in-flight WLAN or WIFI services, as such, we believe that the terms of the Master Supply Agreement are fair and reasonable and, save for the abovementioned factors, there are no other key relevant factors.

Furthermore, the Company believes, and we concur, the new business represents a significant opportunity to act as the first mover and utilise the business relationship with Donica, which will provide the In-flight WLAN and WIFI Equipment and the Services at a low cost with a short lead time.

We note that the Proposed Annual Caps increase by approximately 246.8% for the year ending 31 December 2016. Such increase is mainly due to (i) the increases in the number of expected installations of In-flight WLAN and WIFI Equipment and the Services; and (ii) inflation and other adjustments to services charges payable to Donica. Although the completion of the Master Supply Agreement is dependent upon the completion and approval of the Subscription and the Master Supply Agreement, which, if approved, would not enable the Company to commence the business until the fourth quarter of 2015, the projections for instalments are based on a monthly target. However, we understand from the Directors that such targets are aggregated over the course of the year and as such, any delay in completion of the relevant agreements would not cause any material impact on the projections.

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Furthermore, we note that for the year ending 31 December 2015, the Company is targeting a limited number of installations across four airlines, such installations would require limited modifications due to the standardisation of WLAN and WIFI equipment. This greatly increases the flexibility of the installations. The Company believes, and we concur, that the Company would be able to maintain its targeted installations for the year ending 31 December 2015 due to (i) the limited number of installations across four targeted airlines; (ii) the ability to install at various locations simultaneously; and (iii) the limited modifications due to the standardized WLAN and WIFI equipment. As such, we consider the Proposed Annual Cap to be fair and reasonable.

We have reviewed the installation targets for the year ending 31 December 2016 and note that for the year ending 31 December 2016 the Company is targeting further installations at the four airlines which would have completed their trial run of the Group's Inflight WLAN and WIFI Equipment for the year ending 31 December 2015. Furthermore, once the Company has successfully developed a track record of in-flight WLAN and WIFI equipment installations for the year ending 31 December 2015, the Company intends to target another ten larger airlines in the PRC primarily comprising medium to large domestic and international airline companies which have a total fleet of approximately 2,300 aircraft. These ten airline companies consist of seven domestic airline companies (together with the four domestic airline companies with which the Group plans to enter into cooperation agreements in 2015, representing approximately 21.6% of the total number of domestic airline companies in the PRC as at the end of 2014) and three international airline companies with routes to the PRC. The Company, with Donica's assistance, has been in discussions with eight of these ten airline companies and plans to commence discussions with the other two airline companies shortly. Following the Group's continuous marketing efforts, the Company plans to enter into cooperation agreements with these ten airline companies in 2016. The Proposed Annual Cap for the year ending 31 December 2016 is calculated based on 95 units of In-flight WLAN and WIFI Equipment and the Services to be purchased from Donica at the pricing as set out in the Master Supply Agreement.

As such, the Management believes, and we concur, that the business plan for the year ending 31 December 2016 is achievable. Furthermore, in the event the Company does not achieve the targeted installations for the year ending 31 December 2015, the Company would still be able to target a large number of different airlines. We understand from the Company that six of the target airlines have recently been granted permits to install in-flight WLAN and WIFI equipment for a trial period, as such the Company expects a significant roll out of in-flight WLAN and WIFI equipment in the coming three months, and sustained growth in installations of in-flight WLAN and WIFI equipment for the year ending 31 December 2016.

As detailed in the Letter from the Board, the Company is of the view that the over-reliance on Donica as a supplier of equipment to the Company is low as similar in-flight WLAN and WIFI equipment is available from various independent international suppliers. We have compared the In-flight WLAN and WIFI Equipment with the products available from the Comparables and concur that such equipment required by the Company is mostly available from the Comparables. As Donica is the only in-flight WLAN and WIFI equipment manufacturer in PRC, the Company believes that it can offer such equipment more efficiently and at a lower cost as compared to foreign equipment suppliers.

Furthermore, although all new business ventures carry some degree of risk, as the Company will act as a contractor outsourcing the production and installation of the In-flight WLAN and WIFI Equipment, the Management is of the view, and we concur, that there is limited business risk or risk of over reliance on Donica.

Having taken into account (i) the basis for determining the Proposed Annual Caps for the Master Supply Transactions for the two years ending 31 December 2016; and (ii) our relevant analysis and work performed as discussed above, we concur with the Directors' view that the Proposed Annual Caps have been arrived at on a fair and reasonable basis.

7. Conditions of the Proposed Annual Caps

There are certain conditions in respect of the Proposed Annual Caps to the GEM Listing Rules, in particular, the restriction of the value of the Master Supply Transactions by way of the annual cap for each of the two years ending 31 December 2016 and the annual review by the independent non-executive Directors of the terms of the Master Supply Transactions and the Proposed Annual Caps not being exceeded, details of which must be included in the Company's subsequent published annual reports and accounts. In addition, pursuant to the GEM Listing Rules, each year, the auditors of the Company must provide a letter to the Board confirming, among other things, that the Master Supply Transactions are conducted in accordance with the Master Supply Agreements and that the annual caps have not been exceeded. Furthermore, pursuant to the GEM Listing Rules, the Company shall publish an announcement if it knows or has reason to believe that the independent non-executive Directors and/or its auditors will not be able to confirm the terms of the Master Supply Transactions or the annual caps have not been exceeded.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

E. RECOMMENDATION

Having considered the factors and reasons set out in this letter, we are of the opinion that (i) the entering into of the Master Supply Transactions is in the ordinary and usual course of business of the Group; (ii) the terms (including but not limited to pricing and payment) of the Master Supply Agreement and the Master Supply Transactions are fair and reasonable; (iii) the Master Supply Agreement and the Master Supply Transactions are on normal commercial terms and in the interests of the Company and the Shareholders as a whole; and (iv) the Proposed Annual Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we would advise the Independent Board Committee and the Independent Shareholders that the Independent Shareholders should vote in favour of the relevant ordinary resolution proposed at the SGM to approve the Master Supply Agreement, the Master Supply Transactions and the Proposed Annual Caps.

Yours faithfully
For and on behalf of
Investec Capital Asia Limited
Alexander Tai
Managing Director
Head of Corporate Finance

Mr. Tai of Investec Capital Asia Limited is a responsible officer of Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO. He has been active in the field of corporate finance advisory for over 20 years, and has been involved in and completed various corporate finance advisory transactions in Hong Kong.

Set out below is the text of the reports from HLB, the auditors of the Company, in connection with the 2015 Profit Guarantee for the purpose of inclusion in this circular.



國衛會計師事務所有限公司
Hodgson Impey Cheng Limited

31/F Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

7 October 2015

The Directors

EDS Wellness Holdings Limited
Unit 3811, Shun Tak Centre
West Tower
168–200 Connaught Road Central
Hong Kong

Dear Sirs,

PROFIT ESTIMATE FOR THE YEAR ENDED 31 MARCH 2015

We refer to the profit guarantee under which the vendors irrevocably and unconditionally warranted and guaranteed to the purchaser, a wholly-owned subsidiary of EDS Wellness Holdings Limited, that the profit before taxation and extraordinary items of China Honest Enterprise Limited (the “**Target Company**”) for the year ended 31 March 2015 will not be less than HK\$9,000,000 (the “**2015 Profit Guarantee**”) as set out in the section headed “The 2015 Profit Guarantee” in the circular of the Company dated 7 October 2015 (the “**Circular**”). The 2015 Profit Guarantee is supported by the unaudited results of the management accounts of the Target Company for the year ended 31 March 2015 (the “**Profit Estimate**”). The 2015 Profit Guarantee constitutes an existing profit forecast under the Rule 10 of the Code on Takeovers and Mergers issued by the Securities and Futures Commission. As set out in the announcement of the Company dated 6 July 2015, the 2015 Profit Guarantee has been fulfilled.

