

**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 a licensed securities dealer or registered institution in securities, your bank manager, solicitor, professional accountant or other professional adviser.

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

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



## **PACIFIC PLYWOOD HOLDINGS LIMITED**

**太平洋實業控股有限公司\***

*(Incorporated in Bermuda with limited liability)*

**(Stock code: 767)**

**(I) SPECIAL DEAL AND CONNECTED TRANSACTION  
IN RELATION TO THE PROPOSED AMENDMENT TO  
THE TERMS OF CONVERTIBLE NOTES;  
(II) SPECIAL DEAL IN RELATION TO THE RIGHT OF FIRST OFFER;  
(III) CONNECTED TRANSACTION IN RELATION TO  
THE PROPOSED TERMINATION OF MR. SU'S UNDERTAKING;  
AND  
(IV) NOTICE OF SGM**

**Financial adviser to Pacific Plywood Holdings Limited**

**VEDA | CAPITAL**  
**智 略 資 本**

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

**ROYAL EXCALIBUR**  
CORPORATE FINANCE COMPANY LIMITED

Capitalised terms used on this cover shall have the same meanings as those defined in the section headed "Definitions" in this circular unless the content requires otherwise. A letter from the Board is set out on pages 21 to 74 of this circular.

A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 75 to 76 of this circular. A letter from Royal Excalibur, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, containing its advice in respect of the Revised Special Deals and the New Business Model Proposal and the respective transactions contemplated thereunder to the Independent Board Committee and the Independent Shareholders is set out on pages 77 to 130 of this circular.

A notice convening the SGM to be held at Units 4202-03, 42nd Floor, The Center, 99 Queen's Road Central, Hong Kong on Thursday, 27 July 2017 at 10:30 a.m. is set out on pages SGM-1 to SGM-4 of this circular. A form of proxy for use at the SGM is enclosed. Whether or not you are able to attend the SGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as practicable but in any event no later than Tuesday, 25 July 2017 at 10:30 a.m. (Hong Kong Time). Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof (as the case may be) should you so wish and in such case, the form of proxy shall be deemed to be revoked.

<b>CONTENTS</b>
-----------------

	<i>Pages</i>
<b>Definitions</b> .....	1
<b>Letter from the Board</b> .....	21
<b>Letter from the Independent Board Committee</b> .....	75
<b>Letter from the Independent Financial Adviser</b> .....	77
<b>Appendix I - General information</b> .....	I-1
<b>Notice of SGM</b> .....	SGM-1

## DEFINITIONS

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

“2015 VSA Announcements”	the announcements of the Company dated 4 May 2015 and 10 July 2015 in relation to the P2P Acquisition
“2015 VSA Circular”	the circular of the Company dated 29 September 2015 in relation to the P2P Acquisition
“2015 VSA Sale and Purchase Agreement”	the conditional sale and purchase agreement dated 20 May 2015 in relation to the P2P Acquisition (as supplemented by a supplemental agreement dated 10 July 2015) entered into among the Company, Allied Summit and Mr. Su
“acting in concert”	has the meaning ascribed to it under the Takeovers Code
“Adjusted Actual NAV”	the net asset value of the Group based on the audited financial statements of the Group as at the Sale and Purchase Completion with adjustments to be made in accordance with paragraphs (i) to (v) under the sub-section headed “Adjustment of the consideration for the Sale Shares” under the section headed “A. The Sale and Purchase Agreement” in the First Joint Announcement
“Adoption of New Business Model Proposal Announcement”	the announcement of the Company dated 5 January 2017 in relation to the New Business Model Proposal
“Allied Summit”	Allied Summit Inc., an investment holding company incorporated in BVI with limited liability, which beneficially holds 2,709,219,755 Shares, representing approximately 70.0% of the entire issued share capital of the Company, and the Convertible Notes of HK\$2,182,400,000 as at the Latest Practicable Date

## DEFINITIONS

“Amended and Restated Convertible Notes”	the amended and restated Convertible Notes in the aggregate outstanding principal amount of HK\$2,182,400,000 pursuant to the CN Modification Deed
“Amended and Restated Sale and Purchase Agreement”	the Sale and Purchase Agreement as amended by the Amendment and Restatement Agreement
“Amendment and Restatement Agreement”	the amendment and restatement agreement dated 7 June 2017 entered into among the Shares Vendor, the Offeror, the Previous Guarantor and the Guarantor to vary and restate the Sale and Purchase Agreement and to vary certain terms and conditions of the Sale and Purchase Agreement
“Authorisation and Entrustment Agreement”	the authorisation and entrustment agreement dated 2 September 2013 and entered into between Beijing Huiju Financial, Beijing Huiju Management and the Registered Shareholder
“associate”	has the meaning ascribed to it under the Takeovers Code
“Beijing Huiju Financial”	Beijing Huiju Financial Consulting Co. Limited <sup>#</sup> (北京滙聚融通財務顧問有限公司), a wholly-owned foreign enterprise established in the PRC with limited liability on 3 June 2013 and is wholly-owned by Century Fine
“Beijing Huiju Management”	Beijing Huiju Wealth Management Consultant Company Limited <sup>#</sup> (北京滙聚財富管理諮詢有限公司), a company established in the PRC with limited liability on 13 December 2012 and is wholly-owned by the Registered Shareholders
“Beijing JuXin Cooperation Agreement”	the cooperation agreement to be entered into between Beijing Huiju Management and Beijing JuXin Management with respect to the cooperation operations of the P2P Platform
“Beijing JuXin Management”	Beijing JuXin Wealth Management Consultant Company Limited <sup>#</sup> (北京聚信財富管理諮詢有限公司), a company established in the PRC with limited liability which possesses a valid ICP licence

## DEFINITIONS

“Beijing KangDingAo”	Beijing KangDingAo Hospital Investment Management Company Limited <sup>#</sup> (北京康鼎澳醫院投資管理有限公司), a company established in the PRC with limited liability on 21 February 2008
“Bermuda”	the Islands of Bermuda
“Board”	the board of Directors
“Business Day(s)”	any day(s) on which banks in Hong Kong are open for business, other than:–  (i) a Saturday or a Sunday; or  (ii) a day on which a tropical cyclone warning signal no. 8 or above or a black rainstorm warning signal is issued in Hong Kong at any time between 9:00 a.m. and 5:00 p.m.
“BVI”	the British Virgin Islands
“Century Fine”	Century Fine Limited, a company incorporated in Hong Kong with limited liability on 9 August 2010 and is wholly-owned by Katar Global
“Chengdu Subang”	Chengdu Subang Management Consulting Co. Limited <sup>#</sup> (成都速幫管理諮詢有限公司), a wholly-owned foreign enterprise established in the PRC with limited liability on 11 September 2013 and is wholly-owned by Century Fine
“Chongqing KDA”	Chongqing KangDingAo Financing Consulting Co. Limited <sup>#</sup> (重慶康鼎澳財務諮詢有限公司), a wholly-owned foreign enterprise established in the PRC with limited liability on 27 September 2013 and is wholly-owned by Century Fine
“Cooperation Agreement(s)”	the cooperation agreement(s) to be entered into between Beijing Huiju Management and ICP OPCO(s) with respect to the cooperation operations of P2P Platform(s)
“CN Chargor”	Allied Summit

## DEFINITIONS

“CN Holder(s)”	holder(s) of the Convertible Notes or the Amended and Restated Convertible Notes
“CN Modification Deed”	the modification deed dated 27 August 2016 entered into between the Company and the CN Holder in relation to the Proposed CN Amendments (as amended and supplemented by the Supplemental CN Modification Deed and the Second Supplemental CN Modification Deed)
“CN Transfer”	the sale and purchase of the Convertible Notes (if applicable, as amended by the CN Modification Deed) in accordance to the CN Transfer Agreement
“CN Transfer Agreement”	the conditional sale and purchase agreement dated 27 August 2016 (as amended and supplemented by the Supplemental CN Transfer Agreement and the Second Supplemental CN Transfer Agreement) entered into among the Shares Vendor, Previous CN Chargor and the Previous Guarantor in relation to the sale and purchase of the Convertible Notes (if applicable, as amended by the CN Modification Deed)
“Company”	Pacific Plywood Holdings Limited (Stock Code: 767), a company incorporated in Bermuda and the Shares of which are listed on the Main Board of the Stock Exchange
“Completion Accounts”	combined statements of (i) financial position of the Group; (ii) the net asset value of the Group based on the audited financial statements of the Group; and (iii) cash and bank balances of the Group as at Sale and Purchase Completion Date
“Composite Document”	the composite offer and response document in respect of the Offer to be jointly despatched by the Offeror and the Company in accordance with the Takeovers Code containing, amongst other things, the detailed terms of the Offer
“connected person(s)”	has the meaning ascribed to it under the Listing Rules

## DEFINITIONS

“controlling shareholder”	has the meaning ascribed to it under the Listing Rules
“Conversion Price”	the initial conversion price of HK\$0.2 per Conversion Share
“Conversion Right(s)”	the right(s) of the holder(s) of the Convertible Notes or the Amended and Restated Convertible Notes to convert the whole or part of the outstanding principal amount of the Convertible Notes or the Amended and Restated Convertible Notes into Conversion Shares, subject to the terms of the Convertible Notes or the Amended and Restated Convertible Notes, respectively
“Conversion Shares”	up to 10,912,000,000 new Shares to be issued and allotted by the Company upon conversion of the Convertible Notes at the Conversion Price based on the maximum outstanding principal amount of HK\$2,182,400,000
“Convertible Notes”	the convertible note or notes in the aggregate outstanding principal amount of HK\$2,182,400,000 due in 2020 issued by the Company on 20 October 2015, including for the avoidance of doubt, such Convertible Notes as amended modified or supplemented from time to time (including the amendments pursuant to the Proposed CN Amendments) and any extension thereof
“Deed of CN Transfer Termination”	the deed of termination dated 31 March 2017 entered into among, the Shares Vendor, the Previous CN Chargor and the Previous Guarantor in relation to the termination of the CN Transfer Agreement (as amended and supplemented by the Supplemental CN Transfer Agreement and the Second Supplemental CN Transfer Agreement)

## DEFINITIONS

“Deed of Listed Shares Disposal Termination”	the deed of termination dated 31 March 2017 entered into among, the Company and the Listed Shares Disposal Purchaser in relation to the termination of the Listed Shares Disposal Agreement (as amended and supplemented by the Supplemental Listed Shares Disposal Agreement)
“Director(s)”	the director(s) of the Company
“Draft Law”	the draft Foreign Investment Law published by the Ministry of Commerce of the PRC
“Equity Pledge Agreement”	the equity pledge agreement dated 2 September 2013 and entered into among Beijing Huiju Financial and the Registered Shareholder
“Exclusive Business Cooperation Agreement”	the exclusive business cooperation agreement dated 2 September 2013 and entered into among Beijing Huiju Financial and Beijing Huiju Management
“Exclusive Option Agreement”	the exclusive option agreement dated 2 September 2013 and entered into among Registered Shareholder, Beijing Huiju Financial, and Beijing Huiju Management
“Exclusive Technical Licensing and Business Cooperation Agreement”	the exclusive technical licensing and business cooperation agreement dated 21 July 2016 entered into between Beijing Huiju Financial and Beijing Huiju Management
“Executive”	Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
“Existing Business Model”	the P2P Platform business operation model of the Group as set out in the 2015 VSA Circular or the one as set out in the Voluntary Announcement after the adoption of the New Structured Contracts (as the case may be)



## DEFINITIONS

“Extension Announcements”	the announcements dated 30 December 2016 and 30 June 2017 jointly issued by the Company and the Offeror in relation to the extension of the long stop dates for the Sale and Purchase Agreement, the Listed Shares Disposal Agreement, the CN Transfer Agreement and the CN Modification Deed
“Fifth Joint Announcement”	the announcement dated 1 June 2017 jointly issued by the Company and the Offeror in relation to the update on the Amended and Restated Sale and Purchase Agreement
“First Joint Announcement”	the announcement dated 5 October 2016 jointly issued by the Company and the Offeror in respect of, amongst others, the Sale and Purchase Agreement, the Previous Special Deals and the Offer
“First Tranche Sale CNs”	the Amended and Restated Convertible Notes in the principal amount of HK\$1,249,070,000
“Former Limited Partner”	the former limited partner of the Offeror
“Fourth Joint Announcement”	the announcement dated 31 March 2017 jointly issued by the Company and the Offeror in relation to (i) the extension of the long stop dates for the Sale and Purchase Agreement and the CN Modification Deed; and (ii) the Deed of CN Transfer Termination and the Deed of Listed Shares Disposal Termination
“General Partner”	Huarong International Capital Limited, a Cayman Islands exempted limited liability company, being the general partner of the Offeror
“Glory Creator”	Glory Creator Limited, an investment holding company incorporated in Hong Kong with limited liability, which is wholly-owned by the Company
“Glory Creator Group”	Glory Creator Limited and its subsidiary

## DEFINITIONS

“Glory Creator Sale Loans”	all indebtedness, obligations and liabilities due, owing or incurred by Glory Creator to the Company as at the date of completion of the Securities Business Disposal
“Group”	the Company and its subsidiaries
“Guaranteed Profit”	the guaranteed profit of the audited consolidated profit before tax of Katar Global Group (excluding any extraordinary items) of (i) HK\$100,000,000 from 1 January 2015 to 31 December 2015; and (ii) HK\$350,000,000 from 1 January 2016 to 31 December 2016 as set out in the 2015 VSA Sale and Purchase Agreement
“Guarantor”	Mr. Su
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“ICP”	internet content provider
“Independent Board Committee”	the independent committee of the Board comprising all the independent non-executive Directors, namely Mr. Wong Chun Hung, Mr. Zheng Zhen and Mr. To Langa Samuelson, which has been established by the Company to make recommendations to the Independent Shareholders in respect of (i) the Revised Special Deals and the New Business Model Proposal and the transactions contemplated thereunder respectively; and (ii) whether the Offer is fair and reasonable and as to acceptance

## DEFINITIONS

“Independent Financial Adviser” or “Royal Excalibur”	Royal Excalibur Corporate Finance Company Limited, a corporation licensed to carry out business in type 6 (advising on corporate finance) regulated activity under the SFO, as the independent financial adviser appointed by the Independent Board Committee to make recommendations to the Independent Board Committee and the Independent Shareholders in respect of (i) the Revised Special Deals and the New Business Model Proposal and the transactions contemplated thereunder respectively; and (ii) whether the Offer is fair and reasonable and as to acceptance
“Independent Shareholder(s)”	Shareholders other than (i) the Shares Vendor, the Guarantor, their associates and parties acting in concert with any of them, (ii) the Offeror and its ultimate beneficial owner, their respective associates and parties acting in concert with any of them (including the Former Limited Partner), and (iii) those who are involved in or interested in the Amended and Restated Sale and Purchase Agreement, the CN Modification Deed, the CN Transfer Agreement, the Right of First Offer and the New Business Model Proposal and the transactions contemplated therein will be required to abstain from voting in respect of the resolution(s) approving the Proposed CN Amendments, the Right of First Offer and the New Business Model Proposal and the transactions contemplated thereunder at the SGM
“IPIH”	Imperial Pacific International Holdings Limited (Stock Code: 1076), a company incorporated in Bermuda with limited liability and the shares of which are listed on the Main Board of the Stock Exchange
“IPIH Sale Shares”	5,426,900,000 IPIH Shares and in case of consolidation or subdivision, the securities into which the IPIH Sale Shares have been consolidated or subdivided (subject to any share subdivision which may be announced by IPIH)

## DEFINITIONS

“IPIH Shares”	ordinary share(s) of IPIH of HK\$0.0005 each
“Joint Announcements”	the First Joint Announcement, the Second Joint Announcement, the Third Joint Announcement, the Extension Announcements, the Fourth Announcement, the Update Announcement, the Fifth Joint Announcement and the Sixth Joint Announcement
“Joy Wealth Finance”	Joy Wealth Finance Limited, a company incorporated in Hong Kong with limited liability, which is a direct wholly-owned subsidiary of the Company
“Katar Global”	Katar Global Limited, a company incorporated in the BVI, which is a non-wholly owned subsidiary of the Company
“Katar Global Group”	Katar Global and its subsidiaries
“Kingston Securities”	Kingston Securities Limited, a licensed corporation to carry out type 1 (dealing in securities) regulated activity under the SFO
“KPM”	KPM Holding Limited (Stock Code: 8027), a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Growth Enterprise Market of the Stock Exchange
“KPM Sale Shares”	29,600,000 KPM Shares and in case of consolidation or subdivision, the securities into which the KPM Sale Shares have been consolidated or subdivided
“KPM Shares”	ordinary share(s) of KPM of HK\$0.00125 each
“Latest Practicable Date”	4 July 2017, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listed Sale Shares”	together, the IPIH Sale Shares and KPM Sale Shares

## DEFINITIONS

“Listed Shares Disposal”	the disposal of the Listed Sale Shares by the Company to Listed Shares Disposal Purchaser pursuant to the Listed Shares Disposal Agreement
“Listed Shares Disposal Agreement”	the conditional sale and purchase agreement dated 27 August 2016 (as amended and supplemented by the Supplemental Listed Shares Disposal Agreement) entered into between the Company as vendor and the Listed Shares Disposal Purchaser as purchaser in respect of the Listed Shares Disposal at an aggregate consideration of HK\$776,342,000
“Listed Shares Disposal Purchaser”	Allied Summit
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Main Board”	Main Board of the Stock Exchange (excludes the option market) operated by the Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Stock Exchange
“Mr. Ma”	Mr. Ma Hongyi, an individual being the previous guarantor under the Sale and Purchase Agreement and CN Transfer Agreement
“Mr. Ng”	Mr. Ng Kwok Fai, who as at the Latest Practicable Date (i) was the ultimate beneficial owner holding 20% of the issued share capital of Allied Summit, which was beneficially holding 2,709,219,755 Shares, representing approximately 70.0% of the entire issued share capital of the Company; and (ii) personally did not hold any Shares or other securities in the Company

## DEFINITIONS

“Mr. Su”	Mr. Su Weibiao, who as at the Latest Practicable Date (i) was the ultimate beneficial owner holding 80% of the issued share capital of Allied Summit, which was beneficially holding 2,709,219,755 Shares, representing approximately 70.0% of the entire issued share capital of the Company; and (ii) personally did not hold any Shares or other securities in the Company
“Mr. Su’s Undertaking”	the irrevocable undertaking given by Mr. Su to the Company that he shall at all times maintain “control” of the Company as defined in and for the purpose of the Draft Law
“Mr. Su’s Undertaking Termination”	the termination of Mr. Su’s Undertaking
“New Business Model Proposal”	collectively, the Revised Business Model and the Mr. Su’s Undertaking Termination
“New Exclusive Option Agreement”	the exclusive option agreement dated 21 July 2016 and entered into among Beijing Huiju Financial, Beijing Huiju Management and the Registered Shareholders
“New Structured Contracts”	collectively, the Exclusive Technical Licensing and Business Cooperation Agreement, the New Exclusive Option Agreement, the Share Pledge Agreement, the Power of Attorney and the Spousal Consent
“Offer”	the possible mandatory unconditional cash offer to be made by Kingston Securities on behalf of the Offeror to acquire all the issued Shares (other than those already owned or agreed to be acquired by the Offeror) in accordance with the Takeovers Code
“Offeror”	Huarong Financial Services Asset Management L.P., a Cayman Islands exempted limited partnership

## DEFINITIONS

“Outstanding Receivables”	outstanding debt receivables and accrued interests of Joy Wealth Finance as at the Sale and Purchase Completion Date (including writing back or reversing any write-off or provisions of debt receivables during the period from 1 April 2016 up to the Sale and Purchase Completion Date) (both days inclusive)
“P2P Acquisition”	the acquisition of 96% of the entire issued share capital of Katar Global Group from Allied Summit by the Group as completed on 20 October 2015
“P2P Platform”	“Caijia”, a Peer-to-Peer (P2P) online credit platform in the PRC matching borrowers with private lenders for various financial products through the internet and being managed by Beijing Huiju Management
“Pledge Agreement”	the pledge agreement among the Registered Shareholder, the Registered Shareholder’s shareholder and Beijing Huiju Financial
“Power of Attorney”	the power of attorney dated 21 July 2016 and entered into among Beijing Huiju Financial, Beijing Huiju Management and the Registered Shareholders
“Previous CN Chargor”	Triple Sino Limited (三華有限公司), a company incorporated in BVI with limited liability and is wholly-owned by the Previous Guarantor
“Previous Guarantor”	Mr. Ma
“Previous Special Deals”	the Listed Shares Disposal, the Proposed CN Amendments, the CN Transfer Agreement, and the Right of First Offer and such transactions entered into by the Company or as contemplated under the Sale and Purchase Agreement which constitute special deals for the Company under Rule 25 of the Takeovers Code

## DEFINITIONS

“Proposed CN Amendments”	the proposed amendment of certain terms and conditions of the outstanding Convertible Notes pursuant to the CN Modification Deed (as amended and supplemented by the Supplemental CN Modification Deed and the Second Supplemental CN Modification Deed)
“PRC”	the People’s Republic of China which, for the purpose of this circular, shall exclude Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“Reduction Amount”	the adjustment to be made to the consideration of the 2015 VSA Sale and Purchase Agreement
“Reference NAV”	HK\$2,189,168,000 (total net asset value of the Group as at 31 March 2016 of HK\$4,023,025,000 less goodwill of HK\$2,182,663,000 and intangible asset of HK\$1,194,000 and plus the Guaranteed Profit of HK\$350,000,000 being the agreed adjusted reference net asset value of the Group as at 31 March 2016 based on the unaudited accounts of the Group for the period from 1 January 2016 up to and including 31 March 2016
“Registered Shareholder(s)”	Beijing KangDingAo before 21 July 2016 or Mr. Guo Junfeng and Mr. Dong Zhitian since 21 July 2016 (as the case may be)
“Revised Business Model”	The P2P Platform business operation model of the Group after the entering into of the Cooperation Agreement, the revocation of the ICP license held by the Group and the unwinding of the New Structured Contracts



## DEFINITIONS

“Revised Convertible Notes Charge”	a first ranking security document to be entered into by the CN Chargor in favour of the Offeror in respect of the Convertible Notes (if applicable, as amended by the CN Modification Deed) to secure the performance of the obligations of the Shares Vendor under the Amended and Restated Sale and Purchase Agreement, the CN Modification Deed, the Revised Share Charges and the tax deed which shall be subject to partial release on the date falling on the first (1st) anniversary of the Sale and Purchase Completion Date and every six (6) months after the date falling on the first (1st) anniversary of the Sale and Purchase Completion Date
“Revised Share Charges”	first ranking security documents in respect of the entire issued share capital of the CN Chargor to be granted in favour of the Offeror to secure, among others, the performance of the obligations of the Shares Vendor and the Guarantor under the Amended and Restated Sale and Purchase Agreement, the CN Modification Deed, the Revised Convertible Notes Charge and the tax deed
“Revised Special Deals”	the Proposed CN Amendments and the Right of First Offer and such transactions entered into by the Company or as contemplated under the Amended and Restated Sale and Purchase Agreement which constitute special deals for the Company under Rule 25 of the Takeovers Code
“Right of First Offer”	the first right to transfer or dispose of all or part of the Amended and Restated Convertible Notes or any interests therein to any independent third party by the CN Chargor that the CN Chargor shall serve on the Offeror a notice in writing of its wish to do so and the Offeror may give notice in writing to the CN Chargor if it or its nominee intends to purchase the relevant Amended and Restated Convertible Notes based on the same terms