RESPONSIBILITIES

The Profit Estimate has been prepared by the directors of the Target Company based on the unaudited results of the management accounts of the Target Company for the year ended 31 March 2015.

The Target Company’s directors are solely responsible for the Profit Estimate. It is our responsibility to form an opinion on the accounting policies and calculations of the Profit Estimate based on our procedures.

BASIS OF OPINION

We carried our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 500 “Reporting on Profit Forecasts, Statements of Sufficiency of Working Capital and Statements of Indebtedness” and with reference to Hong Kong Standard on Assurance Engagements 3000 “Assurance Engagements Other Than Auditors or Reviews of Historical Financial Information” issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”). Those standards require that we plan and perform our work to obtain reasonable assurance as to whether, so far as the accounting policies and calculations are concerned, the Profit Estimate has been properly compiled based on the unaudited results of the management accounts of the Target Company for the year ended 31 March 2015 and as to whether the Profit Estimate is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Target Company on Auditing issued by the HKICPA. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

OPINION

In our opinion, so far as the accounting policies and calculations are concerned, the Profit Estimate has been properly compiled based on the unaudited results of the management accounts of the Target Company for the year ended 31 March 2015 and is presented on basis consistent in all material respects with the accounting policies adopted by the Target Company.

Yours faithfully,
HLB Hodgson Impey Cheng Limited
Yu Chi Fat
Practicing Certificate Number: P05467
Hong Kong

APPENDIX II REPORT FROM RFML ON THE 2015 PROFIT GUARANTEE

Set out below is the text of the reports from RFML, the financial adviser of the Company, in connection with the 2015 Profit Guarantee for the purpose of inclusion in this circular.



11/F, Far East Finance Centre
16 Harcourt Road, Admiralty, Hong Kong

7 October 2015

The Board of Directors
EDS Wellness Holdings Limited
Unit 3811, 38/F
Shun Tak Centre
West Tower
168–200 Connaught Road Central
Hong Kong

Dear Sirs,

We refer to the 2015 Profit Guarantee under which the vendors irrevocably and unconditionally warranted and guaranteed to the purchaser (a wholly-owned subsidiary of the Company) that the profits before taxation and extraordinary items of China Honest for the year ended 31 March 2015 will not be less than HK\$9,000,000, as set out in the section headed “The 2015 Profit Guarantee” in the circular of the Company dated 7 October 2015 (the “**Circular**”), of which this letter forms part. The 2015 Profit Guarantee constitutes an existing profit forecast under the note to Rule 10.1 of the Takeovers Code. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

The 2015 Profit Guarantee was agreed by the parties to the Acquisition as part of an arrangement under which compensation would be provided by the vendors to the purchaser in the event that the profits before taxation and extraordinary items of China Honest for the year ended 31 March 2015 are less than HK\$9,000,000. The unaudited results of the management accounts of China Honest for the year ended 31 March 2015 supports that the profits before taxation and extraordinary items of China Honest for the year ended 31 March 2015 are not less than HK\$9,000,000 (the “**Profit Estimate**”). As set out in the announcement of the Company dated 6 July 2015, based on the certificate issued by its auditors on 30 June 2015, the 2015 Profit Guarantee has been fulfilled. We have reviewed and discussed with the Directors the Profit Estimate. We have also considered the result of the review by HLB in relation to the Profit Estimate, the auditors of the Company. HLB is of the opinion that, so far as the accounting policies and calculations are concerned, the Profit Estimate has been properly compiled based on the unaudited results of the management accounts of China Honest for the year ended 31 March 2015 and is presented

APPENDIX II REPORT FROM RFML ON THE 2015 PROFIT GUARANTEE

on a basis consistent in all material respects with the accounting policies adopted by China Honest. The full text of the report issued by HLB on its review is set out in Appendix I to the Circular.

Based on the above, we are of the opinion that the Profit Estimate which supports that the 2015 Profit Guarantee is made with due care and consideration.

Yours faithfully,
For and on behalf of
REORIENT Financial Markets Limited
Allen Tze
Managing Director

- (1) The following new definitions be inserted in the existing Bye-law 1 (Interpretation) in their alphabetical order as appropriate:

“Ordinary Shares”	the ordinary shares of par value of HK\$0.10 each in the share capital of the Company or, if there has been a sub-division, consolidation, re-classification or re-construction of the ordinary share capital of the Company, such ordinary shares forming part of the ordinary equity share capital of the Company of such other nominal amount as shall result from any such sub-division, consolidation, re-classification or re-construction; and “Ordinary Share” means any of them.
“Preferred Shareholder”	a person registered from time to time in the register of members of the Company as a holder of any Preferred Share(s).
“Preferred Shares”	the convertible preferred shares in the share capital of the Company each with par value of HK\$0.10 having the rights, privileges and restrictions as set out in the Terms of Preferred Shares as set out in Schedule 4 of the Subscription Agreement and these Bye-laws.
“Shares”	the shares in the capital of the Company (being the Ordinary Shares and the Preferred Shares).

- (2) The following new Bye-law 9A be inserted immediately after the existing Bye-law 9:

9A.(1) Terms of Preferred Shares

Definitions. For the purpose of this Bye-law 9A, unless the context otherwise requires, the words standing in the first column of the following table shall bear the meaning set opposite them respectively in the second column.

“Business Day”	means a day (other than a Saturday, Sunday or public holiday) on which licensed banks are generally open for business in Hong Kong.
“Completion”	completion of the issue and subscription of the Subscribed Shares in accordance with Clause 7 of the Subscription Agreement (<i>Completion</i>).

“Completion Conditions”	the conditions precedent to Completion set out in Clause 5.1 of the Subscription Agreement (<i>Completion Conditions and waiver</i>) and Schedule 5 of the Subscription Agreement (<i>Conditions precedent</i>).
“Completion Date”	the date on which Completion takes place, being a date within 5 Business Days from and excluding the day on which the last of the Completion Conditions has been fulfilled or waived pursuant to Clause 5.1 of the Subscription Agreement (<i>Completion Conditions and waiver</i>) (as the case may be as agreed among the parties to the Subscription Agreement) (or such other date as the parties to the Subscription Agreement may agree in writing).
“Conversion”	the completion of the conversion of the Preferred Shares in accordance with Bye-law 9A.
“Conversion Event”	the conversion of Preferred Shares by a Preferred Shareholder pursuant to Bye-law 9A.(6.1) (<i>Conversion</i>).
“Conversion Notice”	the notice of conversion (in such form as may be required by the Company from time to time).
“Conversion Period”	the period commencing from the Completion Date and ending on the third anniversary of the Completion Date.
“Conversion Price”	HK\$0.40, as adjusted in accordance with Bye-law 9A.(7) (<i>Conversion adjustments</i>).
“Conversion Rate”	the rate for conversion of the Preferred Shares into Ordinary Shares as determined in accordance with Bye-law 9A.(6.3) (<i>Conversion Rate</i>).
“Conversion Right”	the right of Preferred Shareholders to convert their Preferred Shares into Ordinary Shares.
“GEM Listing Rules”	the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Hong Kong Stock Exchange.
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China.