## DEFINITIONS

“Sale and Purchase Agreement”	the conditional sale and purchase agreement dated 27 August 2016 (as amended and supplemented by the Supplemental Sale and Purchase Agreement and the Second Supplemental Sale and Purchase Agreement and amended and restated by the Amendment and Restatement Agreement) entered into among the Shares Vendor, the Offeror, the Guarantor and the Previous Guarantor in respect of the Sale Shares
“Sale and Purchase Completion”	the completion of the sale and purchase of the Sale Shares pursuant to the Amended and Restated Sale and Purchase Agreement
“Sale and Purchase Completion Date”	the date on which the Sale and Purchase Completion shall take place, which shall be three Business Days after the date on which the last of the Sale and Purchase Conditions has been satisfied or waived or such other later date as may be agreed in writing between the parties under the Amended and Restated Sale and Purchase Agreement
“Sale and Purchase Condition(s)”	the conditions precedent to the Sale and Purchase Completion
“Sale and Purchase Long Stop Date”	31 August 2017 or such later date as may be agreed between the parties to the relevant documents in writing
“Sale CNs”	together, the First Tranche Sale CNs and the Second Tranche Sale CNs
“Sale Share(s)”	an aggregate of 2,128,560,000 Shares, legally and beneficially owned by the Shares Vendor
“Second Joint Announcement”	the update announcement dated 18 October 2016 jointly issued by the Company and the Offeror in respect of the Previous Special Deals
“Second Supplemental Agreements”	the Second Supplemental Sale and Purchase Agreement and the Second Supplemental CN Transfer Agreement

## DEFINITIONS

“Second Supplemental Sale and Purchase Agreement”	the second supplemental agreement dated 15 November 2016 entered into among Shares Vendor, the Offeror and the Previous Guarantor in relation to the amendment of certain terms of the Sale and Purchase Agreement
“Second Supplemental CN Modification Deed”	the supplemental agreement dated 7 June 2017 entered into between the Company and the CN Holder in relation to the amendment of certain terms of the CN Modification Deed
“Second Supplemental CN Transfer Agreement”	the second supplemental agreement dated 15 November 2016 entered into among the Shares Vendor, the Previous CN Chargor and the Previous Guarantor in relation to the amendment of certain terms of the CN Transfer Agreement
“Second Tranche Sale CNs”	the Amended and Restated Convertible Notes in the principal amount (up to HK\$933,330,000) as may be released to the Shares Vendor by the Company after the adjustment to be made to the consideration of the 2015 VSA Sale and Purchase Agreement is offset/satisfied in the manner set out in the 2015 VSA Circular
“Securities Business Disposal”	the disposal of Glory Creator by the Company to the Securities Business Purchaser, pursuant to the Securities Business Disposal Agreement which was completed on 22 November 2016
“Securities Business Disposal Agreement”	the conditional agreement dated 8 August 2016 entered into between the Company as vendor and the Securities Business Purchaser as purchaser in relation to the disposal of the entire issued share capital in Glory Creator, which is an investment holding company incorporated in Hong Kong with limited liability at a consideration of HK\$12.85 million
“Securities Business Purchaser”	Sino Shine Global Limited, a company incorporated in BVI with limited liability, which is an independent third party and which does not hold any Shares or other convertible securities in the Company as at the Latest Practicable Date

## DEFINITIONS

“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	the special general meeting of the Company to be convened for the purpose of considering and, if thought fit, approving, among other things, the Revised Special Deals and the New Business Model Proposal and the transactions contemplated thereunder respectively
“Share(s)”	ordinary share(s) of HK\$0.001 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Share Pledge Agreement”	the share pledge agreement dated 21 July 2016 entered into among Beijing Huiju Financial, Beijing Huiju Management and the Registered Shareholders
“Shares Vendor”	Allied Summit, a controlling shareholder of the Company and a company incorporated in BVI with limited liability which held an aggregate of 2,709,219,755 Shares (representing approximately 70.00% of the existing issued capital of the Company) as at the Latest Practicable Date
“Shenyang Subang”	Shenyang Subang Management Consulting Co. Limited <sup>#</sup> (瀋陽速幫管理諮詢有限公司), a wholly-owned foreign enterprise established in the PRC with limited liability on 30 May 2013 and is wholly-owned by Century Fine
“Sixth Joint Announcement”	the announcement dated 7 June 2017 jointly issued by the Company and the Offeror in relation to the entering into of the Amended and Restated Sale and Purchase Agreement
“Spousal Consent”	the spousal consent dated 21 July 2016 and signed by the spouse of each married shareholder of the Beijing Huiju Management

## DEFINITIONS

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Structured Contracts”	collectively, the Authorisation and Entrustment Agreement, the Equity Pledge Agreement, the Exclusive Business Cooperation Agreement, the Exclusive Option Agreement and the Pledge Agreement
“substantial shareholder”	has the meaning ascribed to it under the Listing Rules
“Supplemental CN Modification Deed”	the supplemental agreement dated 4 October 2016 entered into between the Company and the CN Holder in relation to the amendment of certain terms of the CN Modification Deed
“Supplemental CN Transfer Agreement”	the supplemental agreement dated 4 October 2016 entered into among the Shares Vendor, the Previous CN Chargor and the Previous Guarantor in relation to the amendment of certain terms of the CN Transfer Agreement
“Supplemental Listed Shares Disposal Agreement”	the supplemental agreement dated 4 October 2016 entered into between the Company and the Listed Shares Disposal Purchaser in relation to the amendment of certain terms of the Listed Shares Disposal Agreement
“Supplemental Sale and Purchase Agreement”	the supplemental agreement dated 4 October 2016 entered into among the Shares Vendor, the Offeror and the Previous Guarantor in relation to the amendment of certain terms of the Sale and Purchase Agreement
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Third Joint Announcement”	the update announcement dated 15 November 2016 jointly issued by the Company and the Offeror in respect of the Second Supplemental Agreements
“Update Announcement”	the update announcement dated 15 May 2017 jointly issued by the Company and the Offeror in respect of the Amended and Restated Sale and Purchase Agreement

## DEFINITIONS

“Undertakings”	the undertakings given by each of the Shares Vendor, the Guarantor and Offeror under the Sale and Purchase Agreement or Amended and Restated Sale and Purchase Agreement (as the case may be)
“VIE Structure”	the variable interest entity structure under the Existing Business Model
“Voluntary Announcement”	the voluntary announcement dated 29 July 2016 issued by the Company in respect of, amongst others, the change of the Registered Shareholders
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.



**PACIFIC PLYWOOD HOLDINGS LIMITED**

**太平洋實業控股有限公司\***

*(Incorporated in Bermuda with limited liability)*

**(Stock code: 767)**

*Executive Directors:*

Mr. Huang Chuan Fu (*Chairman*)

Mr. Liang Jian Hua

Ms. Jia Hui

Mr. Jiang Yi Ren

*Registered office:*

Canon's Court

22 Victoria Street

Hamilton HM 12

Bermuda

*Independent non-executive Directors:*

Mr. Wong Chun Hung

Mr. Zheng Zhen

Mr. To Langa Samuelson

*Head office and principal place  
of business:*

Units 3301–3303, 33/F

West Tower Shun Tak Centre

168–200 Connaught Road

Sheung Wan

Hong Kong

6 July 2017

*To the Shareholders*

Dear Sir or Madam,

**(I) SPECIAL DEAL AND CONNECTED TRANSACTION  
IN RELATION TO THE PROPOSED AMENDMENT TO  
THE TERMS OF CONVERTIBLE NOTES;  
(II) SPECIAL DEAL IN RELATION TO THE RIGHT OF FIRST OFFER;  
AND  
(III) CONNECTED TRANSACTION IN RELATION TO  
THE PROPOSED TERMINATION OF MR. SU'S UNDERTAKING**

**1. INTRODUCTION**

References are made to the Joint Announcements.

\* *For identification purpose only*

## LETTER FROM THE BOARD

The Company and the Offeror jointly announced on 5 October 2016, 18 October 2016 and 15 November 2016, among other matters, that:

- (i) On 27 August 2016, the Shares Vendor, the Offeror and the Previous Guarantor entered into the Sale and Purchase Agreement (as amended and supplemented by the Supplemental Sale and Purchase Agreement dated 4 October 2016 and the Second Supplemental Sale and Purchase Agreement dated 15 November 2016), pursuant to which the Offeror has conditionally agreed to purchase and the Shares Vendor has conditionally agreed to sell, the 2,128,560,000 Sale Shares, representing approximately 55.00% of the entire issued share capital of the Company as at the Latest Practicable Date and the date of the Sale and Purchase Agreement at an initial consideration of HK\$304,384,080 (equivalent to HK\$0.143 per Sale Share), which may be subject to a downward adjustment. The Sale and Purchase Completion is conditional upon fulfilment (or, as appropriate, waiver by the Offeror) of the Sale and Purchase Conditions, which include, amongst others, the Previous Special Deals becoming unconditional (save for the condition requiring the Sale and Purchase Agreement to become unconditional or be completed (as the case may be));
- (ii) On 27 August 2016, the Shares Vendor and the Company entered into the Listed Shares Disposal Agreement (as amended and supplemented by the Supplemental Listed Shares Disposal Agreement dated 4 October 2016), pursuant to which the Company has conditionally agreed to sell, and the Listed Shares Disposal Purchaser has conditionally agreed to purchase (i) 5,426,900,000 IPIH Sale Shares (representing approximately 3.80% of the entire issued share capital of IPIH as at the Latest Practicable Date) for a consideration of HK\$759,766,000 (equivalent to HK\$0.14 per IPIH Sale Share); and (ii) 29,600,000 KPM Sale Shares (representing approximately 0.93% of the entire issued share capital of KPM as at the Latest Practicable Date) for a consideration of HK\$16,576,000 (equivalent to HK\$0.56 per KPM Sale Share);
- (iii) On 27 August 2016, the Company and Allied Summit entered into the CN Modification Deed (as amended and supplemented by the Supplemental CN Modification Deed dated 4 October 2016) pursuant to which the Company and Allied Summit have conditionally agreed to amend certain terms of the outstanding Convertible Notes;
- (iv) Pursuant to the terms of the Sale and Purchase Agreement, if the Previous CN Chargor wishes to transfer or dispose of all or any part of the Convertible Notes (if applicable, as amended by the CN Modification Deed) or any interests therein, the Shares Vendor and the Previous Guarantor shall procure that the Previous CN Chargor shall comply with the pre-emptive right procedures in connection with the Undertakings Consent Requirement (as defined below) and the Right of First Offer; and



## LETTER FROM THE BOARD

- (v) On 27 August 2016, the Shares Vendor entered into the CN Transfer Agreement with the Previous CN Chargor and the Previous Guarantor (as amended and supplemented by the Supplemental CN Transfer Agreement dated 4 October 2016 and the Second Supplemental CN Transfer Agreement dated 15 November 2016), pursuant to which the Shares Vendor has conditionally agreed to sell and the Previous CN Chargor has conditionally agreed to purchase the First Tranche Sale CNs and the Second Tranche Sale CNs subject to and upon the terms and conditions of the CN Transfer Agreement at the aggregate maximum consideration of HK\$2,182,400,000.

The Company and the Offeror jointly announced on 31 March 2017, 15 May 2017, 1 June 2017 and 7 June 2017, among other matters the subsequent termination and the amendment of the below transactions:

- (i) the Shares Vendor, the Offeror, the Previous Guarantor and the Guarantor entered into the Amendment and Restatement Agreement to vary and restate the Sale and Purchase Agreement and to vary certain terms and conditions of the Sale and Purchase Agreement, details of which are set out in the Fifth Joint Announcement and the Sixth Joint Announcement;
- (ii) the Shares Vendor entered into the Deed of CN Transfer Termination with the Previous CN Chargor and the Previous Guarantor to terminate the CN Transfer Agreement and hence the CN Transfer will not proceed, pursuant to which all antecedent obligations and liabilities of the parties under the CN Transfer Agreement shall be absolutely discharged and released in all aspects with immediate effect and neither the Shares Vendor nor the Previous CN Chargor and the Previous Guarantor would have any claim against the other under the CN Transfer Agreement, details of which are set out in the Fourth Joint Announcement; and
- (iii) the Company entered into the Deed of Listed Shares Disposal Termination with the Listed Shares Disposal Purchaser to terminate the Listed Shares Disposal Agreement and hence the the Listed Shares Disposal will not proceed, pursuant to which all antecedent obligations and liabilities of the parties under the Listed Shares Disposal Agreement shall be absolutely discharged and released in all aspects with immediate effect and neither the Company nor the Listed Shares Disposal Purchaser would have any claim against the other under the Listed Shares Disposal Agreement, details of which are set out in the Fourth Joint Announcement.

## LETTER FROM THE BOARD

### The Amended and Restated Sale and Purchase Agreement

Pursuant to the Sale and Purchase Agreement, the Offeror has conditionally agreed to purchase and the Shares Vendor has conditionally agreed to sell, the 2,128,560,000 Sale Shares, representing approximately 55.00% of the entire issued share capital of the Company as at the Latest Practicable Date and the date of the Sale and Purchase Agreement at an initial consideration of HK\$304,384,080 (equivalent to HK\$0.143 per Sale Share), which may be subject to a downward adjustment on a dollar-for-dollar basis based on the difference between the Reference NAV and the Adjusted Actual NAV of the Group shown in the Completion Accounts as at Sale and Purchase Completion.

As stated in the Sixth Joint Announcement, on 7 June 2017, the Shares Vendor, the Offeror, the Previous Guarantor and the Guarantor entered into the Amended and Restated Sale and Purchase Agreement, pursuant to which:

- (i) Termination of the undertaking given by each of the Shares Vendor and the Previous Guarantor that the consideration of the Listed Shares Disposal shall be received by the Group within 6 months from the Sale and Purchase Completion Date;
- (ii) Termination of the undertaking given by each of the Shares Vendor and the Previous Guarantor that (a) in the event that the Outstanding Receivables is more than HK\$300,000,000 as at the Sale and Purchase Completion Date, each of the Shares Vendor and the Previous Guarantor covenants that it/he shall on written demand by the Offeror (on behalf of Joy Wealth Finance) pay Joy Wealth Finance or procure Joy Wealth Finance to be paid as follows: an amount of not less than HK\$300,000,000 in respect of any unsettled portion of the Outstanding Receivables on or before the date falling on two (2) calendar months from the Sale and Purchase Completion Date and the remaining balance on or before the date falling on or before nine (9) calendar months from the Sale and Purchase Completion Date, respectively; or (b) in the event that the Outstanding Receivables is equal to or less than HK\$300,000,000 as at the Sale and Purchase Completion Date, each of the Shares Vendor and the Previous Guarantor covenants that it/he shall on written demand by the Offeror (on behalf of Joy Wealth Finance) pay Joy Wealth Finance or procure Joy Wealth Finance to be paid an amount equal to the unsettled portion of the Outstanding Receivables on the date falling on or before two (2) calendar months from the Sale and Purchase Completion Date (as the case may be).

The Undertakings in relation to the Outstanding Receivables are amended and restated as follows:

In relation to the Outstanding Receivables of Joy Wealth Finance as at the Sale and Purchase Completion Date, each of the Shares Vendor and the Guarantor shall on written demand by the Offeror (on behalf of Joy Wealth Finance) pay Joy Wealth Finance or procure Joy Wealth Finance to be paid without any deduction or set-off and whether or not the Outstanding Receivables is due or payable in accordance with its terms, an amount equal to the unsettled portion of the Outstanding Receivables on or before the date falling on the fourth (4th) anniversary of the Sale and Purchase Completion Date.

## LETTER FROM THE BOARD

- (iii) The Shares Vendor undertakes, in the event any of the Listed Sale Shares is disposed of or transferred to any person during the period commencing from the Sale and Purchase Completion Date and ending on the fourth (4th) anniversary of the Sale and Purchase Completion Date (the “**Disposal Period**”), to pay to the Company without any deduction or set-off the amount (if any) (the “**Shortfall Amount**”) by which the consideration received by the Company for each such share is less than:
- (a) HK\$0.156, in the case of a IPIH Sale Share (subject to any share consolidation, reclassification or subdivision since the date of the Sale and Purchase Agreement and up to the Sale and Purchase Completion Date) (the “**IPIH Benchmark Price**”); and
  - (b) HK\$0.338, in the case of a KPM Sale Share (subject to any share consolidation, reclassification or subdivision since the date of the Sale and Purchase Agreement and up to the Sale and Purchase Completion Date) (the “**KPM Benchmark Price**”),

no later than the 30th Day following (a) the end of the Disposal Period; or (b) the date of receipt of a written notice served to the Shares Vendor by the Offeror in relation to the Shortfall Amount (whichever is later) and the Shortfall Amount shall be determined solely by the Offeror.

For the avoidance of doubt, if and whenever there shall be a consolidation, reclassification or subdivision in relation to the IPIH Shares and/or KPM Shares (as the case may be), the IPIH Benchmark Price and the KPM Benchmark Price (as the case may be) shall be adjusted by multiplying the IPIH Benchmark Price and the KPM Benchmark Price (as the case may be) before such consolidation, reclassification or subdivision by the following fraction:

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

where:

A is the aggregate number of IPIH Shares and/or KPM Shares (as the case may be) in issue immediately before such consolidation, reclassification or subdivision; and

B is the aggregate number of IPIH Shares and/or KPM Shares (as the case may be) in issue immediately after such consolidation, reclassification or subdivision.

## LETTER FROM THE BOARD

For the avoidance of doubt, the maximum amount that the Shares Vendor may be liable to pay to the Company shall not in any event exceed HK\$846,596,400 in relation to the disposal of the IPIH Sale Shares and HK\$10,012,940 in relation to the disposal of the KPM Sale Shares.

- (iv) In addition to any offer, pledge, contract to sell, pledge or create any security interest, or grant any option, right or warrant to purchase, or otherwise transfer or dispose of the Convertible Notes under the Undertakings Consent Requirement (as defined below), the Shares Vendor may, following the Sale and Purchase Completion, offer or contract to sell, transfer or dispose of all Convertible Notes owned by the Shares Vendor or interests therein in full to a third party (the “**CN Transferee**”) without being subject to the Undertakings Consent Requirement (as defined below) and the Right of First Offer and the Offeror shall, and shall use its reasonable endeavours to procure that the Company shall, give a written consent of such offer, contract, transfer or disposal; and in the event that the Revised Convertible Notes Charge has not been released or discharged (as appropriate) in full, the Offeror shall take or procure to be taken all actions that may be reasonably necessary to release or discharge unto the Shares Vendor all the Convertible Notes from the Revised Convertible Notes Charge (the “**Revised Convertible Notes Charge Release**”), provided that:
- (a) such offer, contract, transfer or disposal may only occur once;
  - (b) each of the Shares Vendor and the Guarantor has performed and fulfilled its/his respective obligations in the Undertakings as at the date of the Amended and Restated Sale and Purchase Agreement;
  - (c) in the event that any Convertible Notes (the “**Released Convertible Notes**”) is released or discharged (as appropriate) unto the Shares Vendor from the Revised Convertible Notes Charge pursuant to the Revised Convertible Notes Charge Release during the period commencing from the Sale and Purchase Completion Date and ending on the fourth (4th) anniversary of the Sale and Purchase Completion Date, the CN Transferee has undertaken to and with the Offeror and agreed in writing to execute a first ranking security document in respect of the Convertible Notes in such principal amount equal to the principal amount of the Released Convertible Notes in favour of the Offeror within the same day immediately following the release and discharge of the Released Convertible Notes; and

## LETTER FROM THE BOARD

- (d) the Offeror has received an undertaking from the CN Transferee agreeing to be bound by such restrictions or obligations as the CN Chargor on the terms of the Undertakings Consent Requirement (as defined below) and the Right of First Offer and otherwise on terms satisfactory to the Offeror and the Shares Vendor.
  
- (v) The Offeror irrevocably and unconditionally undertakes to the Shares Vendor and the Guarantor that so long as any Convertible Notes in the amount of not less than HK\$1,000,000,000 remains outstanding, save with the approval of a resolution of any one or more holders holding the Convertible Notes or being proxies or representatives in respect of the Convertible Notes and representing, in the aggregate, not less than 50.1% of the aggregate principal amount of the Convertible Notes then outstanding, it shall use its reasonable endeavours (including without limitation, exercising the voting rights (whether on a show of hands or a poll and whether in person or by proxy) attaching to the Shares beneficially owned by the Offeror, its associates or the parties acting in concert (as such term is defined in the Takeovers Code) with it at the general meeting(s) of the Company) to procure the Company not to issue any Shares and/or issue or grant any rights, options, warrants or other rights to subscribe for or purchase or otherwise acquire any Shares or any securities which by their terms of issue carry (directly or indirectly) rights of conversion into, or exchange or subscription for, any Shares (or shall grant any such rights in respect of existing securities so issued), the effect of which is to cause or is capable of causing an increase in the issued share capital of the Company by over 25% in any single transaction or an increase in the issued share capital of the Company by over 50% in any financial year of the Company, in each case, subject to compliance with applicable law and the Listing Rules.

As at the Latest Practicable Date, as advised by the parties to the Amended and Restated Sale and Purchase Agreement, no CN Transferee has been identified.

The Sale and Purchase Completion is conditional upon, among other things, the Revised Special Deals becoming unconditional in all respects (save for the condition requiring the Amended and Restated Sale and Purchase Agreement to become unconditional or be completed (as the case may be)).

### **The Securities Business Disposal Agreement**

Pursuant to the Securities Business Disposal Agreement, the Securities Business Purchaser and the Company entered into the Securities Business Disposal Agreement, pursuant to which the Company has conditionally agreed to sell and the Securities Business Purchaser has conditionally agreed to acquire the entire issued share capital of Glory Creator and the Glory Creator Sale Loans at a consideration of HK\$12,850,000. Upon completion of the Securities Business Disposal, Glory Creator will cease to be a subsidiary of the Company.

## LETTER FROM THE BOARD

Cornerstone Securities Limited, a direct non-wholly owned subsidiary of Glory Creator, was established in July 2014 and the effective date for the license of Cornerstone Securities Limited to carry on Type 1 (dealing in securities) regulated activity under the SFO is June 2016. The Company had been actively exploring other business opportunities in order to diversify the existing business of the Group and tapped into the dealing in securities business on a trial basis. However due to (i) the intense competition in the market for the dealing in securities business which causes a relatively low profit margin on the commission income for dealing and brokerage services; (ii) the potential high marketing expenses on promoting a newly established securities firm to the clients in market; and (iii) the high operating costs of carrying on Type 1 (dealing in securities) regulated activity under the SFO including but not limited to the high professional labour cost to appoint at least two responsible officers for the dealing in securities business. The Board considered that relinquish of the ownership and management of Glory Creator would benefit all the Shareholders as the Company could concentrate its internal resources and apply it in pursuit of the Company's plan to penetrate and strengthen its position in the P2P loan facilitation service business and money lending and provision of credit business, which is in the best interest of the Company and its Shareholders.

Save for the license of Cornerstone Securities Limited to carry on Type 1 (dealing in securities) regulated activity under the SFO and cash and bank balances of approximately HK\$8.5 million, there are no major assets held by Glory Creator Group as at the date of the Securities Business Disposal Agreement. The consideration was arrived at after arm's length negotiations and on normal commercial terms between the Securities Business Purchaser and the Company with reference to the net asset value of the Glory Creator Group which is mutually agreed upon between the Company and the Securities Business Purchaser based on the management accounts of the Glory Creator Group plus the premium (including but not limited to the time cost of establishing Cornerstone Securities Limited). The Company has recognised a gain from the Securities Business Disposal of approximately HK\$4.7 million, hence the Directors consider that the entering into of the Securities Business Disposal Agreement and the terms thereof are fair and reasonable and in the interests of the Company and Independent Shareholders.

The Securities Business Disposal was completed on 22 November 2016.

The purpose of this circular is to provide you with, inter alia, (i) further information of the Revised Special Deals and the New Business Model Proposal; (ii) the recommendation from the Independent Board Committee; (iii) the advice from Royal Excalibur in respect of the terms of the Revised Special Deals and the New Business Model Proposal; (iv) other information as required by the Listing Rules; and (v) notice of the SGM to be convened for the purpose of considering and, if thought fit, approving, among other things, the Revised Special Deals and the New Business Model Proposal and the transactions contemplated thereunder.

## LETTER FROM THE BOARD

### 2. SPECIAL DEAL AND CONNECTED TRANSACTION IN RELATION TO THE PROPOSED AMENDMENTS TO THE TERMS OF CONVERTIBLE NOTES

#### **Proposed amendments to the terms of Convertible Notes**

References are made to the announcements of the Company dated 10 July 2015 and 20 October 2015 in relation to the P2P Acquisition.

On 20 October 2015, the Company issued the Convertible Notes in the principal amount of HK\$2,400,000,000 to Allied Summit pursuant to the 2015 VSA Sale and Purchase Agreement. As at the Latest Practicable Date, the outstanding principal amount of the Convertible Notes is HK\$2,182,400,000 which is convertible into 10,912,000,000 Conversion Shares at the conversion price of HK\$0.20 for each Conversion Share.

On 27 August 2016, the Company and Allied Summit entered into the CN Modification Deed (as amended and supplemented by the Supplemental CN Modification Deed dated 4 October 2016 and the Second Supplemental CN Modification Deed dated 7 June 2017) pursuant to which the Company and Allied Summit have conditionally agreed to amend certain terms of the outstanding Convertible Notes. If the Amended and Restated Convertible Notes were issued, as at the Latest Practicable Date, the outstanding principal amount of the Amended and Restated Convertible Notes is HK\$2,182,400,000 which is convertible into 10,912,000,000 Conversion Shares at the conversion price of HK\$0.20 for each Conversion Share.

Pursuant to the CN Modification Deed, the Proposed CN Amendments are conditional upon satisfaction of certain conditions. Further information on these conditions are set out in the section headed “Conditions to the Proposed CN Amendments” below.

## LETTER FROM THE BOARD

### *The Proposed CN Amendments*

The major amendments under the Proposed CN Amendments are summarised as follows:

	<b>Existing terms of the Convertible Notes</b>	<b>The Proposed CN Amendments</b>	<b>Analysis of the Proposed CN Amendments</b>
<i>Transferability</i>	<p>The Convertible Notes <i>shall be freely transferrable</i> provided that the Convertible Notes may not be transferred by the CN Holder(s) to any connected person (as defined in the Listing Rules) of the Company without written consent of the Company.</p>	<p><i>To be amended as:</i> The Amended and Restated Convertible Notes <i>shall not be freely transferrable</i> prior to 20 February 2020 and/or during the period commencing from 21 April 2020 and ending on 19 February 2024 (in the event that the Maturity Date (as defined below) is extended to 20 April 2024 pursuant to the conditions of the Amended and Restated Convertible Notes) except pursuant to (a) the CN Disposal (as defined below) or (b) with the written consent of the Company and, if so long as Huarong International Capital Limited, and/or any of its affiliates in aggregate hold not less than 30% of the issued share capital of the Company at the relevant time, the written consent of Huarong International Capital Limited.</p>	<p>This Proposed CN Amendment restricts the transferability of the Amended and Restated Convertible Notes to any other persons, save with the consent of the Company and potentially, the controlling Shareholders, which in turn avoids the possible conversion by other parties without the consent of Company and potentially, the controlling Shareholder.</p> <p>This proposed CN Amendment protects the Independent Shareholders from unexpected dilution in their shareholding interest in the Company and maintains the stability in the shareholding structure of the Company which in turn could also minimise the disruption in the Group's business operations and therefore the Directors (excluding the independent non-executive Directors whose view has been expressed in the "Letter from the Independent Board Committee" of this circular after taking into account the advices from the Independent Financial Adviser) consider that it is in the interest of the Company and the Independent Shareholders as a whole.</p>
<i>Conversion</i>	<p>(i) Subject to the conversion restriction of the Convertible Notes each Convertible Notes shall entitle the CN Holder to convert the Convertible Notes into Shares credited as fully paid <i>at any time during the conversion period of the Convertible Notes</i>;</p>	<p>(i) <i>To be amended as:</i> Subject to the Conversion Restriction (as defined below), each Amended and Restated Convertible Notes shall entitle the CN Holder to convert the Amended and Restated Convertible Notes into Shares credited as fully paid on the Maturity Date (as defined below);</p>	<p>(i) This Proposed CN Amendment only entitles the CN Holder(s) to convert the Amended and Restated Convertible Notes into Shares credited as fully paid on the Maturity Date which could minimise the immediate potential dilution in the Independent Shareholders' shareholding in the Company.</p>



## LETTER FROM THE BOARD

Existing terms of the Convertible Notes	The Proposed CN Amendments	Analysis of the Proposed CN Amendments
<p>(ii) Conversion <i>at the option of a CN Holder</i> provided that the conversion rights of the Convertible Notes shall only be exercisable (i) so long as the minimum public float of the issued share capital of the Company as enlarged by the issue of the conversion shares of the Convertible Notes can be maintained in accordance with the relevant provisions of the Listing Rules; and (ii) provided that any exercise by the CN Holder and parties acting in concert (within the meaning ascribed to it under the Takeovers Code) with it does not trigger a mandatory offer under Rule 26 of the Takeovers Code on the part of the CN Holder and parties acting in concert with it.</p>	<p>(ii) <i>To be amended as:</i> The Conversion Right shall only be exercisable by the CN Holder <i>upon maturity of the Amended and Restated Convertible Notes</i>, so long as (a) the minimum public float of the issued share capital of the Company as enlarged by the issue of the Conversion Shares can be maintained in accordance with the relevant provisions of the Listing Rules, (b) such conversion shall not result in (i) the CN Holder and the parties acting in concert with it triggering any mandatory general offer obligations under the Takeovers Code; or (ii) a change in control (as defined in the Takeovers Code) of the Company (the “<b>Conversion Restriction</b>”);</p> <p>(iii) <i>To add:</i> In the event that there are Amended and Restated Convertible Notes remaining unconverted and outstanding by reason of Conversion Restriction on 20 April 2020, the maturity date of such Amended and Restated Convertible Notes <i>shall be automatically extended for four (4) years</i> (the “<b>CN Automatic Extension</b>”);</p>	<p>(ii) This Proposed CN Amendment prohibits the change in control due to any exercise by the CN Holder(s) and parties acting in concert, which helps maintaining the stability of the shareholding structure in the Company and the Group’s business operations. In the event that if the CN Holder transfers or disposes of all or any part of the Amended and Restated Convertible Notes to any unknown investors, the conversion of the Amended and Restated Convertible Notes could result in unstable shareholding structure of the Company which causes disruption in the Group’s business operations and the possible interruption to the Offeror’s future plan.</p> <p>(iii) This Proposed CN Amendment entitles the Group to have an opportunity to further benefit from potential investment from the Offeror in the form of loans as well as investments in convertible notes which can be converted into listed securities of the Company given that the CN Holder(s) may procure the CN Disposal in the following priority: (1) first, Huarong International Capital Limited or any of its affiliates which it may nominate, (2) second, the Offeror, and such mechanism of the CN Disposal under the conversion restriction is in place with a view to minimise potential conflicts from unstable shareholding structure of the Company which causes disruption in the Group’s business operations and reduce the risk of triggering an event of default of the Convertible Notes.</p>

## LETTER FROM THE BOARD

### Existing terms of the Convertible Notes

### The Proposed CN Amendments

- (iv) *To add:* In the event that any principal amount of the Amended and Restated Convertible Notes will remain unconverted and outstanding (as determined by the auditors of the Company or a financial adviser which is independent from and not connected with the Company) on 20 February 2020 and, where applicable, 20 February 2024 (in the event that the Maturity Date (as defined below) is extended to 20 April 2024) (each a “**Determination Date**”) (the “**Remaining Notes**”), the Company shall inform the CN Holder(s) forthwith and in any event within two (2) Business Days of the relevant Determination Date. In such event, the CN Holder(s) may procure the disposal of all or any part of the Remaining Notes by way of placing by a placing agent, (the “**CN Disposal**”), provided that the CN Holder(s) shall first give notice (the “**CN Disposal Notice**”) in writing to the Company of its wish to proceed with a CN Disposal. The CN Disposal shall be carried out in accordance with the terms set out in the CN Disposal Notice to one or more parties in the following priority: (1) first, Huarong International Capital Limited or any of its affiliates which it may nominate, (2) second, the Offeror, and (3) third, other persons who are not connected person(s) of the Company.

### Analysis of the Proposed CN Amendments

Based on the abovementioned, the Directors (excluding the independent non-executive Directors whose view has been expressed in the “Letter from the Independent Board Committee” of this circular after taking into account the advices from the Independent Financial Adviser) consider the Proposed CN Amendments with respect to the conversion of the Amended and Restated Convertible Notes could protect the Shareholders (including the Offeror) from any unexpected dilution in their shareholding in the Company and maintain the stability of the shareholding structure of the Company that could minimise the disruption in the Group’s business operations and the Group may have an opportunity to further benefit from other forms of investment from the Offeror, subject to the Sale and Purchase Completion and such arrangement is in place with a view to minimise potential conflicts and reduce the risk of triggering an event of default of the Convertible Notes, and therefore is in the interest of the Company and the Independent Shareholders as a whole.

## LETTER FROM THE BOARD

Existing terms of the Convertible Notes	The Proposed CN Amendments	Analysis of the Proposed CN Amendments
<p><i>Summary on when the CN Holder(s) can convert and transfer the Amended and Restated Convertible Notes:</i></p>	<p><i>The Amended and Restated Convertible Notes can be freely transferrable during the period commencing from 20 February 2020 to 20 April 2020 and after 19 February 2024 (in the event that the Maturity Date is extended to 20 April 2024.)</i></p> <p><i>Subject to the Conversion Restriction, the Amended and Restated Convertible Notes shall be mandatorily converted into Shares credited as fully paid on the Maturity Date and the Amended and Restated Convertible Notes remaining unconverted and outstanding by reason of Conversion Restriction on 20 April 2020 will be subject to the CN Automatic Extension.</i></p>	
<p><i>Adjustment</i></p>	<p>The principal changes under the Proposed CN Amendments are set out below:</p> <p>(i) The Conversion Price is subject to adjustments upon the occurrence of rights issues of Shares or options over Shares, issues of Shares, issue of other securities and other offers to Shareholders at a price per Share which is less than Current Market Price.</p>	<p>(i) This Proposed CN Amendment offers a less stringent condition from the perspective of the Company, which is upon the occurrence of rights issues of Shares or options over Shares, issues of Shares, issue of other securities and other offers to Shareholders at a price per Share which is less than 90% of the Current Market Price, instead of the price per Share which is less than Current Market Price.</p> <p>The less stringent condition provides the Company with higher flexibility to perform rights issues of Shares or options over Shares, issues of Shares, issue of other securities and other offers to Shareholders when considering fund raising activities in future without incurring additional time and resources with respect to the adjustment of the Conversion Price and reduces the circumstances triggering the adjustment mechanism and consequentially, the increase in the number of conversion shares pursuant to the Amended and Restated Convertible Notes, which would cause a potential dilution to the existing Independent Shareholders.</p>

## LETTER FROM THE BOARD

### Existing terms of the Convertible Notes

- (ii) The Conversion Price is subject to adjustments upon the occurrence of modification of rights of conversion attached to any securities which are convertible or exchangeable into Shares, so that following such modification the consideration per Share receivable has been reduced and is less than the Current Market Price per Share.

### The Proposed CN Amendments

- (ii) *To remove:* The adjustment provisions on the Conversion Price upon the occurrence of *modification of rights of conversion.*

### Analysis of the Proposed CN Amendments

- (ii) This Proposed CN Amendment offers a less stringent condition from the perspective of the Company, whereas the Company does not need to incur additional time and resources with respect to the adjustment of the Conversion Price with the occurrence of the modification of rights of conversion events and reduces the circumstances triggering the adjustment mechanism and consequentially, the increase in the number of conversion shares pursuant to the Amended and Restated Convertible Notes, which would cause a potential dilution to the existing Independent Shareholders.

Given the abovementioned Proposed CN Amendments with respect to the adjustment of Conversion Price offer less stringent condition from the perspective of the Company, higher flexibility when considering fund raising activities and minimise the potential dilution for the existing Independent Shareholders, the Directors (excluding the independent non-executive Directors whose view has been expressed in the "Letter from the Independent Board Committee" of this circular after taking into account the advices from the Independent Financial Adviser) therefore consider that such Proposed CN Amendments are in the interest of the Company and the Independent Shareholders as a whole.

*"Current Market Price" means, in respect of a Share on a particular date, the average of the closing prices for one Share (being a Share carrying a full entitlement to dividends) for the 5 consecutive trading days ending on and including the trading day immediately preceding such date."*

## LETTER FROM THE BOARD

	Existing terms of the Convertible Notes	The Proposed CN Amendments	Analysis of the Proposed CN Amendments
<i>Provisions relating to changes in Conversion Price</i>	<i>Note: there are no adjustment clauses under the existing terms of the Convertible Notes with respect to the Shares or other securities (including rights or options) or securities which by their terms might be redesignated as Shares are issued to the relevant vendor in relation to any acquisition of assets or business by the Company or its subsidiaries.</i>	<i>To add:</i> No adjustment will be made on the Conversion Price when Shares or other securities (including rights or options) or securities which by their terms might be redesignated as Shares are issued to the relevant vendor in relation to any acquisition of assets or business by the Company or its subsidiaries except in the case of an issue at less than 90% of the Current Market Price.	This Proposed CN Amendment sets out the effect of the proposed amendment would be that it explicitly specifies the effect (in terms of triggering the conversion price adjustment mechanism as it is unclear whether the provisions relating to changes in Conversion Price mechanisms are disallowed in all circumstances or are permissible so long as any adjustment events occur)) of any issue of Shares or securities convertible or exchangeable into Shares whether such issue is pursuant to any acquisition of assets or business by the Group or otherwise would be the same, i.e. no adjustment to the Conversion Price will be triggered unless the initial conversion price or consideration per such Share or securities would be less than 90% of the Current Market Price
<i>Undertakings</i>	(i) The Company undertakes that, save with the approval of a resolution of the holder(s) holding Convertible Notes representing, in the aggregate, not less than 50.1 per cent. of the aggregate principal amount of all Convertible Notes then outstanding:	(i) The Company undertakes that: save with the approval of a resolution of the holder(s) holding Amended and Restated Convertible Notes representing, in the aggregate, not less than 50.1 per cent. of the aggregate principal amount of all Amended and Restated Convertible Notes then outstanding (the “ <b>Majority Noteholder(s)</b> ”):	(i) This Proposed CN Amendment provide more flexibility in determining the consideration for such grant of right (less than 90% of the Current Market Price instead of less than the Current Market Price), and at the same time will limit the potential dilution for the existing Independent Shareholders.

## LETTER FROM THE BOARD

Existing terms of the Convertible Notes	The Proposed CN Amendments	Analysis of the Proposed CN Amendments
<p>(a) To procure that no securities issued without rights to convert into or exchange or subscribe for Shares shall subsequently be granted such rights at a consideration per Share which is less than the Current Market Price per Share.</p>	<p>(a) <i>To be amended as: so long as any of the Amended and Restated Convertible Notes in the amount of not less than HK\$1,000,000,000 remains outstanding, to procure that no securities issued without rights to convert into or exchange or subscribe for Shares shall subsequently be granted such rights at a consideration per Share which is less than 90% of the Current Market Price per Share.</i></p>	<p>(ii) This Proposed CN Amendment was arrived based on commercial negotiations between the Company and Allied Summit after balancing the pros and cons of the factors such as (i) the minimization of shareholding dilution of the Independent Shareholders; (ii) the availability of other fund raising methodologies i.e. debt financing or bank loans available to the Company although the equity fund raising might be slightly affected; and (iii) other Proposed CN Amendments which are beneficial to the Company and the Shareholders as a whole.</p>

Given the abovementioned it sets out the effect of the proposed amendment would be that it explicitly specifies the effect (in terms of triggering the conversion price adjustment mechanism as it is unclear whether the provisions relating to changes in Conversion Price mechanisms are disallowed in all circumstances or are permissible so long as any adjustment events occur) and minimises the potential dilution of the existing Independent Shareholders to an extent, the Directors (excluding the independent non-executive Directors whose view has been expressed in the "Letter from the Independent Board Committee" of this circular after taking into account the advices from the Independent Financial Adviser) therefore consider that such Proposed CN Amendments are in the interest of the Company and the Independent Shareholders as a whole.

## LETTER FROM THE BOARD

	Existing terms of the Convertible Notes	The Proposed CN Amendments	Analysis of the Proposed CN Amendments
<i>Maturity</i>	The Convertible Notes is due and will mature on 20 October 2020.	<i>To be amended as:</i> The Amended and Restated Convertible Notes is due and will mature on 20 April 2020 (or, if applicable, 20 April 2024 pursuant to the CN Automatic Extension) (the “Maturity Date”).	<p>This Proposed CN Amendment provides a mandatory extension of the Maturity Date for 4 years if any Amended and Restated Convertible Notes is not converted on 20 April 2020 instead of a mandatory conversion on 20 October 2020 and this provides a mechanism to settle the maturity issue which allows the Group to refinance its debts under the Convertible Notes on the same terms for another 4 years, and to provide flexibility to the Group’s working capital management.</p> <p>The Directors (excluding the independent non-executive Directors whose view has been expressed in the “Letter from the Independent Board Committee” of this circular after taking into account the advices from the Independent Financial Adviser) consider the abovementioned automatic extension of the Maturity Date will be beneficial to the Independent Shareholders as the maintenance of stability in the shareholding structure of Company could avoid the disruption in the Group’s business operations and such mechanism also provides flexibility to the Group’s working capital management, which is in the interest of the Company and the Independent Shareholders as a whole.</p>
<i>Events of default</i>	<p>(i) if the Company does not perform or comply with any one or more of its other obligations in the Convertible Notes which default is incapable of remedy or, if capable of remedy, is not remedied within 30 days after notice of such default shall have been given to the Company by a CN Holder.</p>	<p>(i) <i>To be amended as:</i> if the Company breaches material obligation which involves a monetary amount of not less than HK\$50,000,000 and which default is not remedied within 30 days after notice of such default shall have been given to the Company by a CN Holder.</p>	<p>(i) This Proposed CN Amendment sets out a threshold in triggering an event of default and a more objective basis (i.e. monetary amount of not less than HK\$50,000,000) which can (i) avoid unnecessary misunderstanding between the CN Holder and the Company and enhance the administrative efficiency of the Company in handling the event of default; and (ii) reduce the default risk of the Company facing by the Independent Shareholders.</p>

## LETTER FROM THE BOARD

Existing terms of the Convertible Notes	The Proposed CN Amendments	Analysis of the Proposed CN Amendments
<p>(ii) Winding-up of, appointment of receiver of, seizure or expropriation of substantial part of the assets of, and cross default regarding an aggregate outstanding amount of at least HK\$50,000,000 committed by <i>the Company or any of its subsidiaries</i> would constitute an event of default.</p>	<p>(ii) <i>To be amended as:</i> Winding-up of, appointment of receiver of, seizure or expropriation of substantial part of the assets of and cross default regarding an aggregate outstanding amount of at least HK\$50,000,000 committed by the Company or <i>any of its subsidiaries with net assets value in excess of HK\$100,000,000</i> would constitute an event of default.</p>	<p>(ii) This Proposed CN Amendment sets out addition requirement for the Company or any of its subsidiaries with net assets value in excess of HK\$100,000,000 which offers more protection to the Group and reduce the default risk of the Company facing by the Independent Shareholders. Also, it sets out a more objective basis which can avoid unnecessary misunderstanding between the CN Holder and the Company and enhance the administrative efficiency of the Company in handling the event of default.</p>

The Directors (excluding the independent non-executive Directors whose view has been expressed in the “Letter from the Independent Board Committee” of this circular after taking into account the advices from the Independent Financial Adviser) consider the abovementioned Proposed CN Amendments with respect to events of default sets out a more objective basis and specific event such that these will avoid unnecessary misunderstanding between a CN Holder and the Company and reduce the default risk of the Company facing by the Independent Shareholders and therefore the Directors (excluding the independent non-executive Directors whose view has been expressed in the “Letter from the Independent Board Committee” of this circular after taking into account the advices from the Independent Financial Adviser) consider that these particular Proposed CN Amendments are in the interest of the Company and the Independent Shareholders as a whole.



## LETTER FROM THE BOARD

### *Conditions to the Proposed CN Amendments*

The Proposed CN Amendments are conditional upon fulfilment of all the following conditions:

- (a) the Stock Exchange having approved the proposed amendments contemplated under the CN Modification Deed in accordance with Rule 28.05 of the Listing Rules and the Listing Committee of the Stock Exchange having granted the listing of, and the permission to deal in, the maximum number of the Conversion Shares which may be allotted and issued upon exercise of the conversion right attaching to the Amended and Restated Convertible Notes;
- (b) the Independent Shareholders passing all necessary resolution(s) at the SGM approving the CN Modification Deed and the transactions contemplated thereunder;
- (c) the passing of a resolution by the CN Holder, or being proxies or representatives in respect of the Convertible Notes and representing, in the aggregate, not less than 50.1% of the aggregate principal amount of the Convertible Notes then outstanding to approve the CN Modification Deed and the transactions contemplated thereunder;
- (d) the consent of the Executive in relation to the Proposed CN Amendments as a “special deal” under Rule 25 of the Takeovers Code having been obtained; and
- (e) the obtaining of all necessary consents and approvals required to be obtained on the part of the Company and the CN Holder in respect of the proposed amendments contemplated under the CN Modification Deed.

As at the Latest Practicable Date, save as the conditions set out in the sub-paragraph (a), (b), (c) and (d) above, the Company and the CN Holder are not aware of any other consents or approvals are required to be obtained on their part in respect of the proposed amendment contemplated under the CN Modification Deed.

The Company and the CN Holder shall use their respective best endeavours to ensure that the above conditions are satisfied as soon as possible after the date of entering into the CN Modification Deed but in any event no later than 31 August 2017 (the “**CN Modification Long Stop Date**”).

None of the above conditions is waivable by any of the parties to the CN Modification Deed. If any of the above conditions is not fulfilled on or before the CN Modification Long Stop Date, the provisions of the CN Modification Deed shall become null and void.

## LETTER FROM THE BOARD

As at the Latest Practicable Date, none of the above conditions have been fulfilled. For the avoidance of doubt, the completion of the Amended and Restated Sale and Purchase Agreement is conditional on the Proposed CN Amendments becoming effective, while the completion of the Proposed CN Amendments is not conditional on the completion of the Amended and Restated Sale and Purchase Agreement nor any of the Revised Special Deals. Notwithstanding the intention of the Company and the CN Holder that the Proposed CN Amendments shall become effective simultaneously with the completion of the Amended and Restated Sale and Purchase Agreement, the aforementioned arrangement is intended to provide flexibility in the event that the Amended and Restated Sale and Purchase Agreement and/or any of the Revised Special Deals does not become unconditional on the CN Modification Long Stop Date and to allow the Independent Shareholders an option to vote for the Proposed CN Amendments while at the same time vote against the Revised Special Deals.

The Proposed CN Amendments shall become effective on the Business Day which the conditions to the Proposed CN Amendments as set above have been satisfied.

### *Shareholders' approval for the Proposed CN Amendments*

The proposed amendments to the terms and conditions of the Convertible Notes will be subject to the approval of the Independent Shareholders to be sought at the SGM.

### *Listing approval*

No application has been or will be made by the Company for the listing of the Convertible Notes. Application will be made by the Company to the Listing Committee for the listing of, and permission to deal in, the Conversion Shares that may be issued by the Company under the terms and conditions of the Convertible Notes as amended by the Proposed CN Amendments.

### *Reasons for and benefits for entering into the CN Modification Deed*

The Company is an investment holding company, and through its subsidiaries, is principally engaged in the business of operation of P2P financing platform under the CAIJIA brand and other loan facilitation services, money lending and provision of credit and securities investments.