“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited.
“Subscribed Shares”	the new Ordinary Shares and/or Preferred Shares to be subscribed by each Subscriber in such number as set out against the respective name of the Subscribers in Schedule 3 of the Subscription Agreement.
“Subscription Agreement”	the subscription agreement dated 17 February 2015 and its Schedules entered into amongst the Company and the persons named in Schedule 1 thereto, namely, Xing Hang Limited, Goldenland Mining & Investment Limited, Silver Empire Holding Limited, Truly Elite Limited, High Aim Global Limited, First Bonus International Limited (each a “Subscriber” and collectively, the “Subscribers”), including all amendments and supplements made to it from time to time.
“Subscription Price”	HK\$0.40 per Preferred Share.
“Takeovers Code”	The Code on Takeovers and Mergers and Share Buy-backs administered by the Securities and Futures Commission.
“trading day”	any day on which the Hong Kong Stock Exchange is open for the business of dealing in securities and on which the Ordinary Shares can be traded on the Hong Kong Stock Exchange.

9A.(2) Dividend

None of the Preferred Shares shall confer on the holders thereof the right to receive out of the funds of the Company available for distribution.

9A.(3) Return of Capital

The Preferred Shares shall rank *pari passu* in all respects for return of capital on liquidation, winding up or dissolution of the Company and participation in the distribution of surplus assets of the Company with all other shares in the capital of the Company for the time being in issue.

9A.(4) Transferability

9A.(4.1) Any Preferred Share, subject to it having been fully paid up, shall be freely transferable, provided that such transfer shall be in compliance with the conditions hereunder and further subject to (where applicable) the conditions, approvals, requirements and any other provisions of or under:

- (a) the Hong Kong Stock Exchange (and any other stock exchange on which the Shares may be listed at the relevant time) or its rules and regulations;
- (b) the GEM Listing Rules;
- (c) the Takeovers Code; and
- (d) all applicable laws and regulations.

9A.(4.2) In relation to any transfer of any Preferred Share permitted under or otherwise pursuant to this Bye-law 9A.(4):

- (a) a Preferred Share may only be transferred by execution of a form of transfer (the “**Transfer Form**”) in the form set out in the Schedule to Schedule 4 of the Subscription Agreement by the transferor and the transferee (or their duly authorised representatives). In this Bye-law 9A(4.2), “transferor” shall, where the context permits or requires, include joint transferors or can be construed accordingly;
- (b) a Preferred Share must be delivered to the Company accompanied by:
 - (i) a duly executed Transfer Form;
 - (ii) in the case of the execution of the Transfer Form on behalf of a corporation by its officers, the authority of that person or those persons to do so;

and the Company shall, within five (5) Business Days of receipt of such documents from the Preferred Shareholder, cancel the existing certificate for the Preferred Share(s) and issue a new certificate for the Preferred Share(s) thereof under seal of the Company (in respect of the whole or such part(s) of the principal amount of the Preferred Shares so transferred, as the case may be), in favour of the transferee or assignee as applicable and (if appropriate) issue to the Preferred Shareholder a new certificate for such Preferred Share(s) under seal of the Company in respect of any balance thereof retained by the Preferred Shareholder.

9A.(4.3) The Company shall maintain a full, accurate and complete register of the Preferred Shareholders, the conversion, cancellation and destruction of the Preferred Shares, any replacement certificate issued in substitution for any defaced, lost, stolen or destroyed certificate and of details of all Preferred Shareholders from time to time.

9A.(4.4) Any reasonable legal and other costs and expenses which may be properly incurred by the Company in connection with any transfer of a Preferred Share or any request therefor shall be borne by the Preferred Shareholder.

9A.(4.5) For the avoidance of doubt, no partly paid Preferred Shares can be transferred.

9A.(5) Voting

The holder(s) of the Preferred Shares will not be entitled to attend or vote at any general meeting of the Company by reason only of his/her/its being the holder(s) of the Preferred Shares, unless a resolution is to be proposed at a general meeting for winding up the Company or a resolution is to be proposed which if passed would vary or abrogate the rights or privileges of the holder(s) of the Preferred Shares, in which event the Preferred Shares shall confer on the holder thereof the right to receive notice of, and to attend and vote at, the general meeting, save that such holders may not vote upon any business dealt with at such general meeting except the election of a chairman, any motion for adjournment or relating to the proceedings of the general meeting and the resolution for winding-up or the resolution which if passed would (subject to any consents required for such purpose being obtained) vary or abrogate the rights and privileges of the holder(s) of the Preferred Shares. In such event, the votes of holders of Preferred Shares will be counted on as converted basis.

9A.(6) Conversion

9A.(6.1) *Conversion.* Subject to Bye-law 9A.(6.8) (*Conversion subject to public float requirement*), the Preferred Shares shall be convertible into Ordinary Shares by such Preferred Shareholder serving the Conversion Notice to the Company on any Business Day within the Conversion Period without the payment of any additional consideration therefor, into such number of fully-paid Ordinary Shares as determined in accordance with this Bye-law.

9A.(6.2) *Number of Ordinary Shares upon conversion.* The number of Ordinary Shares to which a holder of Preferred Shares shall be entitled upon conversion following a Conversion Event shall be the product obtained by multiplying the Conversion Rate then in effect by the number of Preferred Shares being converted.

9A.(6.3) *Conversion Rate.* The Conversion Rate of each Preferred Share shall be determined by dividing the Subscription Price by the Conversion Price in effect at the time of conversion, provided that the Conversion Price shall not be less than the then subsisting par value of an Ordinary Share into which such Preferred Share is convertible. The Conversion Price shall be subject to adjustment in accordance with Bye-law 9A.(7) (*Conversion adjustments*).

9A.(6.4) *Mechanism for conversion.* Upon delivery of the Conversion Notice and certificate(s) evidencing the Preferred Shares to be converted by the holder thereof to the Company, the Company shall promptly and, in any event no later than 10 Business Days after the date of receipt of the Conversion Notice and such certificate(s):

- (i) issue and deliver to such holder (a) certificate(s) for the number of Ordinary Shares into which the Preferred Shares are converted in the name as shown on the certificate(s) evidencing the Preferred Shares so surrendered to the Company; or
- (ii) cause to be credited into the relevant Preferred Shareholder's brokers' account such number of Ordinary Shares into which the Preferred Shares are converted.

- 9A.(6.5) *Fractional Shares.* No fraction of an Ordinary Share shall be issued upon conversion of the Preferred Shares. Fractional entitlement shall be ignored by the holder of the Preferred Shares and any sum paid in respect of such subscription shall be retained by the Company for its own benefit.
- 9A.(6.6) *Sufficient authorized share capital.* The Company shall ensure that at all times there is a sufficient number of unissued Ordinary Shares in its authorized share capital to be issued in satisfaction of the Conversion Rights of Preferred Shares pursuant to Bye-law 9A.(6.1) (*Conversion*).
- 9A.(6.7) *Entry into register of members.* Upon the issue of the Ordinary Shares into which the Preferred Shares are converted, the Company shall enter such member of the Company in its register of members in respect of the relevant number of Ordinary Shares arising from such conversion, and the Preferred Shares which have been converted into Ordinary Shares shall be treated as cancelled.
- 9A.(6.8) *Conversion subject to public float requirement.*
- (i) Notwithstanding any provisions in Bye-law 9A, the Company's obligation to effect conversion of fully paid Preferred Shares into Ordinary Shares in respect of which Conversion Notice has been served ("**Outstanding Preferred Shares**"), shall be subject to the Company's compliance with Rule 11.23(7) of the GEM Listing Rules.
 - (ii) The Company undertakes with the Preferred Shareholders that in the event that the Company is unable to effect conversion of any Outstanding Preferred Shares for the reason of compliance with Rule 11.23(7) of the GEM Listing Rules, it shall, once headroom for conversion of such Outstanding Preferred Shares is available, effect conversion of such Outstanding Preferred Shares into Ordinary Shares to the maximum extent possible. For the avoidance of doubt, such conversion may be made after the expiry of the Conversion Period.
 - (iii) In the event the Outstanding Preferred Shares are held by more than one Preferred Shareholders and the headroom for conversion by the Company under Bye-law 9A.(6.8)(ii) (*Conversion subject to public float requirement*) is insufficient to enable all of such Outstanding Preferred Shares be converted in one batch, the Outstanding Preferred Shares held by such Preferred Shareholders shall be converted by the Company on a pro-rata basis.