Without the consent of the Company and so long as such conversion will not trigger a mandatory offer obligation under the Takeovers Code, restriction of any possible conversion of the Convertible Notes by other parties under the Proposed CN Amendments protects the Independent Shareholders from unexpected dilution or immediate potential dilution in their shareholding interest in the Company and maintains the stability in the shareholding structure of the Company which in turn could also minimise the disruption in the Group's business operations. The Proposed CN Amendments also explicitly specify the effect (in terms of triggering

## LETTER FROM THE BOARD

the conversion price adjustment mechanism as it is unclear whether the provisions relating to changes in Conversion Price mechanisms are disallowed in all circumstances or are permissible so long as any adjustment events occur) of any issue of Shares or securities convertible or exchangeable into Shares whether such issue is pursuant to any acquisition of assets or business by the Group or otherwise would be the same, i.e. no adjustment to the Conversion Price will be triggered unless the initial conversion price or consideration per such Share or securities would be less than 90% of the Current Market Price. Moreover, the Proposed CN Amendments set out additional requirement for the Company or any of its subsidiaries with net assets value in excess of HK\$100,000,000 which offers more protection to the Group and reduce the default risk of the Company facing by the Independent Shareholders and therefore the Directors (excluding the independent non-executive Directors whose view has been expressed in the “Letter from the Independent Board Committee” of this circular after taking into account the advices from the Independent Financial Adviser) consider that it is in the interest of the Company and the Independent Shareholders as a whole, hence the Company entered the CN Modification Deed with the CN Holder.

The Proposed CN Amendments were arrived at after arm’s length negotiations between the Company and Allied Summit. Considering that (i) in the event of issue of any securities by the Company, the Conversion Price of the Amended and Restated Convertible Notes will only be adjusted if the issue prices of such additional securities is below 90% of the Current Market Price instead of the Current Market Price which the potential downward adjustment to the Conversion Price of the Amended and Restated Convertible Notes will less likely to occur and therefore, it is more favourable to the Company as compared to that of the original Convertible Notes; (ii) other amendments to the terms of the Convertible Notes are in line with common market practice; and (iii) the restrictions on the transfer and conversion of the Convertible Notes do not prejudice the interest of the Company, the Board considers that the Proposed CN Amendments are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

During the commercial negotiations between the Company and Allied Summit, the Directors (except for the independent non-executive Directors) have reviewed the adjustment terms of certain listed companies on the Stock Exchange which have issued convertible securities within two years or amendments to the terms of the issued convertible securities preceding the entering into of the CN Modification Deed (“**CBs Comparables**”) and set out herein a summary of these precedent cases, (a) as per the announcements of Agritrade Resources Limited (stock code: 1131) dated 3 July 2015, CCT Fortis Holdings Limited (stock code: 138) dated 27 January 2016 and Success Dragon International Holdings Limited (stock code: 1182) dated 1 June 2016, terms of the convertible notes include provisions relating to changes in conversion price if the issue prices of such additional securities is below 90% of the current market price; (b) as per the announcement of Peace Map Holding Limited (stock code: 402) dated 16 June 2015, the extension of the maturity date of the convertible notes allows the Group to refinance the debts under the convertible notes under the same financial terms; (c) as per the announcement of Kingworld Medicines Group Limited (stock code: 1110) dated 18

## LETTER FROM THE BOARD

May 2016, if either the company or the bondholders does not agree the full conversion of the convertible bonds, such party shall deliver a written notice to notify the other party to redeem the principal moneys outstanding under the convertible notes); and (d) as per the announcement of China Aircraft Leasing Group Holdings Limited (the “**China Aircraft Leasing**”) (stock code: 1848) dated 26 March 2015, the investors of the convertible bonds were granted the first right under the subscription agreement entered into among China Aircraft Leasing and the investors that the investors have the first right to subscribe or purchase further bonds issued by the company that are convertible into shares of China Aircraft Leasing with an initial conversion price that is less than the conversion price of the convertible bonds subscribed by the investors, the Directors (excluding the independent non-executive Directors whose view has been expressed in the “Letter from the Independent Board Committee” of this circular after taking into account the advices from the Independent Financial Adviser) are of the view that the principal purposes for the Proposed CN Amendments will not pose any significant impact on the operations of the Group and can protect the Shareholders from an unexpected shareholding dilution, avoid the Group’s business operations being affected adversely with an entry of unidentified substantial/controllers Shareholder(s) and to treat the CN Holder(s) fairly in certain extent, which are similar to the terms of the CBs Comparables and therefore is of the view that the Proposed CN Amendments are in line with the common market practice.

As none of the Directors had a material interest in the Proposed CN Amendments, no Director was required to abstain from voting on the relevant Board resolution with respect to the Proposed CN Amendments.

### 3. SPECIAL DEAL IN RELATION TO THE RIGHT OF FIRST OFFER

Pursuant to the terms of the Amended and Restated Sale and Purchase Agreement, without prejudice and in addition to the Undertakings Consent Requirement (as defined below), if the CN Chargor wishes to transfer or dispose of all or any part of the Amended and Restated Convertible Notes or any interests therein, the Shares Vendor and the Guarantor shall procure that the CN Chargor to comply with the following procedures in connection with the Right of First Offer:

- (i) The CN Chargor proposing to sell, dispose of, or permit a transfer of all or any part of the Convertible Notes shall first give a notice (the “**Transfer Notice**”) in writing to the General Partner of its wish to do so together with the terms (in reasonable details) of the transfer or disposal of the relevant Amended and Restated Convertible Notes (the “**Relevant Amended and Restated CN**”).
- (ii) The Transfer Notice shall specify (a) the number of the Relevant Amended and Restated CN; (b) the transfer price in respect of the Relevant Amended and Restated CN (the “**Transfer Price**”); and (c) any other terms and conditions of such proposed transfer in reasonable details. The Transfer Price as stated in the Transfer Notice shall equal to the value of the Relevant Amended and Restated CN as at the date of the

## LETTER FROM THE BOARD

Transfer Notice and valuated and certified by a fellow or associate member of The Royal Institution of Chartered Surveyors (Hong Kong Branch) or The Hong Kong Institute of Surveyors and carries on the business in Hong Kong of valuing properties and is authorised to do so by the rules of the relevant professional institution of which he is a member or a licensed corporation under the SFO to carry out regulated activities of type 6 (advising on corporate finance) which is independent from and not connected with the CN Chargor (the “**Independent Valuer**”) and that the Transfer Notice shall be accompanied by such certification. The costs and expenses with respect to the appointment of the Independent Valuer shall be borne solely by the CN Chargor.

- (iii) Within 25 Business Days after receipt by the General Partner of the Transfer Notice (the “**Right of First Offer Period**”), the General Partner may give notice in writing to the CN Chargor (the “**Exercise Notice**”) if it and/or such affiliates persons as it may nominate (which may include, for the avoidance of doubt, the Offeror) (the “**Proposed Transferee(s)**”) (for this purpose, as between the Proposed Transferee(s) only, the priority of such purchase shall be first, the General Partner and such affiliates or it may nominate, and second, the Offeror and/or its subsidiaries) intends to purchase the Relevant Amended and Restated CN based on the terms set out in the Transfer Notice (being the Right of First Offer).
- (iv) If the Exercise Notice is issued, completion of the transfer of the Relevant Amended and Restated CN to the Proposed Transferee(s) shall occur on the 10th Business Day after the date of the Exercise Notice; upon which the CN Chargor shall deliver the applicable transfer form(s) duly executed by the CN Chargor as transferor in favour of the Proposed Transferee(s) as stated in the Exercise Notice, accompanied by the relevant certificate(s) for the Relevant Amended and Restated CN and against which the Proposed Transferee(s) shall pay or procure to be paid the relevant price for such transfer as provided in the Exercise Notice. Any stamp duty or taxes payable in respect of the transfer of the Relevant Amended and Restated CN shall be borne by the Proposed Transferee(s) (as to 50%) and the CN Chargor (as to 50%).
- (v) If the Exercise Notice is not issued before the end of the Right of First Offer Period, the CN Chargor may transfer or dispose of the Relevant Amended and Restated CN to any independent third party within 25 Business Days after the end of the Right of First Offer Period on the same terms as set out in the Transfer Notice; and if the transfer or disposal does not occur within the stipulated time, the provision under the Right of First Offer shall continue to apply to any transfer of the Amended and Restated Convertible Notes (including the Relevant Amended and Restated Convertible Notes) after the end of such period.

## LETTER FROM THE BOARD

For the avoidance of doubt, the above paragraphs in respect of the Right of First Offer shall not prejudice the consent requirement of the Undertakings pursuant to the Amended and Restated Sale and Purchase Agreement with respect to the transfer or disposal of the Convertible Notes or any interest therein during the period commencing from the date of the Sale and Purchase Agreement and ending on 19 February 2020 and/or the period commencing from 21 April 2020 and ending on 19 February 2024 (in the event that the Maturity Date is extended to 20 April 2024 pursuant to the conditions as set out in the Amended and Restated Convertible Notes) (the “**Undertakings Consent Requirement**”).

For the avoidance of doubt, subject to compliance of the Right of First Offer procedures as set out in the above paragraphs (i) to (v), the CN Chargor has the right to freely transfer or otherwise dispose of all or any part of the Convertible Notes or any interests therein to any third parties during the period from 20 February 2020 to 20 April 2020 and/or on or after 20 February 2024 (in the event that the Maturity Date is extended to 20 April 2024 pursuant to the conditions as set out in the Amended and Restated Convertible Notes), and such transfer or disposal is not subject to the prior approval of the Offeror, the General Partner or its affiliates as to the value or price of the Relevant Amended and Restated CN as stated in the abovementioned valuation certification issued by the Independent Valuer.

### *Reasons for the Grant of Right of First Offer*

Upon the Sale and Purchase Completion, the Offeror will be interested in 2,128,560,000 Shares, representing approximately 55.00% of the issued share capital of the Company as at the Latest Practicable Date. Given the Undertakings, the Offer will not be extended to the Convertible Notes and therefore, upon the Sale and Purchase Completion, the CN Chargor will hold HK\$2,182,400,000 Convertible Notes. Assuming full conversion of the Convertible Notes and for illustrative purposes only, the CN Chargor will hold 10,912,000,000 Conversion Shares, representing approximately 281.96% of the issued share capital as at the Latest Practicable Date and approximately 73.82% of the issued share capital as enlarged by the full conversion of the Convertible Notes (if applicable, as amended by the CN Modification Deed).

In order to avoid any unexpected dilution of shareholding or change in control due to dealings or exercise of the conversion rights of the Convertible Notes (if applicable, as amended by the CN Modification Deed), the Offeror proposed and agreed initially with the Shares Vendor of the Right of First Offer as a measure to mitigate the relevant risks arising from the exercise of the conversion rights of the Convertible Notes (if applicable, as amended by the CN Modification Deed) following the Share and Purchase Completion since the CN Chargor shall serve on the Offeror a notice in writing of its wish to do so and the Offeror may give notice in writing to the CN Chargor if it or its nominee intends to purchase the relevant Amended and Restated Convertible Notes based on the same terms.

## LETTER FROM THE BOARD

#### 4. CONNECTED TRANSACTION IN RELATION TO THE PROPOSED TERMINATION OF MR. SU'S UNDERTAKING

References are made to the 2015 VSA Announcements, the 2015 VSA Circular, the Voluntary Announcement and the Adoption of New Business Model Proposal Announcement in connection with the P2P Acquisition.

##### **The P2P Acquisition**

On 20 October 2015, the Company completed the acquisition of 96% of the issued share capital of Katar Global. Katar Global, through its wholly-owned subsidiaries and the Structured Contracts or the New Structured Contracts (as the case may be), is principally engaged in the operation of a P2P online financing platform in the PRC, matching borrowers with private lenders for various financial products through the internet under the "Caijia" ("財加") brand, which is conducted via the website ([www.91caijia.com](http://www.91caijia.com)) (the "**Caijia Website**"). Pursuant to the P2P Acquisition, Katar Global shall procure the change of the registered shareholder to any nominees as designated by the Company and on 21 July 2016, the change in registered shareholder from Beijing KangDingAo to the Registered Shareholders was completed.

To further safeguard the interests of the Company in the Structured Contracts or the New Structured Contracts (as the case may be), Mr. Su has irrevocably and unconditionally undertaken to the Company that he shall at all times maintain "control" of the Company as defined in and for the purpose of the Draft Law (as promulgated or amended from time to time), currently being not less than 50% of the issued share capital of the Company based on the existing contents of the Draft Law, or such other shareholding percentage ratio(s) of the issued share capital of the Company to ensure that the Structure Contracts or the New Structured Contracts (as the case may be) continue to be in full force and effect pursuant to the relevant updated rules and regulations in the PRC as promulgated or amended from time to time as confirmed by a qualified PRC lawyer, provided that Mr. Su may dispose in any ways any of his securities interest in the Company (including both the Shares and/or the Convertible Notes) with the prior written consent of the Company and such written consent may only be given by the Company so long as (i) the Structured Contracts or the New Structured Contracts (as the case may be) continue to be in full force and effect under the Draft Law or the relevant updated rules and regulations in the PRC as promulgated or amended from time to time as advised and confirmed by a qualified PRC lawyer to the Company to such effect; and/or (ii) the potential purchaser(s) of securities interest in the Company is(are) PRC investor(s) and he(they) has(have) provided an irrevocable undertaking to the Company in substantially the same form as Mr. Su's Undertaking; and/or (iii) Katar Global Group are allowed to continue its businesses without employing the Structured Contracts or the New Structured Contracts (as the case may be) (free from any adverse impacts on Katar Global Group) pursuant to the relevant updated rules and regulations in the PRC as promulgated or amended from time to time. In addition,

## LETTER FROM THE BOARD

Mr. Su shall maintain his Chinese nationality and citizenship during the effective period of Mr. Su's Undertaking.

### *Undertaking pursuant to the 2015 VSA Sale and Purchase Agreement*

The Company has obtained an opinion from a qualified PRC lawyer (the "**PRC Lawyer**") confirming that the Offeror is a "PRC Investor" for purposes of the Draft Law at the material time. Prior to the Sale and Purchase Completion and the completion of the Revised Special Deals, the Offeror will provide an irrevocable undertaking (the "**Offeror's Undertaking**") to the Company that it shall, among others, maintain "control" of the Company as defined in and for the purpose of the Draft Law once it is effective as detailed in the paragraph headed "The Offeror's Undertaking" below. As at the Latest Practicable Date, the Company has not given prior written consent as required under Mr. Su's Undertaking regarding the Amended and Restated Sale and Purchase Agreement. As disclosed in the paragraph headed "Implementation of the Revised Business Model and the Mr. Su's Undertaking Termination" below, the New Business Model Proposal is conditional upon the fulfillment of the Independent Shareholders approving the New Business Model Proposal and all transactions contemplated under the New Business Model Proposal at the SGM. In the event that (i) resolution approving the New Business Model Proposal and the transactions contemplated thereunder is passed and the Revised Business Model becomes effective, the Offeror will not be required to provide the Offeror's Undertaking to the Company; and (ii) resolution approving the New Business Model Proposal and the transactions contemplated thereunder is not passed or resolution approving the New Business Model Proposal and the transactions contemplated thereunder is passed but the Revised Business Model does not become effective, the Offeror shall provide the Offeror's Undertaking to the Company prior to the Sale and Purchase Completion and the completion of the Revised Special Deals.

### *The Offeror's Undertaking*

Subject to the Sale and Purchase Completion and the existing Structured Contracts being valid and subsisting, the Offeror irrevocably and unconditionally covenant with, and undertake to the Company that the Offeror (together with their close associates) shall at all times maintain "control" of the Company as defined in and for the purpose of the Draft Law (as promulgated or amended from time to time) once it is effective (i.e. "control" being not less than 50% of the issued share capital of the Company based on the existing contents of the Draft Law, or such other shareholding percentage ratio(s) of the issued share capital of the Company to ensure that the Structured Contracts continue to be in full force and effect) (save for the circumstances that the Offeror cannot maintain "control" of the Company because of any unexpected dilution of shareholding to the extent of a change in control due to dealings or exercise of any conversion rights of the Convertible Notes that are not constituted by the Offeror), PROVIDED THAT the Offeror may dispose of in any ways any of their securities interest in the Company (including both the Shares and/or the Convertible Notes) with the prior written consent of the Company and such written consent may only be given by the Company so long as (i)



## LETTER FROM THE BOARD

the Structured Contracts continue to be in full force and effect under the Draft Law or the relevant updated rules and regulations in the PRC as promulgated or amended from time to time as advised and confirmed by a qualified PRC lawyer to the Company to such effect; and/or (ii) the potential purchaser(s) of securities interest in the Company is(are) PRC investor(s) and he(they) has(have) provided an irrevocable undertaking to the Company in substantially the same form as the Offeror's undertaking; and/or (iii) Katar Global remains a subsidiary of the Company, and Katar Global and its subsidiaries are allowed to continue their businesses without employing the Structured Contracts (free from any adverse impacts on Katar Global and its subsidiaries) pursuant to the relevant rules and regulations in the PRC as promulgated or amended from time to time as advised and confirmed by a qualified PRC lawyer to the Company to such effect; and/or (iv) Katar Global ceases to be a subsidiary of the Company. To the extent possible, the Offeror will remain as a PRC investor for the purpose of the Draft Law during the effective period of the Offeror's undertaking.

The Offeror's undertaking shall be terminated and lapse automatically only when the Company is no longer required to ensure compliance with the Draft Law and upon the prior consent obtained from the Stock Exchange.

**WARNING: IF THE COMPANY CANNOT OBTAIN AN IRREVOCABLE UNDERTAKING WITH CONTENTS ACCEPTABLE TO THEM FROM THE OFFEROR FOR THE PURPOSE OF THE DRAFT LAW PURSUANT TO THE P2P ACQUISITION, THE AMENDED AND RESTATED SALE AND PURCHASE AGREEMENT MAY NOT BE COMPLETED AND THE OFFER MAY NOT PROCEED. SHAREHOLDERS AND POTENTIAL INVESTORS ARE THEREFORE ADVISED TO EXERCISE CAUTION WHEN DEALING IN THE SHARES OF THE COMPANY, AND IF THEY ARE IN DOUBT ABOUT THEIR POSITION, THEY SHOULD CONSULT THEIR PROFESSIONAL ADVISERS.**

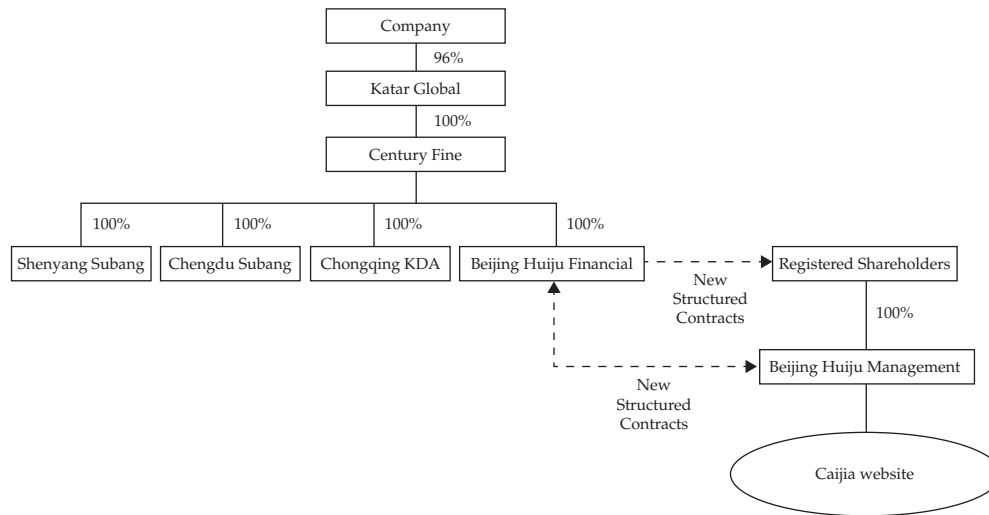
### *Existing Business Model*

As at the Latest Practicable Date, the online components of the Group's P2P lending business comprising (i) account registration for potential lenders/investors and accepting deposits by registered lenders/investors; and (ii) accepting and matching registered lender's/investor's bidding orders with borrower's loan applications (together the "Online Matching Services") are provided through the Caijia Website under the "Caijia" brand managed by Beijing Huiju Management (which is owned by the Registered Shareholders), a variable interest entity controlled by the Company through the New Structured Contracts.

The other components of the P2P lending business are carried out and performed by the Shenyang Subang, Chengdu Subang and Chongqing KDA (collectively known as the "Operating Subsidiaries").

## LETTER FROM THE BOARD

Set out below is a simplified shareholding structure of the Group in relation to its P2P lending business as at the Latest Practicable Date.



### *Risks specific to the Existing Business Model*

As disclosed in the 2015 VSA Circular, the Existing Business Model is subject to a number of risks, in particular the following risks incidental specifically to the VIE Structure.

- (a) The concept that underpins the adoption of the VIE Structure is that control is obtained through legal agreements (i.e. the New Structured Contracts) rather than through share ownership. The Company can only look to and rely on the Registered Shareholders and Beijing Huiju Management to act in good faith and be abide by, and perform their respective contractual obligations under the New Structured Contracts. Hence, the New Structured Contracts may not be as effective in providing control over and entitlement to the economic interests in Beijing Huiju Management as direct ownership. The Registered Shareholders may act in breach of the New Structured Contracts, in particular when their interests conflict with those of the Group or when their relationship with the Group deteriorates. The uncertainties in the PRC legal system may also limit the ability of the Group to enforce the New Structured Contracts. There is no assurance that the result will be in favour of the Group and/or that there will not be any difficulties in enforcing any arbitral awards granted in favour of the Group, including specific performance or injunctive relief, against Beijing Huiju Management and/or the Registered Shareholders, the results of which may have a material adverse impact on the business, prospects and results of operation of the Group's P2P lending business.

## LETTER FROM THE BOARD

- (b) There is a possibility that the Ministry of Commerce of the PRC and other competent authorities may have different opinions on the interpretation of the relevant regulations and may not agree that the New Structured Contracts comply with the current PRC laws, regulations or rules or those that may be enacted in future, and the authorities may deny the validity, effectiveness and enforceability of the New Structured Contracts. If the authorities deny the validity, effectiveness and enforceability of the New Structured Contracts, the Group may lose its control and entitlement to Beijing Huiju Management and the online platform managed by it and this would have a material adverse impact on the businesses, financial condition and results of operations of the Group's P2P lending business.
- (c) Mr. Su's Undertaking has been provided to give further "assurance" that even if the Draft Law comes into effect, the P2P lending business of the Group operated under the Structured Contracts or the New Structured Contracts (as the case may be) may still be valid and continue. Again, Mr. Su's Undertaking remains to be a contractual undertaking and the Company can only rely on Mr. Su to act in good faith in the compliance of his undertaking. There is no assurance that Mr. Su will be abide by the terms of Mr. Su's Undertaking. It is possible that Mr. Su may breach Mr. Su's Undertaking and this is beyond the control of the Company as the Shares indirectly held by Mr. Su are not controlled by the Company. He may dispose of his securities interests in the Company without seeking any valid consents from the Company and in the event that his shareholding in the Company decreases to below 50%, the current VIE Structure of the P2P lending business may become ineffective or illegal when the Draft Law comes into force.
- (d) It is possible that any New Structured Contracts that provide de facto control may be deemed illegal or even void when the Draft Law comes into effect, notwithstanding Mr. Su's Undertaking. Under such circumstance, the Company will have no choice but to dispose of its interest in Beijing Huiju Management, and it would have a material adverse impact on the businesses, financial condition and results of operations of the Group's P2P lending business.
- (e) Pursuant to Mr. Su's Undertaking, Mr. Su is required to maintain "control" of the Company as defined in and for the purpose of the Draft Law (as promulgated or amended from time to time), currently being not less than 50% of the issued share capital of the Company based on the existing contents of the Draft Law. The Company has also undertaken to enforce Mr. Su's Undertaking. As at the Latest Practicable Date, Mr. Su indirectly owns and controls 70.0% shareholding in the Company. To maintain the effectiveness of Mr. Su's Undertaking, the Company's freedom and ability to raise funds to finance its operation and/or further business opportunities through equity financing will be

## LETTER FROM THE BOARD

greatly hampered. Under the present capital structure of the Company, the Company may only issue and allot a further 40% of its existing share capital unless Mr. Su is willing to increase his direct or indirect shareholding in the Company correspondingly through the conversion of the Convertible Notes or purchase of further Shares. The Company will also not be able to pursue any equity fund raising exercise through any rights issue or open offer without the agreement or cooperation of Mr. Su, otherwise, Mr. Su's indirect shareholding in the Company will fall below the 50% mark in breach of Mr. Su's Undertaking as well as the undertaking of the Company to enforce Mr. Su's Undertaking. There is however no assurance that such agreement or cooperation required from Mr. Su will be forthcoming and available when required.

### *Adoption of the Revised Business Model*

As set out in the 2015 VSA Circular, the Company shall, within 3 months after completion of the P2P Acquisition, look for acquisition opportunities of foreign companies principally engaged in e-commerce related business with track records and if the Group is able to identify and complete such acquisition, the Group can immediately obtain sufficient foreign experiences to achieve the qualification requirement under the State Council promulgated Regulations for the Administration of Foreign-invested Telecommunications Enterprises (the "**Qualification Requirement**") and then initiate the process of acquiring the entire equity interest in Beijing Huiju Management. However, if the Company is not able to identify any suitable acquisition targets, it shall consider either (i) to establish e-commerce related business overseas by itself to gain foreign e-commerce experiences; or (ii) consider modifying the business model of Katar Global Group such that reliance on the P2P Platform is reduced and expanding the businesses outside of the PRC.

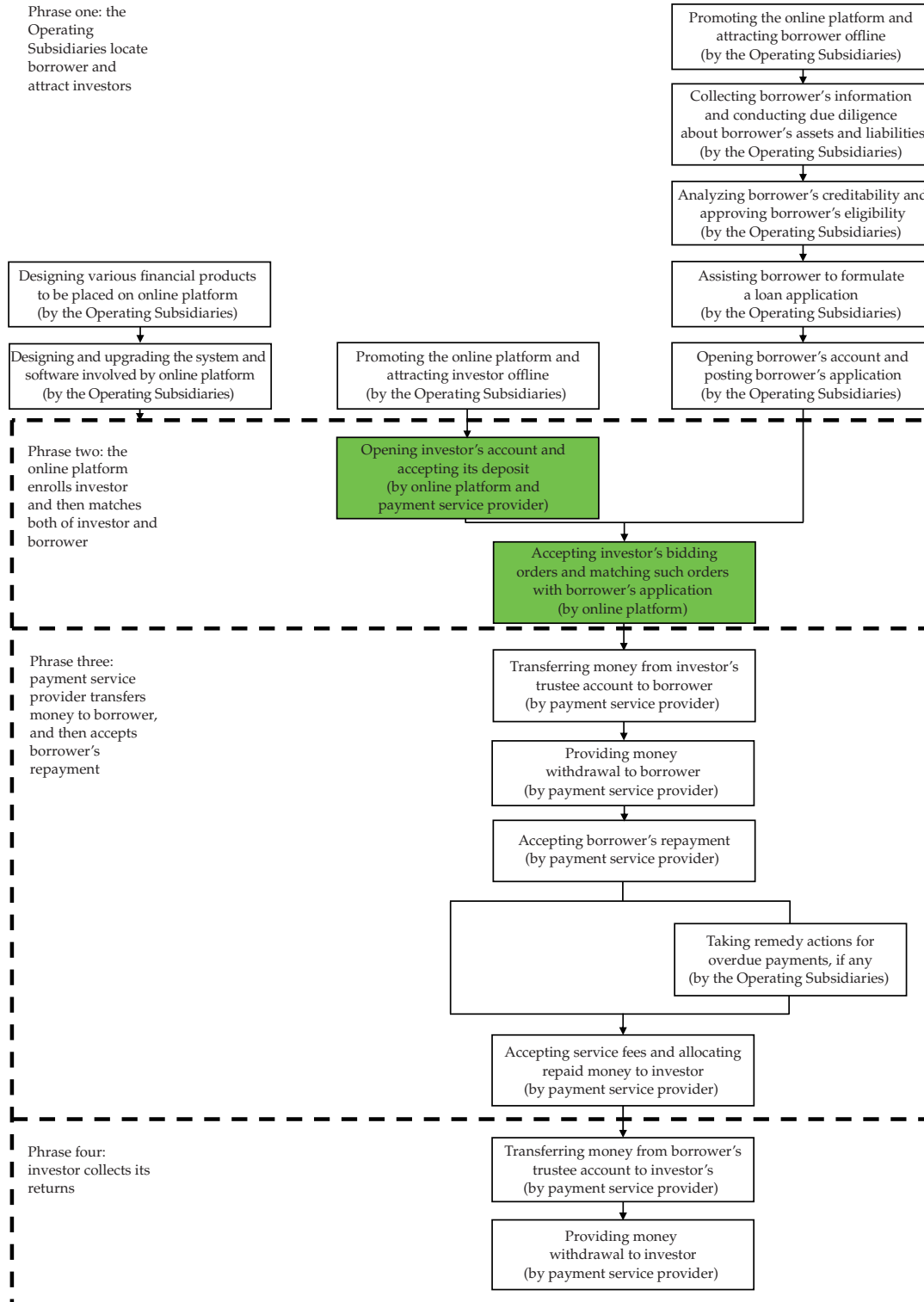
Hence, following completion of the P2P Acquisition and the change in Registered Shareholders after exploring various alternatives, the Company plans and intends to adopt the Revised Business Model.

The Company will continue to keep the domain name of [www.91caijia.com](http://www.91caijia.com) after the implementation of the Revised Business Model so that no other companies/individuals could register and claim ownership of this domain name. The domain name will be kept idle and dormant and will not be used for providing any value added telecommunications services.

# LETTER FROM THE BOARD

## *Operating flow*

The following shows the various components and the operating flow of the P2P lending business of the Group:



## LETTER FROM THE BOARD

Under the Cooperation Agreement, the ICP OPCO does not need, or have the right, to approve or reject the creation of any particular lender/investor account. As part of the system design, potential lenders/investors are required to fulfil the following account creation requirements:

- (a) Account opening with the online platform – potential lenders/investors need to fill in their username of their own choice, mobile number and log-in password to complete the registration.
- (b) Account opening with the UMP – Once the lenders/investors have created and registered their accounts with the online platform, the account will automatically interface to the UMP’s payment system for lenders’/investors’ identity verification procedure where the lenders/investors will need to input their real names and identity card numbers and such information will be verified by the UMP payment system. Once the identity verification procedure is satisfactorily done, the lenders’/investors’ accounts are created and registered with the UMP payment system and the lenders/investors can then obtain the payment password (for subsequent approval of fund transfer between lenders’/investors’ bank accounts and lenders’/investors’ accounts with the UMP payment system by the lenders/investors).

The lenders’/investors’ accounts with the online platform will be in an activated status only when the lenders/investors have duly completed the aforesaid procedure.

As the loan applications uploaded to the website have all been screened and approved by the risk management team of the Operating Subsidiaries and the website is intended only to provide a platform where the lenders/investors could match up the loan applications they desire, the ICP OPCO does not have the right to reject loan applications submitted by the Operating Subsidiaries and/or the online biddings made by the lenders/investors.

### *Reasons and rationale for adopting the Revised Business Model*

The adoption of the existing VIE Structure of the P2P lending business under the Existing Business Model has exposed the Group to the legal, contractual and financial risks and uncertainties mentioned in the section “Risks specific to the Existing Business Model” above, which cannot be easily and readily avoided or mitigated without a change or clarification of the applicable laws and regulations. As disclosed in the 2015 VSA Circular, it has been the Company’s plan and intention to adopt a new business model in order to remove its reliance on, and henceforth the risks associated with the adoption of, the VIE Structure and the New Structured Contracts in the operation of the P2P lending business.

## LETTER FROM THE BOARD

Having reviewed in detail the operating components and business flow of the P2P lending business, the Board is of the view that control over or entitlement to the business and economic interests of the ICP licensee (“**ICP OPCO**”), which operates the online platform and provides the Online Matching Services, is not strictly necessary, whether for the purpose of consolidating the financial results of the ICP OPCO into the Group’s financial statements, or for service provision. Rather, the Online Matching Services to be provided through online platform(s) can be outsourced to one or more independent third party ICP OPCOs in the same way as a brand owner may outsource and subcontract part of the manufacturing process to a contract manufacturer. The ICP OPCO can be just one of the Group’s business partners in its P2P lending business carried out under the “Caijia” brand, while using its own brand to operate its own website(s) or services.

Given that “control” over or entitlement to the business and economic interests of the ICP OPCOs is not strictly required for the purpose of the Group’s P2P lending business, and that the P2P lending business itself is profitable and can serve to contribute revenue and profit to the Group, it is in the interests of the Company and its Shareholders as a whole if the business model of the Group’s P2P lending business could be modified in such a way that the VIE Structure, and hence the associated risks and uncertainties, can be removed and replaced by one that is, in the belief of the Board, sustainable and having comparatively lower risks and a higher degree of certainty (in terms of legality and business continuity).

### *The Revised Business Model*

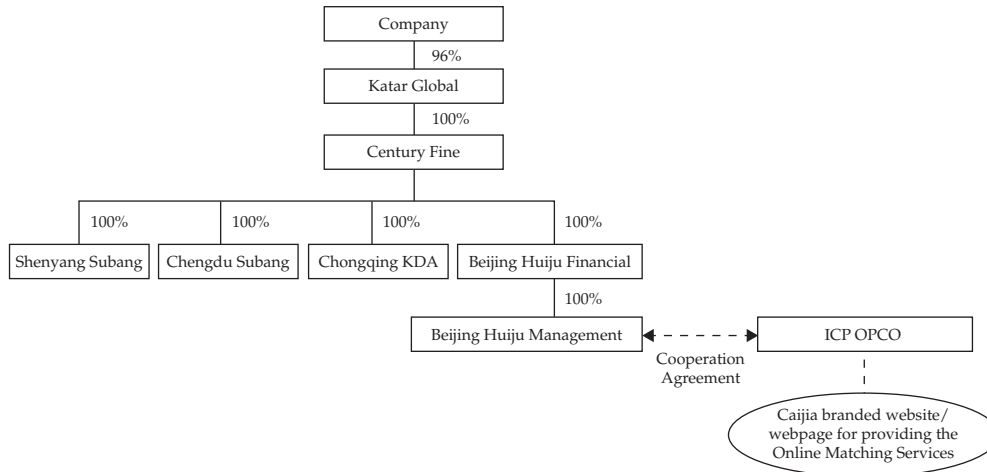
Under the Revised Business Model, the Online Matching Services now provided through the Caijia Website will be outsourced to third party independent ICP OPCO(s) in such a way that (1) the ICP OPCO will be responsible for establishing, operating and administering a branded website/webpage under the “Caijia” trademark of the Group for providing the Online Matching Services; (2) the ICP OPCO will be paid a fee in return for the provision of the Online Matching Services through the branded website/webpage; (3) the relationship between the Group and each ICP OPCO will be a simple contractual one that existed between the parties to an ordinary online cooperation agreement; and (4) the Company will not seek to own or control, whether directly or indirectly, any part of the business or economic interests of the ICP OPCO through any contractual arrangements same as or similar to those of the New Structured Contracts. It follows that the economic interests and results of the ICP OPCO(s) will not be consolidated into the financial statements of the Group.

The Revised Business Model does not involve any dissipation or disposal of any assets or interests in the Katar Global Group. All the revenue generating assets and entities critical to the P2P lending business will remain under the ownership, control and management of the Group.

Except for the outsourcing of the Online Matching Services to the ICP OPCO(s), the remaining procedures will continue to be undertaken by the Operating Subsidiaries.

## LETTER FROM THE BOARD

Set out below is a simplified shareholding structure of the Group's P2P lending business after adoption of the Revised Business Model:



As a first move to adopt the Revised Business Model, it is proposed that Beijing Huiju Management will enter into the Beijing JuXin Cooperation Agreement with Beijing JuXin Management (being an ICP OPCO and an independent third party), a company established in the PRC with limited liability which possesses a valid ICP licence. It is the Group's plan to enter into further Cooperation Agreement(s) of similar terms with other ICP OPCOs as and when appropriate. As at the Latest Practicable Date, save for the proposal to enter into the Beijing JuXin Cooperation Agreement, the Group has not entered into any Cooperation Agreement with other ICP OPCOs..

The Group does not have to rely on any single ICP OPCO or any single website to carry on its business under the Revised Business Model. In addition to the Cooperation Agreement, the Group may enter into further cooperation agreements with other suitable ICP OPCOs in the future to reduce and mitigate any risks of over-reliance on any single website for the provision of the Online Matching Services and to help expanding the Group's market share in the P2P lending business. The Group is still in discussion on terms similar to those of the Cooperation Agreement proposed to be entered into with Beijing JuXin Management with other ICP OPCOs and no legally binding agreements in relation to terms similar to those of the Cooperation Agreement have been entered between the Group and the other ICP OPCOs as at the Latest Practicable Date.



## LETTER FROM THE BOARD

### *Unwinding of the New Structured Contracts*

As confirmed by the Company's PRC legal adviser, following the entering into of Beijing JuXin Cooperation Agreement/Cooperation Agreement and the revocation of the Group's ICP licence, the New Structured Contracts are no longer required and the Company will be able to unwind the New Structured Contracts. The Group will exercise its option under the New Exclusive Option Agreement to acquire the entire equity interest in Beijing Huiju Management at a consideration of nil or nominal value, or the minimum price permitted by PRC laws. As a wholly owned subsidiary of the Group, the financial results of Beijing Huiju Management will continue to be consolidated in the financial statements of the Group. It is expected that the adoption of the Revised Business Model will not have any impact on the consolidated balance sheet of the Company, nor will this lead to any impairment on the goodwill of the Katar Global Group.

### *Mr. Su's Undertaking Termination*

Upon the implementation of the Revised Business Model, the relevant regulation regarding the contractual arrangements under the Draft Law, even if enacted, will not apply to the Katar Global Group, and hence Mr. Su's Undertaking shall be allowed to be terminated. This will remove the potential legal and contractual risks relating to the VIE structure of the existing business model and Mr. Su's Undertaking and more importantly, the Company will no longer be subject to any further unnecessary constraints or the need to secure any single Shareholder's (i.e. Mr. Su) agreement and cooperation in any future equity financing activities, if and when required.

### *Implementation of the Revised Business Model and the Mr. Su's Undertaking Termination*

Implementation of the Revised Business Model shall not proceed without the passing by the Independent Shareholders a resolution at the SGM to approve the Revised Business Model and the transactions contemplated thereunder, the entering into of the Beijing JuXin Cooperation Agreement/Cooperation Agreement, the revocation of the Group's ICP licence and the unwinding of the Structured Contracts.

Mr. Su's Undertaking Termination shall not proceed without the passing by the Independent Shareholders a resolution at the SGM to approve Mr. Su Undertaking Termination and the transactions contemplated thereunder and the Independent Shareholders' approval of the Revised Business Model at the SGM and the Revised Business Model having become effective.

The Revised Business Model and the Mr. Su's Undertaking Termination and the Revised Special Deals are not inter-conditional with each other.

The entering into of the Beijing Juxin Cooperation Agreement/Cooperation Agreement and the transactions contemplated thereunder is not subject to any regulatory approval.

## LETTER FROM THE BOARD

The revocation of the Group's ICP license is subject to the approval by the Ministry of Industry and Information Technology of the PRC. Subject to the revocation of the Group's ICP license, the termination of the New Structured Contracts is not subject to any regulatory approval in the PRC.

In the event that the resolutions at the SGM to approve the Revised Business Model, Mr. Su's Undertaking Termination and the transactions contemplated thereunder are not approved by the Independent Shareholders, the New Business Model Proposal will not become effective, the Group will continue on the Existing Business Model which the online components of the Group's P2P lending business comprising (a) account registration for potential lenders/investors and accepting deposits by registered lenders/investors; and (b) the Online Matching Services business will continue to be provided through the Caijia Website under the "Caijia" brand managed by Beijing Huiju Management which is a variable interest entity controlled by the Company through the New Structured Contracts. As disclosed in the paragraph headed "The Offeror's Undertaking", subject to the Sale and Purchase Completion and the existing Structured Contracts being valid and subsisting, the Offeror will provide the Offeror's Undertaking for the purpose of the Draft Law.

### *Termination of the Company's undertaking*

Upon the Mr. Su's Undertaking Termination, the relevant agreement regarding the enforcement of Mr. Su's Undertakings by the Company (the "**Company's Undertaking**") to Mr. Su will no longer apply and hence, the Company's Undertaking to procure Mr. Su to comply with the Mr. Su's Undertaking is no longer necessary which shall be allowed to be terminated.

### *Information of the Beijing JuXin Management*

According to the information provided by Beijing JuXin Management, Beijing JuXin Management was established in January 2015 and its sole shareholder and legal representative is Mr. Xu Bin (徐斌) with a paid-up capital of RMB2 million. The registered office of Beijing JuXin Management is located in Chaoyang District, Beijing and the principal business activity of Beijing JuXin Management is the provision of internet information services.

Beijing JuXin Management has approximately 10 employees and some of its senior management members graduated from top universities, and have solid experience in internet business, including over 5 years' practical working experience in other sizeable internet service providers, software development companies as well as P2P platform companies before joining Beijing JuXin Management.

As at the Latest Practicable Date, Beijing JuXin Management has yet to launch its planned P2P lending business because of the contemplated collaboration with the Group.

- (i) Beijing JuXin Management possesses a valid ICP licence, being an ICP OPCO is responsible for the operations/handling of (a) opening of users accounts online; and (b) accepting investors bidding orders and matching such orders with borrowers' applications:

## LETTER FROM THE BOARD

(a) Opening of investors accounts online

Lenders/Investors create user accounts, registering user names and user details such as contact information on the online platform of the ICP OPCO.

(b) Matching services

Operating Subsidiaries despatch loan applications on the online platform of the ICP OPCO and investors can make tenders towards such loan applications as appeared on the online platform. When sufficient amount of funds is raised for a particular loan application then the online platform will generate the loan agreement to be entered into by the borrower, the lender/investor, the ICP OPCO and the Group.

In providing the aforementioned services, the ICP OPCO shall:

1. at its costs and expenses operate the website independently and be responsible for all legal obligations and responsibilities;
2. be responsible for the compliance of all laws and regulations applicable to, and maintaining all necessary qualifications and licence required for, the P2P services;
3. maintain its own good reputation;
4. be responsible for, and hold Beijing Huiju Management harmless from, all claims and punishments made against the website or either party to the Cooperation Agreement by any governmental authority or third party as a result of any negligence, mistake or breach of contract of the ICP OPCO;
5. ensure that its services are carried out in accordance with the service level and performance standards provided in the Cooperation Agreement, including:
  - (a) the ICP OPCO shall at its costs and expenses be responsible for establishing and operating the website under its own brand (including providing and maintaining all necessary hardware and network at all times to ensure that sufficient level of quality services are provided to users) bearing URL: huaronghujin.com for the purpose of providing the Online Matching Services for the Group's P2P lending business;

## LETTER FROM THE BOARD

- (b) the online platform of the ICP OPCO shall permanently maintain an account opening “entry” which allows users to enter/amend sufficient information and users information shall be secured;
  - (c) there shall be an online payment portal which allows users to recharge their accounts and such payment must be paid by user’s bank cards to the online platform; and
  - (d) the ICP OPCO shall ensure a sufficient number of qualified and well-trained customer service staff to ensure the timely and efficient handling of user requests;
6. shall provide monthly confirmation endorsing that its online platform has been maintained in compliance with the provisions of the Cooperation Agreement; and
7. observe and comply with the restrictive covenants set out in the Cooperation Agreement.

### *Termination of the Cooperation Agreement*

The Cooperation Agreement shall be terminated under any the following circumstances:

- I. The ICP OPCO no longer has the qualification to carry out P2P business; it cannot legally operate the P2P online platform;
- II. The parties to the Cooperation Agreement terminating the same in writing; or either party may terminate the Cooperation Agreement by 10 Business Days’ notice in writing to the other party in advance if the other party is in material breach or omission of any of its representations or warranties causing significant loss of that party.

## LETTER FROM THE BOARD

- III. If any party (the “**Defaulting Party**”) substantively commits a breach of any terms of the Cooperation Agreement or substantively fails to perform any of the obligations under the Cooperation Agreement, it shall constitute a default of the Cooperation Agreement (the “**Default**”), the non-defaulting party (the “**Non-defaulting Party**”) shall have the right to require the Defaulting Party to correct the Default or take remedial measures within a reasonable period. If the Defaulting Party does not correct the Default or take remedial measures within a reasonable period or within ten (10) days after the Non-defaulting Party’s written notice of default, if the Defaulting Party were the ICP OPCO, the Non-defaulting Party may at its sole discretion: (1) terminate the Cooperation Agreement and require the Defaulting Party to pay all damages, or (2) require the Defaulting Party to continue to fulfill its obligations under the Cooperation Agreement and to pay all the damages; if the Defaulting Party were Beijing Huiju Management, the Non-defaulting Party is entitled to require the Defaulting Party to continue to fulfill its obligations under the Cooperation Agreement and to pay all the damages.
- (ii) Save as (i) as mentioned above, the Company does not restrict or control the management, business operation and financial aspect of the ICP OPCO under the Cooperation Agreement.

The terms and conditions of the Cooperation Agreement does not seek to limit the business scope of the website: <http://www.huaronghujin.com/>, provided that the other businesses to be provided through the website shall not compete, directly or indirectly, with the Group’s P2P lending business in China. The Board believes that Beijing JuXin Management does not intends to engage in businesses other than the provision of Online Matching Service for the Group’s P2P lending business as at the Latest Practicable Date.

### *The Beijing JuXin Cooperation Agreement*

Set out below are the principal terms of the Beijing JuXin Cooperation Agreement:

- Parties:
1. Beijing Huiju Management
  2. Beijing JuXin Management, a company established in the PRC with limited liability which possesses a valid ICP licence, being an ICP OPCO

## LETTER FROM THE BOARD

- Duration: Until terminated pursuant to the terms of the Beijing JuXin Cooperation Agreement
- Terms of cooperation:
1. Beijing Huiju Management shall be responsible for:
    - (a) promoting the “Caijia” brand P2P lending business;
    - (b) designing loan products;
    - (c) identifying/sourcing potential borrower(s);
    - (d) arranging and assisting borrowers’ registration in the P2P online platform;
    - (e) performing credit assessment on potential borrowers;
    - (f) managing loan portfolios; and
    - (g) providing training and technical support to the Beijing JuXin Management.
  2. Beijing JuXin Management shall at its costs and expenses be responsible for establishing and operating the website under its own brand bearing URL: huaronghujin.com for the purpose of providing the Online Matching Services for the Group’s P2P lending business in accordance with the service level and performance standards set out in the Beijing JuXin Cooperation Agreement.
  3. Beijing Huiju Management shall grant to Beijing JuXin Management a non-exclusive and nontransferable license to use the “Caijia” trademark for the sole purpose of the P2P online platform during the term of the Beijing JuXin Cooperation Agreement.

## LETTER FROM THE BOARD

4. Upon the termination of the Beijing JuXin Cooperation Agreement,
  - (a) Beijing Huiju Management shall own all records and database of the borrowers and lenders/investors and Beijing JuXin Management shall remove and/or destroy all records thereof; and
  - (b) Beijing JuXin Management shall cease using the “Caijia” trademark.

Restrictive Covenants:

At any time during the continuance of the Beijing JuXin Cooperation Agreement and for a period of two (2) years after its termination, Beijing JuXin Management will be prohibited from (i) carrying on or engaging, concerning or having any interest, whether on its own account or in conjunction with or on behalf of any person, firm, company or organization, and whether as principal, agent, shareholder, director, partner or otherwise, directly or indirectly, in any business which is or may be in competition with or similar to the P2P lending business in the PRC; (ii) solicit or persuade any person or corporation who has been a customer or client of the P2P lending business within two (2) years prior to the termination of the Beijing JuXin Cooperation Agreement to do P2P lending business with it or cease doing business with the Group’s P2P lending business.

Service fee:

Beijing JuXin Management shall be entitled to a service fee equal to 0.55% of total amount of loans successfully matched through the website of Beijing JuXin Management based on the arm’s length negotiation between the parties with reference to the net profit margin of the ICP OPCO under the Cooperation Agreement to be around 4% to 6%.