9A.(7) Conversion adjustments

9A.(7.1) The Conversion Price shall from time to time be adjusted in accordance with the following relevant provisions and so that if the event giving rise to any such adjustment shall be such as would be capable of falling within more than one of Bye-law 9A(7.1)(a) to (h) inclusive (*Conversion adjustments*), it shall fall within the first of the applicable clauses to the exclusion of the remaining clauses:

- (a) If and whenever the Ordinary Shares by reason of any consolidation or sub-division or reclassification become of a different nominal amount, the Conversion Price in force immediately prior thereto shall be adjusted by multiplying it by the revised nominal amount and dividing the result by the former nominal amount. Each such adjustment shall be effective from the close of business in Hong Kong on the day immediately preceding the date on which the consolidation or sub-division or reclassification becomes effective;
- (b) If and whenever the Company shall:
 - (i) issue (other than in lieu of a cash dividend) any Ordinary Shares credited as fully paid by way of capitalisation of profits or reserves (including any share premium account); or

- (ii) issue Ordinary Shares paid out of distributable profits or reserves and/or share premium accounts issued in lieu of the whole or any part of a cash dividend, being a dividend which the holders of the Ordinary Shares concerned would or could otherwise have received but only to the extent that the market value of such Ordinary Shares exceeds 110% of the amount of dividend which holders of the Ordinary Shares could elect to or would otherwise receive in cash and which would not have constituted a capital distribution (as defined in Bye-law 9A.(7.2) (*Conversion adjustments*)) (for which purpose the “market value” of an Ordinary Share shall mean the average of the closing prices published in the Hong Kong Stock Exchange’s Daily Quotation Sheet for one Ordinary Share for 5 trading days ending on the last trading day immediately preceding the last day on which holders of Ordinary Shares may elect to receive or (as the case may be) not to receive the relevant dividend in cash); then the Conversion Price in force immediately prior to such issue shall be adjusted by multiplying it by the aggregate nominal amount of the issued Ordinary Shares immediately before such issue and dividing the result by the sum of such aggregate nominal amount and the aggregate nominal amount of the Ordinary Shares issued in such capitalisation. Each such adjustment shall be effective (if appropriate, respectively) from the commencement of the day next following the record date for such issue.
- (c) If and whenever the Company shall make any capital distribution to holders (in their capacity as such) of Ordinary Shares (whether on a reduction of capital or otherwise) or shall grant to such holders rights to acquire for cash assets of the Company or any of its subsidiaries, the Conversion Price in force immediately prior to such distribution or grant shall be adjusted by multiplying by the following fraction:

$$\frac{A - B}{A}$$

where:

A = the closing price published in the Hong Kong Stock Exchange in respect of one Ordinary Share on the trading day immediately preceding the date on which the capital distribution or, as the case may be, the grant is publicly announced or (failing any such announcement) immediately preceding the date of the capital distribution or, as the case may be, of the grant; and

B = the fair market value on the day of such announcement or failing any such announcement, the date of the capital distribution or the grant, as the case may be, as determined in good faith by the independent financial adviser appointed by the Company, of the portion of the capital distribution or of such rights which is/are attributable to one Ordinary Share,

provided that:

- (i) if, in the opinion of the relevant independent financial adviser appointed by the Company, the use of the fair market value as aforesaid produces a result which is significantly inequitable, it may instead determine (and in such event the above formula shall be construed as if B meant) the amount of the closing price published in the Hong Kong Stock Exchange's Daily Quotation Sheet of one Ordinary Share which should properly be attributed to the value of the capital distribution or rights; and
 - (ii) this Bye-law 9A.(7.1)(c) (*Conversion adjustments*) shall not apply in relation to the issue of Ordinary Shares paid out of profits or reserves and issued in lieu of a cash dividend. Each such adjustment shall be effective (if appropriate, retrospectively) from the commencement of the day following the record date for the capital distribution or grant.
- (d) If and whenever the Company shall offer to all holders of Ordinary Shares new Ordinary Shares for subscription by way of rights, or shall grant to all holders of Ordinary Shares any options or warrants to subscribe for new Ordinary Shares, at a price per new Ordinary Share which is less than 90% of the market price at the date of the announcement of the terms of the offer or grant (whether or not such offer or grant is subject to the approval of the holders of Ordinary Shares or other persons), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before the date of the announcement of such offer or grant by the following fraction:

$$\frac{G + H}{G + I}$$

where:

G = the number of Ordinary Shares in issue immediately before the date of such announcement;

H = the number of Ordinary Shares which the aggregate of the two following amounts would purchase at such market price:

- (i) the total amount (if any) payable to the rights, options or warrants being offered or granted; and
- (ii) the total amount payable for all of the new Ordinary Shares being offered for subscription or comprised in the rights, options or warrants being granted; and

I = the aggregate number of Ordinary Shares being offered for subscription or comprised in the rights, options or warrants being granted.

Such adjustment shall become effective (if appropriate retroactively) from the commencement of the day next following the record date for the relevant offer or grant.

- (e) (i) If and whenever the Company or any of its subsidiaries shall issue wholly for cash any securities which by their terms are convertible into or exchangeable for or carry rights of subscription for new Ordinary Shares, and the total Effective Consideration per new Ordinary Share initially receivable for such securities is less than 90% of the market price at the date of the announcement of the terms of issue of such securities (whether or not such issue is subject to the approval of the holders of Shares of other persons), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such issue by the following fraction:

$$\frac{J + K}{J + L}$$

where:

J = the number of Shares in issue immediately before the date of the issue of such securities;

K = the number of Shares which the total Effective Consideration receivable for such securities would purchase at such market price; and

L = the maximum number of new Shares to be issued upon full conversion or exchange of, or the exercise in full of the subscription rights conferred by, such securities at their relative initial conversion or exchange rate or subscription price.

Such adjustment shall become effective (if appropriate retroactively) from the date of issue of such securities.

- (ii) If and whenever the rights of conversion or exchange or subscription attaching to any such securities as are mentioned in Bye-law 9A.(7.1)(e)(i) (*Conversion adjustments*) are modified so that the total Effective Consideration per new Ordinary Share initially receivable for such securities shall be less than 90% of the market price at the date of announcement of the proposal to modify such rights of conversion or exchange or subscription, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such modification by the following fraction:

$$\frac{M + N}{M + O}$$

where:

M = the number of Ordinary Shares in issue immediately before the date of such modification;

N = the number of Ordinary Shares which the total Effective Consideration receivable for such securities at the modified conversion or exchange rate or subscription price would purchase at such market prices; and

O = the maximum number of new Ordinary Shares to be issued upon full conversion or exchange of, or the exercise in full of the subscription rights conferred by, such securities at their relative modified conversion or exchange rate or subscription price.

Such adjustment shall become effective as at the date upon which such modification shall take effect. A right of conversion or exchange or subscription shall not be treated as modified for the foregoing purposes where it is adjusted to take account of rights or capitalisation issues and other events normally giving rise to adjustments of conversion, exchange or subscription terms.

- (iii) For the purposes of this Bye-law 9A. (7.1) (e) (*Conversion adjustments*):
- (aa) the “total Effective Consideration” receivable for the securities issued shall be deemed to be the aggregate consideration receivable by the issuer for such securities for the issue thereof plus the additional minimum consideration (if any) to be received by the issuer and/or the Company (if not the issuer) upon (and assuming) the full conversion or exchange thereof or the exercise in full of the subscription rights attaching thereto; and
- (bb) the “total Effective Consideration per new Ordinary Share” initially receivable for such securities shall be such aggregate consideration divided by the maximum number of new Ordinary Shares to be issued upon (and assuming) the full conversion or exchange thereof at the initial conversion or exchange rate or the exercise in full of the subscription rights attaching thereto at the initial subscription price, in each case, without any deduction of any commissions, discounts or expenses paid, allowed or incurred in connection with the issue thereof.
- (f) If and whenever the Company shall issue wholly for cash any Ordinary Shares at a price per Ordinary Share which is less than 90% of the market price at the date of the announcement of the terms of such issue, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to the date of such announcement by the following fraction:

$$\frac{P + Q}{P + R}$$

where:

P = the number of Ordinary Shares in issue immediately before the date of such announcement;

Q = the number of Ordinary Shares which the aggregate amount payable for such issue would purchase at such market price; and

R = the number of Ordinary Shares allotted pursuant to such issue.

Such adjustment shall become effective on the date of the issue.

Such adjustment shall become effective (if appropriate retroactively) from the date of issue of such securities.

- (g) If and whenever the Company shall issue any Ordinary Shares for the acquisition of asset at a Total Effective Consideration (as defined below) per Ordinary Share which is less than 90% of the market price at the date of the announcement of the terms of such issue, the Conversion Price shall be adjusted by multiplying it by a fraction of which the numerator is the number of Ordinary Shares in issue immediately before the date of such announcement plus the number of Ordinary Shares which the Total Effective Consideration would purchase at such market price and the denominator is the number of Ordinary Shares in issue immediately before the date of such announcement plus the number of Ordinary Shares so issued. Each such adjustment shall be effective (if appropriate retroactively) from the date of issue of such securities.
- (h) If and whenever the Company shall issue any securities which by their terms are convertible into or exchangeable for or carry rights of subscription for new Ordinary Shares for the acquisition of asset at a Total Effective Consideration (as defined below) initially receivable for such securities is less than 90% of the market price at the date of the announcement of the terms of such issue, the Conversion Price shall be adjusted by multiplying it by a fraction of which the numerator is the number of Ordinary Shares in issue immediately before the date of such announcement plus the number of Ordinary Shares which the Total Effective Consideration would purchase at such market price and the denominator is the number of Ordinary Shares in issue immediately before the date of such announcement plus the number of Ordinary Shares so issued. Such adjustment shall become effective (if appropriate retrospectively) from the date of issue of such securities.

For the purpose of this Bye-law 9A.(7.1)(g) and (h), “**Total Effective Consideration**” shall be the fair value of the asset(s) to be acquired, such value to be determined by a professional independent third party valuer or the auditors of the Company or an approved merchant bank.

9A.(7.2) For the purposes of Bye-law 9A (7.1) (*Conversion adjustments*):

“**announcement**” shall mean the publication of an announcement on the website of the Stock Exchange, “**date of announcement**” shall mean the date of the announcement and “**announce**” shall be construed accordingly;

“**capital distribution**” shall (without prejudice to the generality of that phrase) include distributions in cash or specie, and any dividend or distribution charged or provided for in the accounts for any financial period shall (whenever paid and however described) be deemed to be a capital distribution, provided that any such dividend shall not automatically be so deemed if:

- (a) it is paid out of the net profits (less losses) attributable to the holders of Ordinary Shares for all financial periods after that ended 31 December 2014 as shown in the audited consolidated profit and loss account of the Company and its subsidiaries for each such financial period; or
- (b) to the extent that (a) above does not apply, the rate of that dividend, together with all other dividends on the class of capital in question charged or provided for in the accounts for the financial period in question, does not exceed the aggregate rate of dividend on such class of capital charged or provided for in the accounts for the last preceding financial period. In computing such rates, such adjustments may be made as are in the opinion of the independent financial adviser appointed by the Company appropriate to the circumstances and shall be made in the event that the lengths of such periods differ materially;

“**issue**” shall include allot;

“**market price**” means the average of the closing prices published in the Hong Kong Stock Exchange’s Daily Quotation Sheet for one Ordinary Share for the 5 trading days ending on the last trading day immediately preceding the day on or as of which such price is to be ascertained PROVIDED THAT if at any day during the said 5 trading days, the Share shall have been quoted ex-dividend and during some other part of that period, the Ordinary Shares shall have been quoted cum-dividend, then:

- (1) if the Ordinary Shares to be issued do not rank for the dividend in question, the quotations on the dates on which the Ordinary Shares shall have been quoted cum-dividend shall for the purpose of this definition be deemed to be the amount thereof reduced by an amount equal to the amount of that dividend per Ordinary Share; and

- (2) if the Ordinary Shares to be issued rank for the dividend in question, the quotations on the dates on which the Ordinary Shares shall have been quoted ex-dividend shall for the purpose of this definition be deemed to be the amount thereof increased by an amount equal to the amount of that dividend per Ordinary Share; and PROVIDED FURTHER THAT if the Ordinary Shares on each of the said 5 trading days have been quoted cum-dividend in respect of a dividend which has been declared or announced but the Ordinary Shares to be issued or purchased do not rank for that dividend, the quotations on each of such dates shall for the purpose of this definition be deemed to be the amount thereof reduced by an amount equal to the amount of that dividend per Ordinary Share;

“**Shares**” includes, for the purposes of Ordinary Shares comprised in any issue, distribution, offer or grant pursuant in Bye-law 9A.(7.1)(b), (c), (d), (e), (f), (g) and (h) (Conversion adjustments) above, any such shares of the Company as, when fully paid, shall be Ordinary Shares;

“**rights**” includes rights in whatsoever form issued.

9A.(7.3) If the Conversion Price is adjusted with effect (retroactively or otherwise) from a date on or before the date on which the names of the Preferred Shareholders whose Preferred Shares are converted into Ordinary Shares pursuant hereto or such other persons as they may direct are entered into the register of holders of Ordinary Shares of the Company and such Preferred Shareholders’ entitlement were arrived at on the basis of unadjusted Conversion Price, the Company shall procure that such number of Ordinary Shares which would have been required to be issued on conversion of such Preferred Shares if the relevant adjustment had been given effect to as at the date of conversion shall be allotted and issued to such Preferred Shareholders or such other persons as they may direct.