## LETTER FROM THE BOARD

The table below summarises the comparisons between the Existing Business Model and Revised Business Model:

	Existing Business Model	Revised Business Model
Seek to own or control, any part of the business or economic interests of the ICP OPCO through contractual arrangements	Yes	No
VIE Structure required	Yes	No
<b>Legal compliance risk</b> – Under the existing laws	Yes if the relevant authorities' opinion or view on the interpretation of the relevant regulations on the validity, effectiveness and enforceability of the New Structured Contracts is different from that of the Group's PRC legal advisers	No
– If the Draft Law comes into force	Yes, especially when it is uncertain if the Draft Law, when enacted, will become more stringent such that it may increase the required shareholding of the PRC investor or may outlaw the use of New Structured Contracts	No
<b>Contractual risk</b> – Arising out of breach of the New Structured Contracts or Cooperation Agreement(s) (as the case may be)	Yes and cannot be mitigated	Yes but can be mitigated
– Arising out of breach of Mr. Su's Undertaking in case if the Draft Law comes into effect	Yes and cannot be mitigated	No
<b>Adverse financial effect</b> – to the profitability of the Group's P2P lending business	No	Yes but only minimal effect on the overall profitability of the Group's P2P lending business
– to the Company's equity fund raising capability	Yes	No



## LETTER FROM THE BOARD

The adoption of the Revised Business Model will have no adverse effect to the Group's revenue while the service fees paid to ICP OPCO(s) will have minimal effect on the overall profitability of the Group's P2P lending business. However the service fee of 0.55% of total amount of loan successfully matched between investors and borrowers through the online platform of the ICP OPCO was determined after arm's length negotiations between Beijing Juxin Management and the Group. The Company has made the enquiry with other ICP OPCOs but since the business models of those companies which engaged in P2P lending business are commercial secrets and there is no public information available, the Company is unable to obtain the market details.

The Group has estimated the operating costs of a typical ICP OPCO based on its experience in Beijing Huiju Management and henceforth the net profit margin of the ICP OPCO under the Cooperation Agreement to be approximately 4% to 6%. Under the existing business model, Beijing Huiju Management is the entity that provides the Online Matching Services, and for the years 2013, 2014 and 2015, the net profit margins were -32%, 3% and 8% respectively. Accordingly, the Board considers that the service fee rate is fair and reasonable.

### *Financial effect of the Revised Business Model*

Assuming that the Cooperation Agreement had been entered into between the Katar Global Group and the ICP OPCO(s) and service fees of 0.55% of total amount of loan successfully matched through the on online platform(s) had been paid to the ICP OPCO(s) since 2013, the financial results of the Katar Global Group would be as follows:

	For the year ended 31 December 2016 HKD'000	For the year ended 31 December 2015 HKD'000	For the year ended 31 December 2014 HKD'000	For the year ended 31 December 2013 HKD'000
Profit/(loss) for the year	310,416 <i>(note 1)</i>	87,097 <i>(note 1)</i>	11,019 <i>(note 1)</i>	(7,328) <i>(note 1)</i>
Add: saving of operating costs of Katar Global's online platform, net of tax	9,752	4,708	2,288	1,281
Less: service fees paid to ICP OPCO(s), net of tax <i>(Note)</i>	(5,992)	(5,256)	(5,115)	(653)
Projected profit/(loss) for the year	314,176	86,549	8,192	(6,700)
Increase/(decrease) in profit/ 2013: decrease in loss	3,760	(548)	(2,827)	628

#### *Notes:*

- The figures are extracted from the audited results of the Katar Global Group.

## LETTER FROM THE BOARD

2. Service fees calculated at 0.55% of total amount of loan successfully matched between investor and borrower through the online platform. The calculation is shown in the following table:

		For the year ended 31 December 2016 <i>HKD'000</i>	For the year ended 31 December 2015 <i>HKD'000</i>	For the year ended 31 December 2014 <i>HKD'000</i>	For the year ended 31 December 2013 <i>HKD'000</i>
Total amount of loan successfully matched	A	1,452,569	1,274,114	1,239,939	158,385
Service fees paid to ICP OPCO(s), net of tax	B=A*0.55%* (1-25%)	5,992	5,256	5,115	653

*Note:* There were mild increase in amount of loan successfully matched from year 2014 to year 2015. As over 50% of amount of loan successfully matched in year 2014 were arisen from last quarter of 2014, majority portion of monthly service fee and management fee charged to borrowers and lenders/investors from loan arisen from 2014 were recognized in year 2015 and caused significant increase in profit for the year in year 2015 compared with year 2014, even though the loan amount did not increase in the same extent.

Although the profits of the P2P lending business may to a certain extent be affected by the payment of service fees to the ICP OPCO(s), as elaborated above, the effect would be minimal and the P2P lending business will remain to be profitable (except for year 2013).

### *Risks specific to the Revised Business Model*

The Board considers that the Revised Business Model will have the following risks which may adversely affect the business, results of operations and financial conditions of the Group's P2P lending business:

- (a) Under the Cooperation Agreement(s), the Group will not seek to control or own the business and economic interests of the ICP OPCO(s). The website/webpage and the Online Matching Services will be operated and provided by the ICP OPCO(s) independently, subject only to the terms of the Cooperation Agreement(s). The accessibility and quality of the website/webpage and/or the Online Matching Services so provided by the ICP OPCO(s) may fall short of the standards required by the Group and the ICP OPCO(s) may also default in the performance of its obligations under the Cooperation Agreement(s).
- (b) The ICP OPCO(s) may have acquired significant level of business knowledges (including the identities of lenders, borrowers and methods on operating the business model) in operating a P2P platform after cooperating with the Group. It is possible that the ICP OPCO(s) will leak such knowledge to the Group's competitors in exchange for economic benefits or even start a new business similar to the Group's P2P lending business and become a direct competitor, which may undermine the Group's P2P lending business's customer base and profitability.

## LETTER FROM THE BOARD

The aforesaid risks, however, can and will be mitigated and avoided by the following measures:

- (a) The Group is highly selective in choosing and admitting an ICP OPCO(s) as its business partner for the P2P lending business. There are detailed screening procedures taking into account a number of factors including the professional qualifications, experience and expertise, financial strength and credibility, personal and business ethics and integrity, business reputation and record of the ICP OPCO(s) candidate and its shareholder(s) and management team. Only those ICP OPCO(s) that possess proven experience and business records who are committed to provide the highest possible quality services will be engaged by the Group as the business partners.
- (b) The Group will provide all necessary trainings and technical supports to the ICP OPCO(s) to ensure the quality of the website/webpage and the Online Matching Services are up to the required performance levels and operational standards.
- (c) The following safeguards which have been/will be incorporated in the operating flow and/or the Cooperation Agreement(s):
  - Under the Revised Business Model, the Operating Subsidiaries will continue to be responsible for identifying borrowers and carrying out the credit assessments. The databases and records of both the borrowers and lenders also belong to the Operating Subsidiaries. The online platform of the ICP OPCO(s) forms only a part of the whole operating chain. Without the efforts of and support as provided by the Operating Subsidiaries, the operation of the online platform alone cannot provide the required services to compete against the Group's P2P lending business.
  - The loan agreements will be entered into by the borrower, the lender/investor, the ICP OPCO(s) and the Group. All loan agreements are in standardized form and all settlements will be handled by Union Mobile Pay Co., Ltd, an independent third party company. Such setup can ensure that the Group will receive its share of management and service fees and that the ICP OPCO(s) is only able to collect its own fees in accordance with the payment terms of the loan agreements so that the interests of the lenders, borrowers and the Group will not be affected even if there is any default by the ICP OPCO(s) or any untoward circumstance in relation to the website/webpage and/or the Online Matching Services.

## LETTER FROM THE BOARD

- The ICP OPCO(s) is/are required to operate the website and to provide the Online Matching Services in accordance with the performance levels (covering areas like hardware, network and software requirements, customer registration and account management, support, maintenance and service levels) and operational standards (covering areas like network security, system uptime, general respond and repair provisions) prescribed in the Cooperation Agreement(s) in order to maintain and protect the integrity, value and business reputation of the “Caijia” brand and the P2P lending business operated thereunder.
- The ICP OPCO(s) is/are required to provide a monthly report to the Group providing information in sufficient detail to demonstrate its compliance with its obligations under the Cooperation Agreement(s).
- To avoid any actual or potential conflict of interest and unfair competition from the ICP OPCO(s), at any time during the continuance of the Cooperation Agreement(s) and for a period of two (2) years after its termination, the ICP OPCO(s) will be prohibited from (i) carrying on or engaging, concerning or having any interest, whether on its own account or in conjunction with or on behalf of any person, firm, company or organization, and whether as principal, agent, shareholder, director, partner or otherwise, directly or indirectly, in any business which is or may be in competition with or similar to the P2P lending business in the PRC; (ii) solicit or persuade any person or corporation who has been a customer or client of the P2P lending business of the Group within two (2) years prior to the termination of the Cooperation Agreement(s) to have business dealings in P2P lending business with it or cease to have business dealings with the Group’s P2P lending business.

The Cooperation Agreement shall be terminated under any of the following circumstances:

1. the ICP OPCO no longer has the qualification to carry out P2P business; it cannot legally operate the P2P online platform;
2. the parties to the Cooperation Agreement terminating the same in writing; or
3. either party may terminate the Cooperation Agreement by 10 Business Days’ notice in writing to the other party in advance if the other party is in material breach or omission of any of its representations or warranties causing significant loss of that party.

## LETTER FROM THE BOARD

- (d) To reduce and mitigate any risks of over-reliance on any single website for the provision of the Online Matching Services, the Group will continue to enter into Cooperation Agreements with other suitable ICP OPCOs. This will also help the Group in expanding its presence and market share in the P2P lending business.

### *Termination of Existing VIE Structure*

Upon the adoption of the Revised Business Model, the existing role and function of Beijing Huiju Management and the Caijia Website will be shifted to and taken up by the ICP OPCO(s) and the branded website(s)/webpage(s) operated pursuant to the terms of the Cooperation Agreement(s). Beijing Huiju Management will then not be required to hold and maintain its ICP licence and the VIE Structure is no longer required. Accordingly, it is proposed that following the adoption of the Revised Business Model: (1) Beijing Huiju Management shall apply for the revocation of its ICP licence; (2) the Group shall then exercise its option under the New Exclusive Option Agreement to acquire the entire equity interest in Beijing Huiju Management at a consideration of nil or nominal value, or the minimum price permitted by PRC laws; and (3) the remaining New Structured Contracts shall be terminated.

As the Group will no longer own or control, whether directly or indirectly, any part of the business or economic interests of the ICP OPCO(s) through any contractual arrangements under the Revised Business Model, the VIE Structure and the New Structured Contracts required under the Existing Business Model, following its termination, will not be replicated for the purpose of the Revised Business Model.

### *Legal opinion from the Group's PRC Legal Adviser*

The Company obtained legal opinions issued by Jingtian & Gongcheng (the "PRC legal adviser") on 10 March 2016, 18 April 2016 and 21 April 2016 respectively (the "First Opinions"). In the First Opinions, the PRC legal adviser agrees that Beijing Huiju Management and the ICP OPCOs under the Cooperation Agreement(s) have no "control" relationship and the businesses operation under the Cooperation Agreement do not involve the "legal form concealing illegal intention" defined in the Contract Law of China. Upon the entering into of the Cooperation Agreement, the Group will not directly or indirectly operate website or provide value-added telecommunication services. The business scope of the Company will no longer involve any operational internet content service, it will not require the Structured Contracts or the New Structure Contracts (as the case may be) and holding of the ICP license. (i) The material for the promotion of the "Caijia" brand P2P lending business provided by Beijing Huiju Management, designing of the website is not related to the definition of "網路出版物" under the regulations of "網路出版服務管理規定"; and (ii) the services provided by Beijing Huiju Management to Beijing JuXin Management does not involve the definition of "網路出版服務" under the regulations of "網路出版服務管理規定". After the revocation of

## LETTER FROM THE BOARD

the Beijing Huiju Management and its subsidiaries' ICP license, Beijing Huiju Management can become a subsidiary of Beijing Huiju Financial. Upon the termination of the remaining New Structured Contracts, the relevant regulation regarding the contractual arrangement under the Draft Law, even if enacted, will not apply to the Katar Global Group.

As disclosed in 2015 VSA Circular, the Circular on Strengthening the Administration of Foreign Investment in Value-added Telecommunications Services issued by the Ministry of Industry and Information Technology of the PRC (the "MIIT") on 13 July 2006 (the "MIIT Circular") prohibits a domestic company that holds an ICP licence from leasing, transferring or selling the licence to foreign investors in any form, and from providing any assistance, including providing resources, sites or facilities, to foreign investors to provide ICP services illegally in the PRC. Under the Cooperation Agreement, Beijing Huiju Management mainly conducts the offline business promotion, offline approval and management of loans, bad debt arrangement and the design of website products, training services and internet information technology support and consultation while the ICP OPCO(s) mainly engaged in the registration of the investors' details and matching of the lenders and borrowers business. Also, Beijing Huiju Management allows the ICP OPCO(s) to use its registered "Cajia" trademark. The Cooperation Agreement has definite content of service, rights and responsibilities for Beijing Huiju Management and the ICP OPCO(s), the Cooperation Agreement does not violate the "leasing, transferring or selling the licence" under the MIIT Circular.

On 29 September 2016, the Company also obtained another PRC legal opinion (the "Second Opinion") from King & Wood Mallesons (being "the Group's PRC Legal Adviser") and the Second Opinion essentially agrees with the First Opinions and concludes, on the premises that the parties comply with the Cooperation Agreement entered between the Beijing Huiju Management and the ICP OPCO(s), the Revised Business Model is basically referring to the Operating Subsidiaries providing outsourced services to the ICP OPCO(s) and does not amount to "leasing of ICP licence" as defined in the MIIT Circular and does not fall under the definition of "網路出版服務管理規定". Since it has been confirmed by the Group's PRC Legal Adviser that upon the termination of the remaining New Structured Contracts, the relevant regulation relating to the contractual arrangements under the Draft Law will not apply to the Group's P2P lending business and in these circumstances, Mr. Su's Undertaking, which was given purely to ensure compliance with the Draft Law, should no longer be required.

Upon the termination of the remaining New Structured Contracts, the relevant regulation regarding the contractual arrangement under the Draft Law, even if enacted, will not apply to the Katar Global Group, and hence Mr. Su's Undertaking shall be allowed to be terminated.

## LETTER FROM THE BOARD

### Guaranteed Profit

As set out in the 2015 VSA Circular, Allied Summit irrevocably and unconditionally guarantees to the Company that the audited consolidated profit before tax of the Katar Global Group (excluding any extraordinary items) for each of the years ending 31 December 2015 and 31 December 2016 will not be less than the amount set opposite to the relevant guaranteed period as set out in the table below:

<b>The relevant guaranteed period</b>	<b>Guaranteed Profit</b>
1 January 2015 – 31 December 2015	HK\$100,000,000
1 January 2016 – 31 December 2016	HK\$350,000,000

References are made to the announcements issued by the Company on 21 April 2016 and 16 March 2017, the audited consolidated profit before tax of the Katar Global Group (excluding any extraordinary items) for (i) the financial year ended 31 December 2015 amounted to approximately HK\$103,140,000; and (ii) the financial year ended 31 December 2016 amounted to approximately HK\$398,930,000, and hence the Guaranteed Profit for period from 1 January 2015 to 31 December 2015 and 1 January 2016 to 31 December 2016 have been met.

### 5. INFORMATION ON THE GROUP

The Company is an investment holding company, and through its subsidiaries, is principally engaged in the business of operation of P2P financing platform under the CAIJIA brand and other loan facilitation services, money lending and provision of credit and securities investments.

The following table is a summary of certain financial information of the Group extracted from the respective published annual report of the Company for the three financial years ended 31 December 2014, 31 December 2015 and 31 December 2016.

	<b>Year ended 31 December 2014 (audited) (HK\$'000)</b>	<b>Year ended 31 December 2015 (audited) (HK\$'000)</b>	<b>Year ended 31 December 2016 (audited) (HK\$'000)</b>
Revenue	65,165	102,490	555,386
Gross profit	64,234	101,072	554,605
Profit/(Loss) before taxation	(20,022)	(143,875)	422,354
Profit/(Loss) for the year attributable to owners of the Company	(26,008)	(148,282)	321,907
Net assets attributable to the owners of the Company	1,512,166	4,127,738	4,063,574

## LETTER FROM THE BOARD

### Information of the Offeror

As disclosed in the First Joint Announcement, the Offeror, Huarong Financial Services Asset Management L.P., a Cayman Islands limited partnership, is a private equity fund organised for the purpose of investing in listed companies which are principally engaged in online financing. The committed fund size of the Offeror is approximately HK\$756.0 million. The general partner of the Offeror is Huarong International Capital Limited, which is a Cayman Islands exempted limited liability company. As at the Latest Practicable Date, the directors of the General Partner were Mr. Bai Tianhui and Mr. Han Binke. The General Partner is wholly-owned by China Huarong International Holdings Limited (“**China Huarong International**”), an investment holding company which is in turn held as to 88.1% by Huarong Real Estate Co., Ltd. (“**Huarong Real Estate**”) and as to 11.9% by Huarong Zhiyuan Investment & Management Co., Ltd. (“**Huarong Zhiyuan**”). China Huarong International is the international platform of China Huarong (as defined below) and its management is substantially independent of China Huarong. Each of Huarong Real Estate and Huarong Zhiyuan is wholly-owned by China Huarong Asset Management Co., Ltd., the shares of which is listed on the Stock Exchange (stock code: 2799) (“**China Huarong**”). China Huarong is principally engaged in providing financial asset management in the PRC, including distressed asset management, financial services and asset management and investment.

On 30 September 2016, the Former Limited Partner entered into a transfer agreement to transfer his entire limited partnership interest of 5.09% in the Offeror to another existing limited partner of the Offeror. Such transfer was completed on 30 September 2016.

The Offeror is the purchaser in the Sale and Purchase Agreement.

As at the Latest Practicable Date, save for 7,520,000 Shares held by the Former Limited Partner and 2,709,219,755 Shares held by the Shares Vendor and Mr. Ma’s and the Shares Vendor’s interests in the Convertible Notes (if applicable, as amended by the CN Modification Deed), each of the Offeror and its ultimate beneficial owners, and each of the limited partners of the Offeror are third parties independent of the Company and its connected persons.

### Shareholding structure of the Company

Set out below is a table showing the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately upon the Sale and Purchase Completion and assuming no conversion of the Amended and Restated Convertible Notes; and (iii) for illustrative purposes, immediately upon the Sale and Purchase Completion and assuming full conversion of the Amended and Restated Convertible Notes and no Reduction Amount is required to be offset/satisfied. The figures below have not taken into account the level of acceptance of the Offer.



## LETTER FROM THE BOARD

	(i) As at the Latest Practicable Date		(ii) Immediately upon the Sale and Purchase Completion and assuming no conversion of the Amended and Restated Convertible Notes		(iii) For illustrative purposes, immediately upon the Sale and Purchase Completion (assuming full conversion of the Amended and Restated Convertible Notes and no Reduction Amount is required to be offset/satisfied) <sup>(Note 2)</sup>	
	<i>Number of</i>		<i>Number of</i>		<i>Number of</i>	
	<i>Shares</i>	<i>Approximate %</i>	<i>Shares</i>	<i>Approximate %</i>	<i>Shares</i>	<i>Approximate %</i>
The Offeror and parties acting in concert:						
- The Offeror	-	-	2,128,560,000	55.00	2,128,560,000	14.40
- Former Limited Partner <sup>(Note 3)</sup>	7,520,000	0.20	7,520,000	0.20	7,520,000	0.05
- Shares Vendor	2,709,219,755	70.00	580,659,755	15.00	11,492,659,755	77.75
<b>Sub-total</b>	<b>2,716,739,755</b>	<b>70.20</b>	<b>1,153,362,895</b>	<b>70.20</b>	<b>13,628,739,755</b>	<b>92.20</b>
Independent Shareholders	1,153,362,895	29.80	1,153,362,895	29.80	1,153,362,895	7.80
<b>Total</b>	<b><u>3,870,102,650</u></b>	<b><u>100.00</u></b>	<b><u>3,870,102,650</u></b>	<b><u>100.00</u></b>	<b><u>14,782,102,650</u></b>	<b><u>100.00</u></b>

*Notes:*

1. The percentages are subject to rounding difference, if any.
2. The shareholding structure set out in this column is shown for illustration purpose only. Pursuant to conversion restrictions under the terms and conditions of the Amended and Restated Convertible Notes, no conversion right may be exercised if (i) as a result of the relevant exercise of the conversion rights, the CN Chargor and/or parties acting in concert with it would trigger a mandatory general offer obligation under Rule 26 of the Takeovers Code; and (ii) such exercise would result in the public float of the Shares being less than 25% (or any given percentage as required by the Listing Rules).
3. On 30 September 2016, the Former Limited Partner entered into a transfer agreement to transfer his entire limited partnership interest of 5.09% in the Offeror to another existing limited partner of the Offeror. Such transfer was completed on 30 September 2016. For the avoidance of doubt, the 7,520,000 Shares held by the Former Limited Partner will be subject to the Offer.

**6. REGULATORY IMPLICATIONS**

**Implications under the Listing Rules**

*Connected transaction – Proposed CN Amendments*

Pursuant to Rule 28.05 of the Listing Rules, any alterations in the terms of convertible debt securities after issue must be approved by the Stock Exchange, except where the alterations take effect automatically under the existing terms of such convertible debt securities. Accordingly, the Proposed CN Amendments under the CN Modification Deed shall be subject to the approval of the Stock Exchange and the application for approval of the Proposed CN Amendments under the CN Modification Deed will be submitted by the Company to the Stock Exchange as soon as possible.

As at the Latest Practicable Date, Allied Summit is the controlling shareholder of the Company and is beneficially owned as to approximately 80% by Mr. Su and 20% by Mr. Ng, thus a connected person of the Company. Therefore, the entering into of the CN Modification Deed constitutes a connected transaction of the Company and will be subject to the approval of the Independent Shareholders taken by way of poll at the SGM.

*Connected transaction – Mr. Su's Undertaking Termination*

As at the Latest Practicable Date, Allied Summit is the controlling shareholder of the Company and is beneficially owned as to approximately 80% by Mr. Su and 20% by Mr. Ng, thus Mr. Su is a connected person of the Company. Therefore, Mr. Su's Undertaking Termination constitutes a connected transaction of the Company and will be subject to the approval of the Independent Shareholders taken by way of poll at the SGM.

**Implications under the Takeovers Code**

(i) The Proposed CN Amendments is relating to amendment of certain terms of the outstanding CNs held by Allied Summit, who is a Shareholder and a party acting in concert with the Offeror, and the Proposed CN Amendments is not capable of being extended to all Shareholders; and (ii) the Right of First Offer by Allied Summit provides the first right to the Offeror to purchase the relevant Amended and Restated Convertible Notes based on the same terms as Allied Summit (being the CN Chargor) proposes to other independent third parties in the case of transfer or disposal, which is not capable of being extended to all Shareholders. Hence each of the Proposed CN Amendments and the Right of First Offer constitutes a special deal under Rule 25 of the Takeovers Code. As mentioned above, the obtaining of such special deal consent is one of the Sale and Purchase Conditions, the Proposed CN Amendments and the Right of First Offer will not take effect, and the Sale and Purchase Completion will not take place if such consent is not obtained at or before the Sale and Purchase Long Stop Date (or such later date as the Offeror and the Shares Vendors may agree in writing).

## LETTER FROM THE BOARD

Ordinary resolutions will be proposed at the SGM to be held and convened for the Independent Shareholders to consider and if thought fit, approve the entering into of the CN Modification Deed and the Right of First Offer and the transactions contemplated thereunder.

### **7. INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER**

The Independent Board Committee comprising all the independent non-executive Directors has been formed to make recommendations to the Independent Shareholders on (i) whether the terms of the Revised Special Deals and the New Business Model Proposal are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole; and (ii) whether the Offer is fair and reasonable and as to acceptance. The Independent Board Committee has appointed the Independent Financial Adviser to advise on these aspects.

The advice of the Independent Financial Adviser and the recommendation of the Independent Board Committee in respect of the Revised Special Deals and the New Business Model Proposal and transactions contemplated thereunder as to whether such transactions are, or are not, fair and reasonable and as to the voting on the relevant resolutions are included in this circular as set out on pages 77 to 130. The advice of the Independent Financial Adviser and the recommendation of the Independent Board Committee in respect of the Offer, in particular, as to whether the Offer is, or is not, fair and reasonable and as to its acceptance, will be included in the Composite Document.

### **8. SGM**

The notice of the SGM is set out on pages SGM-1 to SGM-4 of this circular. In order to determine members who are entitled to attend and vote at the SGM, the register of members of the Company will be closed from Monday, 24 July 2017 to Thursday, 27 July 2017, both days inclusive, during which period no transfer of shares can be registered. All transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 pm on Friday, 21 July 2017. Whether or not you are able to attend the SGM, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as practicable but in any event not later than Tuesday, 25 July 2017 at 10:30 a.m. (Hong Kong Time). Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof (as the case may be) should you so wish.

## LETTER FROM THE BOARD

### 9. RECOMMENDATION

The Directors (excluding the independent non-executive Directors whose view has been expressed in the “Letter from the Independent Board Committee” of this circular after taking into account the advices from the Independent Financial Adviser) consider that the terms of the CN Modification Deed, the Right of First Offer and the New Business Model Proposal are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Independent Shareholders as a whole. The Shares Vendor, the Guarantor, the Offeror and its ultimate beneficial owners, their respective associates and parties acting in concert with any of them and those who are involved in or interested in the Sale and Purchase Agreement, the CN Modification Deed, the Right of First Offer and the New Business Model Proposal and the transactions contemplated therein will be required to abstain from voting in respect of the resolution(s) approving the Proposed CN Amendments, the Right of First Offer and the New Business Model Proposal and the respective transactions contemplated thereunder at the SGM.

Your attention is drawn to the letter from the Independent Board Committee as set out on pages 75 to 76 of this circular and the letter from the Independent Financial Adviser as set out on pages 77 to 130 of this circular regarding the terms of the CN Modification Deed, the Right of First Offer and the New Business Model Proposal.

### 10. ADDITIONAL INFORMATION

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

Yours faithfully,  
By order of the Board  
**Pacific Plywood Holdings Limited**  
**Huang Chuan Fu**  
*Executive Director and Chairman*



**PACIFIC PLYWOOD HOLDINGS LIMITED**

**太平洋實業控股有限公司\***

*(Incorporated in Bermuda with limited liability)*

**(Stock code: 767)**

6 July 2017

*To the Independent Shareholders,*

Dear Sir or Madam,

**(I) SPECIAL DEAL AND CONNECTED TRANSACTION  
IN RELATION TO THE PROPOSED AMENDMENT TO  
THE TERMS OF CONVERTIBLE NOTES;  
(II) SPECIAL DEALS IN RELATION TO THE RIGHT OF FIRST OFFER;  
AND  
(III) CONNECTED TRANSACTION IN RELATION TO  
THE PROPOSED TERMINATION OF MR. SU'S UNDERTAKING**

We refer to the letter from the Board set out in the circular dated 6 July 2017 of the Company (the “**Circular**”) of which this letter forms part. Capitalised terms defined in the Circular shall have the same meanings when used herein unless the context otherwise requires.

We have been appointed by the Board as members of the Independent Board Committee to, among others, advise the Independent Shareholders in respect of the terms of the Revised Special Deals and the New Business Model Proposal, details of which are set out in the “Letter from the Board” in the Circular. We wish to draw your attention to the letter of advice from Royal Excalibur, being the Independent Financial Adviser appointed to advise the Independent Board Committee and the Independent Shareholders on the terms of the Revised Special Deals and the New Business Model Proposal as set out on pages 77 to 130 of the Circular, and the “Letter from the Board” set out on pages 21 to 74 of the Circular.

\* *For identification purpose only*

**LETTER FROM THE INDEPENDENT BOARD COMMITTEE**

Having taken into account the principal factors and reasons considered by and the opinion of Royal Excalibur as stated in its letter of advice, we consider the terms of the CN modification Deed and the Right of First Offer and the New Business Model Proposal, which are not in the ordinary and usual course of business of the Company but are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Independent Shareholders as a whole. We therefore recommend the Independent Shareholders to vote in favour of the resolutions approving the CN Modification Deed, the Right of First Offer and the New Business Model Proposal to be proposed at the SGM.

Yours faithfully,  
For and on behalf of  
**Independent Board Committee**

**Mr. Wong Chun Hung**

**Mr. Zheng Zhen**

**Mr. To Langa Samuelson**

*Independent non-executive Directors*

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the text of a letter of advice from the Independent Financial Adviser in connection with the Revised Special Deals and the New Business Model Proposal and the transactions contemplated thereunder respectively which has been prepared for inclusion in this Circular.

**ROYAL EXCALIBUR**  
CORPORATE FINANCE COMPANY LIMITED

ROYAL EXCALIBUR  
CORPORATE FINANCE COMPANY LIMITED  
Unit 1204, 12/F  
OfficePlus@Sheung Wan  
93-103 Wing Lok Street  
Sheung Wan, Hong Kong  
皇家駿溢財務顧問有限公司  
香港上環永樂街93-103號  
協成行上環中心12樓1204室

6 July 2017

To the Independent Board Committee  
and the Independent Shareholders of Pacific Plywood Holdings Limited

Dear Sirs,

**(I) SPECIAL DEAL AND CONNECTED TRANSACTION  
IN RELATION TO THE PROPOSED AMENDMENT TO  
THE TERMS OF CONVERTIBLE NOTES;  
(II) SPECIAL DEAL IN RELATION TO THE RIGHT OF FIRST OFFER;  
AND  
(III) CONNECTED TRANSACTION IN RELATION TO  
THE PROPOSED TERMINATION OF MR. SU'S UNDERTAKING**

### INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Revised Special Deals and the New Business Model Proposal and the transactions contemplated thereunder respectively, details of which are set out in the Letter from the Board (the “**Board’s Letter**”) in the circular issued by the Company to the Shareholders dated 6 July 2017 (the “**Circular**”), of which this letter forms part. Unless otherwise stated, capitalised terms used in this letter have the same meanings as those defined in the Circular.

References are made to the Joint Announcements. The Company and the Offeror jointly announced on 5 October 2016, 18 October 2016 and 15 November 2016, among other matters, that:

- (i) On 27 August 2016, the Shares Vendor, the Offeror and the Previous Guarantor entered into the Sale and Purchase Agreement (as amended and supplemented by the Supplemental Sale and Purchase Agreement dated 4 October 2016 and the Second Supplemental Sale and Purchase Agreement

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

dated 15 November 2016), pursuant to which the Offeror has conditionally agreed to purchase and the Shares Vendor has conditionally agreed to sell, the 2,128,560,000 Sale Shares, representing approximately 55.00% of the entire issued share capital of the Company as at the Latest Practicable Date and the date of the Sale and Purchase Agreement at an initial consideration of HK\$304,384,080 (equivalent to HK\$0.143 per Sale Share), which may be subject to a downward adjustment. The Sale and Purchase Completion is conditional upon fulfilment (or, as appropriate, waiver by the Offeror) of the Sale and Purchase Conditions, which include, amongst others, the Previous Special Deals becoming unconditional (save for the condition requiring the Sale and Purchase Agreement to become unconditional or be completed (as the case may be));

- (ii) On 27 August 2016, the Shares Vendor and the Company entered into the Listed Shares Disposal Agreement (as amended and supplemented by the Supplemental Listed Shares Disposal Agreement dated 4 October 2016), pursuant to which the Company has conditionally agreed to sell, and the Listed Shares Disposal Purchaser has conditionally agreed to purchase (i) 5,426,900,000 IPIH Sale Shares (representing approximately 3.80% of the entire issued share capital of IPIH as at the Latest Practicable Date) for a consideration of HK\$759,766,000 (equivalent to HK\$0.14 per IPIH Sale Share); and (ii) 29,600,000 KPM Sale Shares (representing approximately 0.93% of the entire issued share capital of KPM as at the Latest Practicable Date) for a consideration of HK\$16,576,000 (equivalent to HK\$0.56 per KPM Sale Share);
- (iii) On 27 August 2016, the Company and Allied Summit entered into the CN Modification Deed (as amended and supplemented by the Supplemental CN Modification Deed dated 4 October 2016) pursuant to which the Company and Allied Summit have conditionally agreed to amend certain terms of the outstanding Convertible Notes;
- (iv) Pursuant to the terms of the Sale and Purchase Agreement, if the Previous CN Chargor wishes to transfer or dispose of all or any part of the Convertible Notes (if applicable, as amended by the CN Modification Deed) or any interests therein, the Shares Vendor and the Previous Guarantor shall procure that the Previous CN Chargor shall comply with the pre-emptive right procedures in connection with the Undertakings Consent Requirement (as defined below) and the Right of First Offer; and
- (v) On 27 August 2016, the Shares Vendor entered into the CN Transfer Agreement with the Previous CN Chargor and the Previous Guarantor (as amended and supplemented by the Supplemental CN Transfer Agreement dated 4 October 2016 and the Second Supplemental CN Transfer Agreement dated 15 November 2016), pursuant to which the Shares Vendor has conditionally agreed to sell and the Previous CN Chargor has conditionally agreed to purchase the First Tranche Sale CNs and the Second Tranche Sale CNs subject to and upon the terms and conditions of the CN Transfer Agreement at the aggregate maximum consideration of HK\$2,182,400,000.



## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Company and the Offeror jointly announced on 31 March 2017, 15 May 2017, 1 June 2017 and 7 June 2017, among other matters the subsequent termination and the amendment of the below transactions:

- (i) the Shares Vendor, the Offeror, the Previous Guarantor and the Guarantor entered into the Amendment and Restatement Agreement to vary and restate the Sale and Purchase Agreement and to vary certain terms and conditions of the Sale and Purchase Agreement, details of which are set in the Fifth Joint Announcement and the Sixth Joint Announcement;
- (ii) the Shares Vendor entered into the Deed of CN Transfer Termination with the Previous CN Chargor and the Previous Guarantor to terminate the CN Transfer Agreement and hence the CN Transfer will not proceed, pursuant to which all antecedent obligations and liabilities of the parties under the CN Transfer Agreement shall be absolutely discharged and released in all aspects with immediate effect and neither the Shares Vendor nor the Previous CN Chargor and the Previous Guarantor would have any claim against the other under the CN Transfer Agreement, details of which are set out in the Fourth Joint Announcement; and
- (iii) the Company entered into the Deed of Listed Shares Disposal Termination with the Listed Shares Disposal Purchaser to terminate Listed Shares Disposal Agreement and hence the Listed Shares Disposal will not proceed, pursuant to which all antecedent obligations and liabilities of the parties under the Listed Shares Disposal Agreement shall be absolutely discharged and released in all aspects with immediate effect and neither the Company nor the Listed Shares Disposal Purchaser would have any claim against the other under the Listed Shares Disposal Agreement, details of which are set out in the Fourth Joint Announcement.

### LISTING RULES AND TAKEOVERS CODE IMPLICATION

The Sale and Purchase Completion is conditional upon, among other things, the Revised Special Deals becomes unconditional in all respects (save for the condition requiring the Amended and Restated Sale and Purchase Agreement to become unconditional or be completed (as the case may be)).

#### Implications under the Takeovers Code

(i) The Proposed CN Amendments is relating to amendment of certain terms of the outstanding CNs held by Allied Summit, who is a Shareholder and a party acting in concert with the Offeror, and the Proposed CN Amendments is not capable of being extended to all Shareholders; and (ii) the Right of First Offer by Allied Summit provides the first right to the Offeror to purchase the relevant Amended and Restated Convertible Notes based on the same terms as Allied Summit (being the CN Chargor) proposes to other independent third parties in the case of transfer or disposal, which is not capable of being extended to all Shareholders. Hence each of the Proposed CN Amendments and the Right of First Offer constitutes a special deal under Rule 25 of the Takeovers Code. As

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

mentioned above, the obtaining of such special deal consent is one of the Sale and Purchase Conditions, the Proposed CN Amendments and the Right of First Offer will not take effect, and the Sale and Purchase Completion will not take place, if such consent is not obtained at or before the Sale and Purchase Long Stop Date (or such later date as the Offeror and the Shares Vendors may agree in writing).

Ordinary resolutions will be proposed at the SGM to be held and convened for the Independent Shareholders to consider and if thought fit, approve the entering into of the CN Modification Deed and the Right of First Offer and the transactions contemplated thereunder.

### **Implications under the Listing Rules**

#### *Connected transaction – Proposed CN Amendments*

Pursuant to Rule 28.05 of the Listing Rules, any alterations in the terms of convertible debt securities after issue must be approved by the Stock Exchange, except where the alterations take effect automatically under the existing terms of such convertible debt securities. Accordingly, the Proposed CN Amendments under the CN Modification Deed shall be subject to the approval of the Stock Exchange and the application for approval of the Proposed CN Amendments under the CN Modification Deed will be submitted by the Company to the Stock Exchange as soon as possible.

As at the Latest Practicable Date, Allied Summit is the controlling shareholder of the Company and is beneficially owned as to approximately 80% by Mr. Su and 20% by Mr. Ng, thus a connected person of the Company. Therefore, the entering into of the CN Modification Deed between the Company and Allied Summit constitutes a connected transaction of the Company and will be subject to the approval of the Independent Shareholders taken by way of poll at the SGM.

#### *Connected transaction – Mr. Su's Undertaking Termination*

As Mr. Su is a connected person of the Company, Mr. Su's Undertaking Termination constitutes a connected transaction of the Company and will be subject to the approval of the Independent Shareholders taken by way of poll at the SGM.

Therefore, the SGM will be held for the purpose of considering and, if thought fit, approving the resolution(s) in respect of the Revised Special Deals and the New Business Model Proposal and the transactions contemplated thereunder respectively by way of poll. The Shares Vendor, the Guarantor, the Offeror and its ultimate beneficial owners, their respective associates and parties acting in concert with any of them and those who are involved in or interested in the Amended and Restated Sale and Purchase Agreement, the CN Modification Deed, the Right of First Offer and the New Business Model Proposal and the transactions contemplated therein respectively will be required to abstain from voting in respect of the resolution(s) approving the Proposed CN Amendments, the Right of First Offer and the New Business Model Proposal and the transactions contemplated thereunder respectively at the SGM.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

### INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Wong Chun Hung, Mr. Zheng Zhen and Mr. To Langa Samuelson, has been formed to make recommendations to the Independent Shareholders on whether the terms of the Revised Special Deals and the New Business Model Proposal and the transactions contemplated thereunder respectively are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

### INDEPENDENT FINANCIAL ADVISER

We have been approved and appointed by the Independent Board Committee to make recommendations to the Independent Board Committee and the Independent Shareholders in respect of the Revised Special Deals and the New Business Model Proposal and the transactions contemplated thereunder respectively as to whether such transactions are, or are not, fair and reasonable and as to the voting on the relevant resolutions. As at the Latest Practicable Date, other than the appointment as the Independent Financial Adviser to the Independent Board Committee as stated above, we have no relationships or interests with the Company, the Shares Vendor, the Guarantor, the CN Holder, CN Chargor, the Offeror, Mr. Su, Mr. Ng, General Partner, Former Limited Partner and its ultimate beneficial owners, their respective associates and parties acting in concert with any of them and those who are involved in or interested in the Revised Special Deals and the New Business Model Proposal that could reasonably be regarded as relevant to our independence. Apart from normal professional fees paid or payable to us in connection with this appointment as the Independent Financial Adviser, there are no arrangements which we will receive any fees or benefits from any of the above-mentioned parties in the past two years. We are therefore independent from the Company pursuant to Rule 13.84 of the Listing Rules and our appointment by the Independent Board Committee is in compliance with Rule 2 of the Takeovers Code.

### BASIS OF OUR OPINION

In formulating our opinion, we have relied on the information and facts provided by the Company and have assumed that any representations made to us are true, accurate and complete. We have also relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Directors and the management of the Company. We have no reason to believe that any information and representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the information provided and the representations made to us untrue, inaccurate or misleading. We have assumed that all statements, information, opinions and representations contained or referred to in the Circular and all information, representations and opinions which have been provided by the Directors and the management of the Company for which they are solely responsible for, are true and accurate at the time they were made and will continue to be accurate up to the date of SGM. Any material changes will be updated to the Shareholders as soon as possible. The Company will notify the Shareholders of any material changes during the period after the date of despatch of the Circular to the SGM as soon as possible in accordance with Rule 9.1

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

of the Takeovers Code. The Independent Shareholders will also be notified of any material changes to such information provided in the Circular and our opinion as soon as possible after the Latest Practicable Date and throughout the period between the date after the despatch of the Circular and the SGM.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular the omission of which would make any such statement contained in the Circular misleading. We consider that we have been provided with sufficient information on which to form a reasonable basis for our opinion. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any fact or circumstance which would render the information provided and representations and opinions made to us untrue, inaccurate or misleading. Having made all reasonable enquiries, the Directors have further confirmed that, to the best of their knowledge, they believe there are no other facts or representations the omission of which would make any statement in the Circular, including this letter, misleading. We have not, however, carried out any independent verification of the information provided by the Directors and management of the Company, nor have we conducted any independent investigation into the business and affairs of the Group.

### PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion in respect of the Revised Special Deals and the New Business Model Proposal and the transactions contemplated thereunder respectively, we have considered the following principal factors and reasons:

#### (I) Information of the Company and the Offeror

##### (A) *Information of the Company*

The Company is an investment holding company, and through its subsidiaries, is principally engaged in the business of operation of P2P financing platform under the CAIJIA brand and other loan facilitation services, money lending and provision of credit and securities investments.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following table is a summary of certain financial information of the Group extracted from the respective published annual report of the Company for the three financial years ended 31 December 2014, 31 December 2015 and 31 December 2016.

	Year ended 31 December 2014 (audited) (HK\$'000)	Year ended 31 December 2015 (audited) (HK\$'000)	Year ended 31 December 2016 (audited) (HK\$'000)
Revenue	65,165	102,490	555,386
Gross profit	64,234	101,072	554,605
Profit/(Loss) before taxation	(20,022)	(143,875)	422,354
Profit/(Loss) for the year/period attributable to owners of the Company	(26,008)	(148,282)	321,907
Net assets attributable to the owners of the Company	1,512,166	4,127,738	4,063,574

*(B) Information of the Offeror*

As disclosed in the First Joint Announcement, the Offeror, Huarong Financial Services Asset Management L.P., a Cayman Islands limited partnership, is a private equity fund organised for the purpose of investing in listed companies which are principally engaged in online financing. The committed fund size of the Offeror is approximately HK\$756.0 million. The general partner of the Offeror is Huarong International Capital Limited, which is a Cayman Islands exempted limited liability company. As at the Latest Practicable Date, the directors of the General Partner were Mr. Bai Tianhui and Mr. Han Binke. The General Partner is wholly-owned by China Huarong International Holdings Limited (“**China Huarong International**”), an investment holding company which is in turn held as to 88.1% by Huarong Real Estate Co., Ltd. (“**Huarong Real Estate**”) and as to 11.9% by Huarong Zhiyuan Investment & Management Co., Ltd. (“**Huarong Zhiyuan**”). China Huarong International is the international platform of China Huarong (as defined below) and its management is substantially independent of China Huarong. Each of Huarong Real Estate and Huarong Zhiyuan is wholly-owned by China Huarong Asset Management Co., Ltd., the shares of which is listed on the Stock Exchange (stock code: 2799) (“**China Huarong**”). China Huarong is principally engaged in providing financial asset management in the PRC, including distressed asset management, financial services and asset management and investment.

The Offeror is the purchaser in the Sale and Purchase Agreement.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As at the Latest Practicable Date, save for 7,520,000 Shares held by the Former Limited Partner and 2,709,219,755 Shares held by the Shares Vendor and Mr. Ma's and the Shares Vendor's interests in the Convertible Notes (if applicable, as amended by the CN Modification Deed), each of the Offeror and its ultimate beneficial owners, and each of the limited partners of the Offeror are third parties independent of the Company and its connected persons.

### (II) Proposed CN Amendments pursuant to CN Modification Deed

#### (A) *Reasons for entering into the CN Modification Deed*

Please refer to the section headed "2. Special Deal and Connected Transaction in relation to the Proposed amendments to the terms of Convertible Notes – Proposed amendments to the terms of Convertible Notes" in the Board's Letter for the background of entering into the CN Modification Deed.

As disclosed in the Board's Letter, without the consent of Company and so long as such conversion will not trigger a mandatory offer obligation under the Takeovers Code, restriction of any possible conversion of the Convertible Notes by other parties under the Proposed CN Amendments protects the Independent Shareholders from unexpected dilution or immediate potential dilution in their shareholding interest in the Company and maintains the stability in the shareholding structure of the Company which in turn could also minimise the disruption in the Group's business operations. The Proposed CN Amendments also explicitly specify the effect (in terms of triggering the conversion price adjustment mechanism as it is unclear whether the provisions relating to changes in Conversion Price mechanisms are disallowed in all circumstances or are permissible so long as any adjustment events occur) of any issue of Shares or securities convertible or exchangeable into Shares whether such issue is pursuant to any acquisition of assets or business by the Group or otherwise would be the same, i.e. no adjustment to the Conversion Price will be triggered unless the initial conversion price or consideration per such Share or securities would be less than 90% of the Current Market Price. Moreover, the Proposed CN Amendments set out additional requirement for the Company or any of its subsidiaries with net assets value in excess of HK\$100,000,000 which offers more protection to the Group and reduce the default risk of the Company facing by the Independent Shareholders and therefore the Directors (excluding the independent non-executive Directors whose view has been expressed in the "Letter from the Independent Board Committee" of this circular after taking into account the advices from the Independent Financial Adviser) consider that it is in the interest of the Company and the Independent Shareholders as a whole, hence the Company entered the CN Modification Deed with the CN Holder.

The Proposed CN Amendments were arrived at after arm's length negotiations between the Company and Allied Summit. Considering that (i) in the event of issue of any securities by the Company, the Conversion Price of the Amended and Restated Convertible Notes will only be adjusted if the issue prices of such additional securities is below 90% of the Current Market Price instead of the

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Current Market Price which the potential downward adjustment to the Conversion Price of the Amended and Restated Convertible Notes will less likely to occur and therefore, it is more favourable to the Company as compared to that of the original Convertible Notes; (ii) other amendments to the terms of the Convertible Notes are in line with common market practice; and (iii) the restrictions on the transfer and conversion of the Convertible Notes do not prejudice the interest of the Company, the Board considers that the Proposed CN Amendments are fair and reasonable and in the interests of the Company and its shareholders as a whole.

### *(B) Analysis on the major terms of the CN Modification Deed*

Details of the Proposed CN Amendments under the CN Modification Deed and the Board's views thereon are set out in the section headed "2. Special Deal and Connected Transaction in relation to the Proposed amendments to the terms of Convertible Notes – The Proposed CN Amendments" in the Board's Letter.

In assessing the proposed amendment terms of the Convertible Notes pursuant to the CN Modification Deed, we have reviewed a number of comparable transactions which involved the issue of convertible notes/bonds or amendments to the terms of the existing convertible notes/bonds in relation to the relevant seven clauses including (i) transferability; (ii) conversion; (iii) adjustment; (iv) provision relating to changes in conversion price; (v) undertaking; (vi) maturity; and (vii) events of default. The comparable transactions are selected based on the following criteria: (i) the issuers are listed on the Stock Exchange; and (ii) such transactions involve the issue of the convertible bonds/notes with the date of announcement during the period from 4 July 2016 (3 months prior to 4 October 2016 which is the date of the entering into the Supplemental CN Modification Deed) to the Latest Practicable Date. Based on such criteria, we have on a best endeavor basis identified 121 comparable transactions (the "**CN Comparable Transactions**"), each of which has at least one similar clause(s) as those of the Proposed CN Amendments. The purpose of such analysis is to reflect whether it is a common market practice for issuers to set similar terms when issuing the convertible notes/bond. Having reviewed the CN Comparable Transactions over approximately 1 year from 4 July 2016 to the Latest Practicable Date, we believe the sample size is reasonably large enough, reflecting the most commonly market adopted practice up to the Latest Practicable Date, whereby we consider that the CN Comparable Transactions represent an exhaustive list based on the above set criteria.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Independent Shareholders are advised to note that the subject companies involved the CN Comparable Transactions may have different nature of business operations, shareholding structures, market capitalisations, fund raising sizes, financial performance and financial position as compared with those of the Company. The circumstances leading to the subject companies having respective clauses of the convertible notes/bonds may also be different from those relating to the Company. However, as the CN Comparable Transactions fulfilling the above criteria, we believe that they can provide a general reference as to the common clauses of the convertible notes/bonds in the market.