9A.(7.4) The provisions of Bye-law 9A.(7.1) (*Conversion adjustments*) shall not apply to:

- (a) an issue of fully-paid Ordinary Shares upon the exercise of any conversion rights attached to securities convertible into Ordinary Shares that exist at the date of issue of the Preferred Shares;
- (b) an issue of Ordinary Shares or other securities of the Company or any subsidiary wholly or partly convertible into, of carrying rights to acquire, Ordinary Shares to the eligible participants pursuant to share option scheme adopted by the Company in compliance with Chapter 23 of the GEM Listing Rules, and

(c) an issue by the Company of Ordinary Shares or by the Company or its subsidiary of securities wholly or partly convertible into or carrying rights to acquire Ordinary Shares, in any such case in consideration or part consideration for the acquisition of any other securities, assets or business.

9A.(7.5) Notwithstanding the provisions of Bye-law 9A.(7.1) (*Conversion adjustments*), in any circumstances where the Directors shall consider that an adjustment to the Conversion Price provided for under the said provisions should not be made or should be calculated on a different basis or that an adjustment to the Conversion Price should be made notwithstanding that no such adjustment is required under the said provisions or that an adjustment should take effect on a different date or at a different time from that provided for under the provisions, the Company may appoint an independent financial adviser, to consider whether for any reason whatever the adjustment to be made (or the absence of adjustment) would or might not fairly and appropriately reflect the relative interests of the persons affected thereby and, if the independent financial adviser appointed by the Company shall consider this to be the case, the adjustment shall be modified or nullified or an adjustment made instead of no adjustment in such manner including without limitation, making an adjustment calculated on a different basis and/or the adjustment shall take effect from such other date and/or time as shall be certified by the independent financial adviser appointed by the Company to be in its opinion appropriate.

9A.(7.6) Any adjustment to the Conversion Price shall be made to the nearest cent so that any amount under half a cent shall be rounded down and an amount of half a cent or more shall be rounded up and in no event shall any adjustment (otherwise than upon the consolidation of Ordinary Shares into shares of a larger nominal amount or upon a repurchase of Ordinary Shares) involve an increase in the Conversion Price.

9A.(7.7) No adjustment shall be made to the Conversion Price in any case in which the Conversion Price so reduced in accordance with the foregoing provisions would be less than its nominal value.

9A.(7.8) Whenever the Conversion Price is adjusted, the Company shall give notice to the Preferred Shareholders that the Conversion Price has been adjusted (setting forth the event giving rise to the adjustment, the Conversion Price in effect prior to such adjustment, the adjusted Conversion Price and the effective date thereof).

9A.(8) Redemption

The Preferred Shares shall be non-redeemable.

9A.(9) Listing

The Preferred Shares will not be listed on any stock exchange.

9A.(10) Inconsistency

If there is any inconsistency between any provisions of this Bye-law 9A and any other provisions of these Bye-laws, then this Bye-law 9A prevails to the extent of the inconsistency except where this would result in a breach of the Act, rules of any Designated Stock Exchange or any other applicable law.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular and confirm having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

2. DISCLOSURE OF INTERESTS

(a) Directors' interests

As at the Latest Practicable Date, none of the Directors and chief executives of the Company nor their respective associates had any interests or short positions in the Ordinary Shares, the underlying Ordinary Shares and the debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or as otherwise required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules.

(b) Substantial Shareholders' interests

As at the Latest Practicable Date, so far as was known to the Directors and the chief executive of the Company, the interests and short positions of the persons or corporations (other than the Directors and the chief executive of the Company) in the Ordinary Shares and the underlying Ordinary Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or as

recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO, or who was expected, directly or indirectly, to be interested in 10% or more of the issued voting shares of any other member of the Group, were as follows:

Interests and short positions in Ordinary Shares or underlying Ordinary Shares

Note: (L) — long position; (S) — short position

Name of Shareholder	Nature of interests	Notes	Interest in Ordinary Shares	Interest in underlying Ordinary Shares	Total interest in Ordinary Shares	Approximate percentage of shareholding
Eternity	Interest of controlled corporation and party acting in concert	1	52,500,000(L)	375,000,000(L)	427,500,000(L)	571.50%(L)
Cai Zhaoyang	Interest of controlled corporation and party acting in concert	2	—	427,500,000(L) 179,921,200(S)	427,500,000(L) 179,921,200(S)	571.50%(L) 240.53%(S)
Xing Hang	Beneficial owner and party acting in concert	2	—	427,500,000(L) 179,921,200(S)	427,500,000(L) 179,921,200(S)	571.50%(L) 240.53%(S)
Success Far	Security interest	3	—	179,921,200(L)	179,921,200(L)	240.53%(L)
Goldenland	Beneficial owner and party acting in concert	4	—	427,500,000(L)	427,500,000(L)	571.50%(L)
Liu Jin	Interest of controlled corporation and party acting in concert	4	—	427,500,000(L)	427,500,000(L)	571.50%(L)
Xue Siman	Interest of controlled corporation and party acting in concert	4	—	427,500,000(L)	427,500,000(L)	571.50%(L)
Silver Empire	Beneficial owner and party acting in concert	5	—	427,500,000(L)	427,500,000(L)	571.50%(L)
Genius Earn	Interest of controlled corporation and party acting in concert	5	—	427,500,000(L)	427,500,000(L)	571.50%(L)

Name of Shareholder	Nature of interests	Notes	Interest in Ordinary Shares	Interest in underlying Ordinary Shares	Total interest in Ordinary Shares	Approximate percentage of shareholding
Liu Xiaolin	Interest of controlled corporation and party acting in concert	5	—	427,500,000(L)	427,500,000(L)	571.50%(L)
Truly Elite	Beneficial owner and party acting in concert	6	—	427,500,000(L)	427,500,000(L)	571.50%(L)
Yeung Heung Yeung	Interest of controlled corporation and party acting in concert	6	—	427,500,000(L)	427,500,000(L)	571.50%(L)
High Aim	Beneficial owner and party acting in concert	7	—	427,500,000(L)	427,500,000(L)	571.50%(L)
Ko Chun Shun Johnson	Interest of controlled corporation and party acting in concert	7	—	427,500,000(L)	427,500,000(L)	571.50%(L)
First Bonus	Beneficial owner and party acting in concert	8	—	427,500,000(L)	427,500,000(L)	571.50%(L)
Reorient Limited	Interest of controlled corporation and party acting in concert	8	—	427,500,000(L)	427,500,000(L)	571.50%(L)
Reorient Group Limited	Interest of controlled corporation and party acting in concert	8	—	427,500,000(L)	427,500,000(L)	571.50%(L)
Gainhigh	Interest of controlled corporation and party acting in concert	8	—	427,500,000(L)	427,500,000(L)	571.50%(L)
Insula	Interest of controlled corporation and party acting in concert	8	—	427,500,000(L)	427,500,000(L)	571.50%(L)

Notes:

1. New Cove is interested in 52,500,000 Ordinary Shares. As New Cove is an indirect wholly-owned subsidiary of Eternity, Eternity is deemed to be interested in such 52,500,000 Ordinary Shares. In addition, as Eternity is considered as party acting in concert with the Subscribers under section 317 of the SFO in view of the Subscribers' Lock-Up Undertaking, Eternity is deemed to be interested in the Subscription Shares. As such, Eternity is deemed to be interested in aggregate of 427,500,000 Ordinary Shares.
2. Xing Hang is ultimately owned as to 82.5% by Mr. Cai Zhaoyang, 7.5% by Mr. Lin Fan, 3.75% by Ms. Xu Yaping, 3.75% by Mr. Guo Pengcheng and 2.5% by Mr. Chen Jie. Pursuant to the Subscription Agreement, Xing Hang will subscribe for 179,921,200 Ordinary Subscription Shares. Pursuant to the Term Loan Agreement, a share charge will be given by Xing Hang in favour of Success Far over the 179,921,000 Ordinary Shares to be issued to Xing Hang under the Subscription. Accordingly, Xing Hang acquires a short position in respect of such 179,921,000 Ordinary Shares. As Xing Hang is a controlled corporation of Mr. Cai Zhaoyang, Mr. Cai is deemed to have acquired a short position in such 179,921,200 Ordinary Shares. Further, as Xing Hang is a party acting in concert with the other Subscribers and with Eternity under section 317 of the SFO in view of the Subscribers' Lock-Up Undertaking, each of Xing Hang and Mr. Cai Zhaoyang is deemed to be interested in an aggregate of 427,500,000 Ordinary Shares.
3. In accordance with the Term Loan Agreement, Success Far, which is owned as to approximately 20.85% by Silver Empire, 22.93% by Truly Elite, 25% by Goldenland and 31.22% by High Aim, shall provide a facility to Xing Hang and Xing Hang give a share charge in favour of Success Far over 179,921,200 Ordinary Subscription Shares to be issued to Xing Hang under the Subscription. As such, Success Far is deemed to be interested in 179,921,200 Ordinary Shares.
4. Goldenland is ultimately owned as to 50% by Mr. Liu Jin and 50% by Ms. Xue Siman. Pursuant to the Subscription Agreement, Goldenland will subscribe for 45,396,178 Ordinary Subscription Shares. As Goldenland is a party acting in concert with the other Subscribers and with Eternity under section 317 of the SFO in view of the Subscribers' Lock-Up Undertaking, each of Goldenland, Mr. Liu Jin and Ms. Xue Siman is deemed to be interested in an aggregate of 427,500,000 Ordinary Shares.
5. Silver Empire is wholly owned by Genius Earn Limited ("**Genius Earn**"), which is in turn wholly owned by Mr. Liu Xiao Lin. Pursuant to the Subscription Agreement, Silver Empire will subscribe for 37,861,665 Ordinary Subscription Shares. As Silver Empire is a party acting in concert with the other Subscribers and with Eternity under section 317 of the SFO in view of the Subscribers' Lock-Up Undertaking, each of Silver Empire, Genius Earn and Mr. Liu Xiao Lin is deemed to be interested in an aggregate of 427,500,000 Ordinary Shares.
6. Truly Elite is wholly owned by Mr. Yeung Heung Yeung. Pursuant to the Subscription Agreement, Truly Elite will subscribe for 41,628,921 Ordinary Subscription Shares. As Truly Elite is a party acting in concert with the other Subscribers and with Eternity under section 317 of the SFO in view of the Subscribers' Lock-Up Undertaking, each of Truly Elite and Mr. Yeung Heung Yeung is deemed to be interested in an aggregate of 427,500,000 Ordinary Shares.
7. High Aim is wholly owned by Mr. Ko Chun Shun, Johnson. Pursuant to the Subscription Agreement, High Aim will subscribe for 26,697,946 Ordinary Subscription Shares and 30,000,000 Preferred Shares. As High Aim is party acting in concert with the other Subscribers

and with Eternity under section 317 of the SFO in view of the Subscribers' Lock-Up Undertaking, each of High Aim and Mr. Ko Chun Shun, Johnson is deemed to be interested in an aggregate of 427,500,000 Ordinary Shares.

8. First Bonus is a wholly-owned subsidiary of Reorient Limited, a company incorporated in the British Virgin Islands with limited liability and is wholly owned by REORIENT Group Limited, a company incorporated in Hong Kong with limited liability and the shares of which are listed on the Main Board of the Stock Exchange. REORIENT Group Limited is a subsidiary of Gainhigh Holdings Limited (“Gainhigh”) which in turn is a subsidiary of Insula Holdings Limited (“Insula”). Mr. Ko Chun Shun, Johnson is an executive director and the controlling shareholder (as defined under the Listing Rules) of REORIENT Group Limited. Pursuant to the Subscription Agreement, First Bonus will subscribe for 13,494,090 Ordinary Subscription Shares. As First Bonus is party acting in concert with the other Subscribers and with Eternity in view of the Subscribers' Lock-Up Undertaking, each of First Bonus, Reorient Limited, REORIENT Group Limited, Gainhigh, Insula and Mr. Ko Chun Shun, Johnson is deemed to be interested in an aggregate of 427,500,000 Ordinary Shares.

Save as disclosed above, as at the Latest Practicable Date, so far as was known to the Directors and the chief executive of the Company, and based on the public records filed on the website of the Stock Exchange and records kept by the Company, no other persons or corporation had interests or short positions in the Ordinary Shares or the underlying Ordinary Shares which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO, or were expected, directly or indirectly, to be interest in 10% or more of the issued voting shares of any other member of the Group.

3. COMPETING BUSINESS INTEREST OF DIRECTORS

As at the Latest Practicable Date, none of the Directors, the controlling shareholder (as defined under the GEM Listing Rules) of the Company or their respective associates was interested in any business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group and any other conflict of interest which any such person has or may have with the Group as required to be disclosed pursuant to the GEM Listing Rules.

4. QUALIFICATION AND CONSENT OF EXPERTS

The following is the qualification of the expert who has given an opinion or advice on the information contained in this circular:

Name	Qualification
Investec	a licensed corporation under the SFO to carry out Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities
HLB	Certified Public Accountants
RFML	a licensed corporation under the SFO to carry out Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities

5. CONSENT

Each of Investec, HLB and RFML has given and has not withdrawn its written consents to the issue of this circular with the inclusion of its letters and/or reports and references to its names in the form and context in which they respectively appear herein.

6. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, save and except for (i) the termination of the Exclusive Distribution Agreement by the Group on 30 June 2015 as disclosed in the Company's announcement dated 31 March 2015; and (ii) the Group recording an unaudited consolidated loss after tax of HK\$7.46 million for the six months ended 30 June 2015 as compared to the forecasted consolidated profit after tax of the Group of HK\$5.1 million in the same period as estimated in the 2015 Profit Forecast, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2014, being the date to which the latest published audited consolidated financial statements of the Group were made up.

7. MISCELLANEOUS

- (a) As at the Latest Practicable Date, none of the Directors had entered into a service contract with the Company which did not expire or which was not determinable by the Company within one year without payment of compensation, other than statutory compensation.
- (b) As at the Latest Practicable Date, save for First Bonus, being a wholly-owned subsidiary of RFML, entering into the Subscription Agreement, Investec, HLB and RFML did not have any shareholding in any member of the Group and did not have any right, whether legally enforceable or not, to subscribe for or to

nominate persons to subscribe for securities in any member of the Group. As at the Latest Practicable Date, none of the Directors, Investec, HLB or RFML had any interest, either directly or indirectly, in any assets which have been, since 31 December 2014, being the date to which the latest published audited consolidated financial statements of the Group were made up, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

- (c) As at the Latest Practicable Date, none of the Directors was materially interested in contract or arrangement subsisting as at the Latest Practicable Date which is significant in relation to the business of the Group.
- (d) The branch share registrar of the Company in Hong Kong is Tricor Secretaries Limited.
- (e) The principal share registrar of the Company is Codan Services Limited.
- (f) The English text of this circular shall prevail over the Chinese text, in case of any inconsistency.

8. DOCUMENT AVAILABLE FOR INSPECTION

A copy of the following documents is available for inspection during normal business hours at Unit 3811, 38/F, Shun Tak Centre, West Tower, 168–200 Connaught Road Central, Hong Kong from the date of this circular to the date of the SGM (both days inclusive) and also at the SGM.

- (a) the Master Supply Agreement;
- (b) the Subscription Agreement;
- (c) the Term Loan Agreement;
- (d) the Funding Undertaking;
- (e) Xing Hang's Lock-Up Undertaking;
- (f) the Subscribers' Lock-Up Undertaking;
- (g) the Offer Non-Acceptance Undertaking;
- (h) the existing Bye-laws;
- (i) the new Bye-laws proposed to be adopted by the Company;
- (j) the letter from the Independent Board Committee containing its advice to the Independent Shareholder the text of which is set out in the section headed "Letter from the Independent Board Committee" in this circular;

- (k) the letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders, the text of which is set out in the section headed “Letter from the Independent Financial Adviser” in this circular;
- (l) the report from HLB on the 2015 Profit Guarantee, the text of which is set out in Appendix I to this circular;
- (m) the report from RFML on the 2015 Profit Guarantee, the text of which is set out in Appendix II to this circular;
- (n) the written consents of the experts referred to in the paragraph headed “Qualifications and Consent of Experts” in this appendix; and
- (o) this circular.



EDS Wellness Holdings Limited

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

(Stock Code: 8176)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the special general meeting (the “SGM”) of EDS Wellness Holdings Limited (the “Company”) will be held at Meeting Room (Soho 2), 6/F., ibis Hong Kong Central & Sheung Wan Hotel, No. 28 Des Voeux Road West, Sheung Wan, Hong Kong, on Friday, 30 October 2015 at 10:00 a.m. for the following purposes:

ORDINARY RESOLUTIONS

1. “**THAT**, the authorised share capital of the Company be and is hereby reclassified and redesignated from HK\$500,000,000 divided into 5,000,000,000 ordinary shares of HK\$0.10 each (the “**Ordinary Shares**”) to HK\$500,000,000 divided into 4,950,000,000 Ordinary Shares and 50,000,000 preferred shares of HK\$0.10 each (the “**Preferred Shares**”) with the rights, privileges and restrictions of the Preferred Shares set out in the Subscription Agreement (as defined in ordinary resolution no. 2 below) and in the amendment to the Bye-laws of the Company to be adopted by the Company as referred to in Appendix III to the circular of the Company dated 7 October 2015 (the “**Circular**”) and that the directors of the Company be and are hereby authorised to do all other acts, matters and things and execute all documents as they consider necessary, desirable or appropriate for the implementation of and giving effect to the transactions contemplated under this resolution.”
2. “**THAT**, subject to and conditional on the passing of ordinary resolution no. 1 and special resolution no. 4,
 - (a) the subscription agreement dated 17 February 2015 (as amended and supplemented by the supplemental agreements dated 19 June 2015 and 28 August 2015 entered into by the parties to the subscription agreement) (collectively, the “**Subscription Agreement**”) entered into between (i) the Company, and (ii) Xing Hang Limited, Goldenland Mining & Investment Limited, Silver Empire Holding Limited, Truly Elite Limited, High Aim Global Limited and First Bonus International Limited (collectively, the “**Subscribers**”) in relation to the subscription of 345,000,000 new Ordinary Shares (the “**Ordinary Subscription Shares**”) and 30,000,000 new Preferred Shares (the “**Preferred Subscription Shares**”) (collectively, the “**Subscription Shares**”) at an issue price of HK\$0.40 per Subscription Share (a copy of the Subscription Agreement is tabled at the SGM and marked “A” by the

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chairman of the SGM for identification purpose) and the transactions contemplated thereunder be and are hereby confirmed, approved and ratified;

- (b) conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) granting the listing of, and permission to deal in the Ordinary Subscription Shares and the new Ordinary Shares to be issued upon conversion of the Preferred Subscription Shares (the “**Conversion Shares**”) pursuant to the terms of the Preferred Subscription Shares set out in the Subscription Agreement, the specific mandate granted to the directors of the Company to exercise the powers of the Company to allot, issue and deal with the Subscription Shares and the Conversion Shares be and is hereby approved;
- (c) any director of the Company be and is hereby authorised for and on behalf of the Company to sign, seal, execute and deliver all such documents and deeds, and do all such acts, matters and things as they may in their discretion consider necessary or desirable to implement and/or effect the transactions contemplated by the Subscription Agreement, the allotment and issue of the Subscription Shares, Preferred Shares and the Conversion Shares, and subject to approval from the Independent Shareholders (as defined in the Circular) in accordance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange for any material variation of the terms of the Subscription Agreement, to approve or agree to any amendment, variation or modification of the terms and conditions of the Subscription Agreement on such terms and conditions as any director(s) of the Company may think fit.”

3. “**THAT**

- (i) the terms of the master supply agreement to be entered into between the Company and Shenzhen Donica Electronic Technology co., Ltd. in relation to the sale and purchase of certain equipment and the provision of related installation and maintenance services at completion of the subscription contemplated under the Subscription Agreement (the “**Master Supply Agreement**”) (a copy of which is tabled at the SGM and marked “**B**” by the chairman of the SGM for identification purpose) and the Company’s execution and delivery of the Master Supply Agreement be and are hereby approved in all respects;
- (ii) the transactions contemplated under the Master Supply Agreement (the “**Master Supply Transactions**”) and the Company’s entering into and implementation of the Master Supply Transactions be and are hereby approved in all respects;
- (iii) the annual caps as set out in the Circular in respect of the Master Supply Transactions for each of the two years ending 31 December 2016 be and are hereby approved in all respects (the “**Proposed Annual Caps**”); and

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- (iv) any director of the Company be and is hereby authorised for and on behalf of the Company to sign, seal, execute and deliver all such documents and deeds, and do all such acts, matters and things as they may in their discretion consider necessary or desirable to implement and/or effect the Master Supply Transactions and/or the Proposed Annual Caps.”

SPECIAL RESOLUTION

4. “**THAT**, subject to and conditional on the passing of ordinary resolution no. 1, the amendment to the Bye-laws of the Company as set out in Appendix III to the Circular be and are hereby approved by the Company, and a new Bye-laws of the Company in the form made available for inspection by all the shareholders of the Company prior to the SGM (a copy of the new Bye-laws of the Company is tabled at the SGM and marked “C” by the chairman of the SGM for identification purpose), be and is hereby adopted in substitution for and to the exclusion of the existing Bye-laws of the Company, effective from the date of this resolution.”

By Order of the Board
EDS Wellness Holdings Limited
Chan Kin Wah, Billy
Chairman

Hong Kong, 7 October 2015

Head Office and Principal Place of Business:
Unit 3811, 38/F.
Shun Tak Centre
West Tower
168–200 Connaught Road Central
Hong Kong

Registered Office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Notes:

1. A member entitled to attend and vote at the SGM convened by the above notice is entitled to appoint one or more proxies to attend and vote in his stead. A proxy need not be a member of the Company but must be present in person at the SGM to represent the member. If more than one proxy is so appointed, the appointment shall specify the number of shares in respect of which each such proxy is so appointed.
2. Whether or not you are able to attend the SGM, you are requested to complete the form of proxy in accordance with the instructions printed thereon. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the SGM or any adjournment thereof, should he so wish.
3. Where there are joint holders of any share, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at the SGM, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the

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exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.

4. In order to be valid, a form of proxy must be deposited at the Company's branch share registrar in Hong Kong, Tricor Secretaries Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong together with a power of attorney or other authority, if any, under which it is signed or a certified copy of that power of attorney or authority, not less than 48 hours before the time for holding the SGM or any adjournment thereof.