Our analysis and view on the Proposed CN Amendments are summarised as follows:

i. Transferability

Existing terms of the Convertible Notes	The Proposed CN Amendments	Our analysis and view
<p>The Convertible Notes shall be freely transferrable provided that the Convertible Notes may not be transferred by the CN Holder(s) to any connected person (as defined in the Listing Rules) of the Company without written consent of the Company.</p>	<p>To be amended as: The Amended and Restated Convertible Notes shall not be freely transferrable prior to 20 February 2020 and/or during the period commencing from 21 April 2020 and ending on 19 February 2024 (in the event that the Maturity Date (as defined below) is extended to 20 April 2024 pursuant to the conditions of the Amended and Restated Convertible Notes) except pursuant to (a) the CN Disposal (as defined below) or (b) with the written consent of the Company and, if so long as Huarong International Capital Limited, and/or any of its affiliates in aggregate hold not less than 30% of the issued share capital of the Company at the relevant time, the written consent of Huarong International Capital Limited.</p>	<p><i>The Proposed CN Amendments restricts the transferability of the Amended and Restate Convertible Notes to any other persons, save with the consent of the controlling Shareholders, which in turn avoids the possible conversion by other parties without the consent of the controlling Shareholder. We are of the view that these amendments could protect the Offeror, the new controlling Shareholder upon completion of the Offer, from the unexpected dilution in its controlling shareholding interest in the Company.</i></p> <p><i>We consider that the maintenance of the stability in the controlling interest in the Company could minimise the disruption in the Group's business operations and development and, therefore, is in the interest of the Company and the Independent Shareholders as a whole.</i></p>



## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

After reviewing the CN Comparable Transactions with the clause in relation to the restriction on transferability, we consider that such restriction on transferability is not an uncommon market practice since the clause that the prior consent to certain parties is often required before the convertible notes/bonds are allowed to transfer such as the consent to the company can be observed in 40 transactions of the CN Comparable Transactions. As such, we consider the Proposed CN Amendments relating to transferability is fair and reasonable so far as the interests of the Company and the Independent Shareholders are concerned.

### ii. Conversion

Existing terms of the Convertible Notes	The Proposed CN Amendments	Our analysis and view
<p>(i) Subject to the conversion restriction of the Convertible Notes each Convertible Notes shall entitle the CN Holder to convert the Convertible Notes into Shares credited as fully paid at any time during the conversion period of the Convertible Notes;</p>	<p>(i) To be amended as: Subject to the Conversion Restriction (as defined below), each Amended and Restated Convertible Notes shall entitle the CN Holder to convert the Amended and Restated Convertible Notes into Shares credited as fully paid on the Maturity Date (as defined below);</p>	<p><i>Instead of entitling the CN Holder to convert the Convertible Notes into Shares credited as fully paid at any time within 60 months from the date of issuance of the Convertible Notes, each Amended and Restated Convertible Notes shall entitle the CN Holder to convert the Amended and Restated Convertible Notes into Shares credited as fully paid on the Maturity Date, which is on 20 April 2020 (or, if applicable, 20 April 2024 pursuant to the CN Automatic Extension).</i></p> <p><i>Considering the possible extension of the maturity date for 4 years if any Convertible Notes is not converted on 20 April 2020, we are of the view that the Proposed CN Amendments could minimise the immediate potential dilution in the shareholding in the Company to the Independent Shareholders. Thus, we consider that the Proposed CN Amendments in relation to this term is in the interest of the Company and the Independent Shareholders.</i></p>

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

### Existing terms of the Convertible Notes

(ii) Conversion at the option of a CN Holder provided that the conversion rights of the Convertible Notes shall only be exercisable; (i) so long as the minimum public float of the issued share capital of the Company as enlarged by the issue of the conversion shares of the Convertible Notes can be maintained in accordance with the relevant provisions of the Listing Rules; and (ii) provided that any exercise by the CN Holder and parties acting in concert (within the meaning ascribed to it under the Takeovers Code) with it does not trigger a mandatory offer under Rule 26 of the Takeovers Code on the part of the CN Holder and parties acting concert with it.

### The Proposed CN Amendments

(ii) To be amended as: The Conversion Right shall only be exercisable by the CN Holder upon maturity of the Amended and Restated Convertible Notes, so long as (a) the minimum public float of the issued share capital of the Company as enlarged by the issue of the Conversion Shares can be maintained in accordance with the relevant provisions of the Listing Rules, (b) such conversion shall not result in (i) the CN Holder and the parties acting in concert with it triggering any mandatory general offer obligations under the Takeovers Code; or (ii) a change in control (as defined in the Takeovers Code) of the Company (the “Conversion Restriction”);

(iii) To add: In the event that there are Amended and Restated Convertible Notes remaining unconverted and outstanding by reason of Conversion Restriction on 20 April 2020, the maturity date of such Amended and Restated Convertible Notes shall be automatically extended for four (4) years (the “CN Automatic Extension”);

### Our analysis and view

*As the Proposed CN Amendment prohibits the change in control due to any exercise by the CN Holder and parties acting in concert, which helps maintaining the stability of the Company in respect of the business operations and development, we are of the view that the Proposed CN Amendments in relation to this term is in the interest of the Independent Shareholders.*

*Considering the possible extension of the maturity date for 4 years if any Convertible Notes is not converted on 20 April 2020, we are of the view that the Proposed CN Amendments could minimise the immediate potential dilution in the shareholding in the Company to the Independent Shareholders. Thus, we consider that the Proposed CN Amendments in relation to this term is in the interest of the Company and the Independent Shareholders.*

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

### Existing terms of the Convertible Notes

### The Proposed CN Amendments

### Our analysis and view

(iv) To add: In the event that any principal amount of the Amended and Restated Convertible Notes will remain unconverted and outstanding (as determined by the auditors of the Company or a financial adviser which is independent from and not connected with the Company) on 20 February 2020 and, where applicable, 20 February 2024 (in the event that the Maturity Date (as defined below) is extended to 20 April 2024) (each a “**Determination Date**”) (the “**Remaining Notes**”), the Company shall inform the CN Holder(s) forthwith and in any event within two (2) Business Days of the relevant Determination Date. In such event, the CN Holder(s) may procure the disposal of all or any part of the Remaining Notes by way of placing by a placing agent, (the “**CN Disposal**”), provided that the CN Holder(s) shall first give notice (the “**CN Disposal Notice**”) in writing to the Company of its wish to proceed with a CN Disposal. The CN Disposal shall be carried out in accordance with the terms set out in the CN Disposal Notice to one or more parties in the following priority: (1) first, Huarong International Capital Limited or any of its affiliates which it may nominate, (2) second, the Offeror, and (3) third, other persons who are not connected person(s) of the Company.

*We are of the view these amendments could protect the Offeror, the new controlling Shareholder upon completion of the Offer, from the unexpected dilution in its controlling shareholding interest in the Company.*

*We consider that the maintenance of the stability in the controlling interest in the Company could minimise the disruption in the Group's business operations and therefore is in the interest of the Company and the Independent Shareholders as a whole.*

Summary on when the CN Holder(s) can convert and transfer the Amended and Restated Convertible Notes:

The Amended and Restated Convertible Notes can be freely transferrable during the period commencing from 20 February 2020 to 20 April 2020 and after 19 February 2024 (in the event that the Maturity Date is extended to 20 April 2024.)

Subject to the Conversion Restriction, the Amended and Restated Convertible Notes shall be mandatorily converted into Shares credited as fully paid on the Maturity Date and the Amended and Restated Convertible Notes remaining unconverted and outstanding by reason of Conversion Restriction on 20 April 2020 will be subject to the CN Automatic Extension.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

After reviewing the CN Comparable Transactions with the clause in relation to the restriction on conversion, we consider that such restriction on conversion is a common market practice, in particular (i) the set period allowed for conversion, which is normally based on the arm's length negotiation; and (ii) the maximum amount of conversion in the event that (a) it results in change in control; and (b) it renders the bondholder (together with its associates and the parties acting in concert with it) to hold or control certain percentage (10% for example) or more of the entire issued share capital of the company immediately after the allotment and issue of the relevant conversion shares. The following table lists out the CN Comparable Transactions with the terms restricting the bondholders from converting the outstanding convertible bond under either or all of the following circumstances that conversion of the convertible bonds shall (a) render such bondholder (together with its associates and the parties acting in concert with it) to hold or control approximately 30% or more of the enlarged issued share capital of the company upon conversion of the convertible bond/notes; (b) cause the public float of the company becoming unable to meet the requirement under the Listing Rules; or (c) trigger a mandatory offer obligation under Rule 26 of the Takeovers Code.

Date of announcement	Stock Code	Subject companies of the CN Comparable Transactions
13/07/2016	616	Eminence Enterprise Ltd.
18/07/2016	231	Ping An Securities Group (Holdings) Ltd.
24/07/2016	821	Value Convergence Holdings Ltd.
08/08/2016	989	Ground International Development Ltd.
10/08/2016	269	China Resources and Transportation Group Ltd.
19/08/2016	686	United Photovoltaics Group Ltd.
09/09/2016	885	Rentian Technology Holdings Ltd.
27/09/2016	515	TC Orient Lighting Holdings Ltd.
11/10/2016	8055	China E-Information Technology Group Ltd.
18/11/2016	269	China Resources and Transportation Group Ltd.
22/11/2016	1041	Lamtex Holdings Limited
23/11/2016	290	China Fortune Financial Group Limited
05/12/2016	8032	Viva China Holdings Ltd.
30/12/2016	8171	China Trends Holdings Ltd.
12/01/2017	771	Automated Systems Holdings Limited
13/01/2017	2280	HC International, Inc.
24/01/2017	567	Daisho Microline Holdings Ltd.
25/01/2017	692	China Household Holdings Limited
27/01/2017	174	Gemini Investments (Holdings) Ltd.
07/02/2017	997	Chinlink International Holdings Limited
09/02/2017	8175	China Digital Culture (Group) Limited
15/02/2017	8153	Code Agriculture (Holdings) Limited
01/03/2017	872	TUS International Limited
01/03/2017	1218	Easyknit International Holdings Limited
06/03/2017	692	China Household Holdings Limited
29/03/2017	8101	Jia Meng Holdings Limited
06/04/2017	139	China Soft Power Technology Holdings Limited

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Date of announcement	Stock Code	Subject companies of the CN Comparable Transactions
09/04/2017	1360	Mega Expo Holdings Limited
09/04/2017	1636	China Metal Resources Utilization Limited
10/04/2017	8299	Grand T G Gold Holdings Limited
24/04/2017	932	RM Group Holdings Ltd.
28/04/2017	875	China Finance Investment Holdings Limited
02/05/2017	1348	Quali-Smart Holdings Limited
10/05/2017	692	China Household Holdings Limited
18/05/2017	3788	China Hanking Holdings Limited
25/05/2017	6880	Tempus Holdings Limited
26/05/2017	8005	Yuxing InfoTech Investment Holdings Limited
29/05/2017	8166	China Eco-Farming Limited
06/06/2017	279	Freeman FinTech Corporation Limited
16/06/2017	1076	Imperial Pacific International Holdings Ltd.
27/06/2017	61	North Asia Resources Holdings Limited

As for the proposed amendment term of the Convertible Notes that the CN Disposal shall be carried out in accordance with the terms set out in the CN Disposal Notice to one or more parties in the following priority: (1) first, Huarong International Capital Limited or any of its affiliates which it may nominate, (2) second, the Offeror, and (3) third, other persons who are not connected person(s) of the Company, we could not identify comparable transaction with such similar term. However, we noted that, assuming full conversion of the Convertible Notes at the Conversion Price based on the maximum principal amount of HK\$2,182,400,000, up to 10,912,000,000 new Shares will be issued and allotted by the Company (representing approximately 281.96% of the issued share capital as at the Latest Practicable Date and approximately 73.82% of the issued share capital as enlarged by the full conversion of the Convertible Notes). In this occasion, if there is no restriction on the priority of the CN Disposal, the Convertible Notes disposed to a third party will give rise to a possibility that the conversion of the Convertible Notes may (a) render the bondholder (together with its associates and the parties acting in concert with it) to hold or control approximately 30% or more of the enlarged issued share capital of the Company upon conversion of the Convertible Notes; (b) cause the public float of the company becoming unable to meet the requirement under the Listing Rules; and (c) trigger a mandatory offer obligation under Rule 26 of the Takeovers Code. Therefore, such restriction on the priority of the CN Disposal is, in substance, in the same rationale as those terms restricting the conversion of the convertible bonds/notes from resulting in the change in control or mandatory offer obligation of those comparable transactions as set out in the above table. As such, we concur with the Board's view that in the event that the CN Holder transfers or disposes of all or any part of the Amended and Restated Convertible Notes to any unknown investors, the conversion of the Amended and Restated Convertible Notes could result in unstable shareholding structure of the Company which causes disruption in the Group's business operations and the possible interruption to the Offeror's future plan. Such Proposed CN Amendments with respect to the conversion helps maintaining

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

the stability of the shareholding structure in the Company and the Group's business operations. Accordingly, we consider the Proposed CN Amendments in relation to conversion is fair and reasonable so far as the Independent Shareholders are concerned.

### iii. Adjustment

The principal changes under the Proposed CN Amendments are set out below:

Existing terms of the Convertible Notes	The Proposed CN Amendments	Our analysis and view
<p>(i) The Conversion Price is subject to adjustments upon the occurrence of rights issues of Shares or options over Shares, issues of Shares, issue of other securities and other offers to Shareholders at a price per Share which is less than Current Market Price (as defined below).</p>	<p>(i) To be amended as: The Conversion Price is subject to adjustments upon the occurrence of rights issues of Shares or options over Shares, issues of Shares, issue of other securities and other offers to Shareholders at a price per Share which is less than 90% of the Current Market Price.</p>	<p><i>The adjustment is proposed to be subject to a less stringent condition from the perspective of the Company, which is upon the occurrence of rights issues of Shares or options over Shares, issues of Shares, issue of other securities and other offers to Shareholders at a price per Share which is less than 90% of the Current Market Price, instead of the price per Share which is less than Current Market Price. We are of the view that the Proposed CN Amendments in relation to this term, taking into account our review over a number of comparable transactions which involved the issue of convertible notes/bonds as set out below, is in line with the market practice and is fair and reasonable so far as the Independent Shareholders are concerned.</i></p>

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Existing terms of the Convertible Notes	The Proposed CN Amendments	Our analysis and view
(ii) The Conversion Price is subject to adjustments upon the occurrence of modification of rights of conversion so that following such modification the consideration per Share receivable has been reduced and is less than the Current Market Price per Share.	(ii) To remove: The adjustment provisions on the Conversion Price upon the occurrence of modification of rights of conversion.	<i>We are of the view that the terms are normal commercial terms that are in line with common market practice.</i>

“Current Market Price” means, in respect of a Share on a particular date, the average of the closing prices for one Share (being a Share carrying a full entitlement to dividends) for the 5 consecutive trading days ending on and including the trading day immediately preceding such date.”

It is common for the conversion price to be adjusted from time to time upon occurrence of certain events, including the issuance of shares or securities or grant options to subscribe or purchase for any shares in a company. In assessing the terms of the Convertible Notes in relation to the term of the adjustment to the conversion price, we have reviewed the CN Comparable Transactions with similar clause and have on a best endeavor basis identified the following 89 comparables with the clause of specifying the adjustment to the conversion price under prescribed circumstance (the “**CN Adjustment Comparables**”), which we consider an exhaustive list of relevant convertible notes/bonds comparable transactions based on the set criteria:

CN Adjustment Comparables (Note 1)	Stock Code	Date of announcement	The conversion price is subject to adjustments upon
			(i) the issue of any securities if and whenever the Company shall issue wholly for cash which are convertible into, exchangeable for or carry rights of subscription for Shares;
			(ii) issue of shares wholly for cash; and/or at an effective price which is: (where the current market price refers to the market price on the specified date determined in the respective announcement)
Mainland Headwear Holdings Limited	1100	28/6/2017	less than conversion price
Sinco Pharmaceuticals Holdings Limited	6833	25/06/2017	less than 90% of the current market price per share
Imperial Pacific International Holdings Ltd.	1076	16/06/2017	less than 80% of the current market price per share
PPS International (Holdings) Ltd.	8201	15/06/2017	less than 80% of the current market price per share
Kiu Hung International Holdings Limited	381	14/06/2017	less than 80% of the current market price per share

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

CN Adjustment Comparables (Note 1)	Stock Code	Date of announcement	The conversion price is subject to adjustments upon (i) the issue of any securities if and whenever the Company shall issue wholly for cash which are convertible into, exchangeable for or carry rights of subscription for Shares; (ii) issue of shares wholly for cash; and/or at an effective price which is: (where the current market price refers to the market price on the specified date determined in the respective announcement)
Kiu Hung International Holdings Limited	381	12/06/2017	less than 80% of the current market price per share
Freeman FinTech Corporation Limited	279	06/06/2017	less than the current market price per share
E-Commodities Holdings Limited	1733	02/06/2017	less than 95% of the current market price per share
Gold-Finance Holdings Limited	1462	01/06/2017	less than 80% of the current market price per share
China Eco-Farming Limited	8166	29/05/2017	less than the current market price per share
China Ocean Fishing Holdings Limited	8047	29/05/2017	less than the current market price per share
Yuxing InfoTech Investment Holdings Limited	8005	26/05/2017	less than the current market price per share
Tempus Holdings Limited	6880	25/05/2017	less than 95% of the current market price per share
Code Agriculture (Holdings) Limited	8153	25/05/2017	less than 80% of the current market price per share
Code Agriculture (Holdings) Limited	8153	24/05/2017	less than 90% of the current market price per share
Synertone Communication Corporation	1613	23/05/2017	less than 80% of the current market price per share
China Hanking Holdings Limited	3788	18/05/2017	less than 95% of the current market price per share
RM Group Holdings Limited	932	24/04/2017	less than 80% of the current market price per share
Titan Petrochemicals Group Limited	1192	13/04/2017	less than 90% of the current market price per share
Beijing Gas Blue Sky Holdings Limited	6828	13/04/2017	less than 85% of the current market price per share
Grand T G Gold Holdings Limited	8299	10/04/2017	less than 90% of the current market price per share
HMV Digital China Group Limited	8078	10/04/2017	less than 95% of the current market price per share
China Metal Resources Utilization Limited	1636	09/04/2017	less than 95% of the current market price per share
REXLot Holdings Limited	555	07/04/2017	less than 95% of the current market price per share
China Beidahuang Industry Group Holdings Limited	39	07/04/2017	less than 80% of the current market price per share



## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

CN Adjustment Comparables (Note 1)	Stock Code	Date of announcement	The conversion price is subject to adjustments upon (i) the issue of any securities if and whenever the Company shall issue wholly for cash which are convertible into, exchangeable for or carry rights of subscription for Shares; (ii) issue of shares wholly for cash; and/or at an effective price which is: (where the current market price refers to the market price on the specified date determined in the respective announcement)
China Soft Power Technology Holdings Limited	139	06/04/2017	less than 80% of the current market price per share
Huazhang Technology Holding Limited	1673	29/03/2017	less than the current market price per share
Jia Meng Holdings Limited	8101	29/03/2017	less than 80% of the current market price per share
China LotSynergy Holdings Limited	1371	10/03/2017	less than 95% of the current market price per share
China Household Holdings Limited	692	06/03/2017	less than the current market price per share
TUS International Limited	872	01/03/2017	less than 80% of the current market price per share
Easyknit International Holdings Limited	1218	01/03/2017	less than 80% of the current market price per share
Code Agriculture (Holdings) Limited	8153	15/02/2017	less than 80% of the current market price per share
Green International Holdings Limited	2700	13/02/2017	less than 80% of the current market price per share
Chinlink International Holdings Limited	997	08/02/2017	less than 90% of the current market price per share
Nan Nan Resources Enterprise Limited	1229	25/01/2017	less than 90% of the current market price per share
China Household Holdings Limited	692	25/01/2017	less than the current market price per share
Daisho Microline Holdings Ltd.	567	24/01/2017	less than 90% of the current market price per share
China U-Ton Holdings Limited	6168	18/01/2017	less than the current market price per share
Tesson Holdings Limited	1201	17/01/2017	less than 80% of the current market price per share
Automated Systems Holdings Limited	771	12/01/2017	less than 80% of the current market price per share
Ernest Borel Holdings Limited	1856	05/01/2017	less than the current market price per share
Silverman Holdings Ltd.	1616	22/12/2016	less than 90% of the current market price per share
Sino Energy International Holdings Group Limited	1096	16/12/2016	less than 80% of the current market price per share
Blue Sky Power Holdings Limited	6828	16/12/2016	less than 85% of the current market price per share

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

CN Adjustment Comparables (Note 1)	Stock Code	Date of announcement	The conversion price is subject to adjustments upon (i) the issue of any securities if and whenever the Company shall issue wholly for cash which are convertible into, exchangeable for or carry rights of subscription for Shares; (ii) issue of shares wholly for cash; and/or at an effective price which is: (where the current market price refers to the market price on the specified date determined in the respective announcement)
Pa Shun Pharmaceutical International Holdings Limited	574	15/12/2016	less than 95% of the current market price per share
AID Partners Technology Holdings Limited	8088	14/12/2016	less than 95% of the current market price per share
China Railway Construction Corporation Limited	1186	08/12/2016	less than 95% of the current market price per share
China Ocean Industry Group Limited	651	06/12/2016	less than 95% of the current market price per share
Viva China Holdings Limited	8032	05/12/2016	less than 80% of the current market price per share
C&D International Investment Group Ltd.	1908	04/12/2016	less than 80% of the current market price per share
National Arts Entertainment and Culture Group Limited	8228	02/12/2016	less than 80% of the current market price per share
Skyway Securities Group Limited	1141	28/11/2016	less than 80% of the current market price per share
China Soft Power Technology Holdings Limited	139	28/11/2016	less than 80% of the current market price per share
China Fortune Financial Group Ltd.	290	23/11/2016	less than 90% of the current market price per share
The United Laboratories International Holdings Limited	3933	22/11/2016	less than 95% of the current market price per share
Lamtex Holdings Ltd.	1041	22/11/2016	less than 80% of the current market price per share
LVGEM (China) Real Estate Investment Company Limited	95	06/11/2016	less than conversion price
AVIC Joy Holdings (HK) Limited	260	04/11/2016	less than the current market price per share
Kiu Hung International Holdings Limited	381	31/10/2016	less than 80% of the current market price per share
Prosperity International Holdings (H.K.) Limited	803	26/10/2016	less than 95% of the current market price per share
China Huarong Energy Company Limited	1101	24/10/2016	less than 90% of the current market price per share

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

CN Adjustment Comparables (Note 1)	Stock Code	Date of announcement	The conversion price is subject to adjustments upon (i) the issue of any securities if and whenever the Company shall issue wholly for cash which are convertible into, exchangeable for or carry rights of subscription for Shares; (ii) issue of shares wholly for cash; and/or at an effective price which is: (where the current market price refers to the market price on the specified date determined in the respective announcement)
Mega Medical Technology Limited	876	19/10/2016	less than the current market price per share
Wuling Motors Holdings Limited	305	13/10/2016	less than 90% of the current market price per share
Haitong International Securities Group Limited	665	12/10/2016	less than 95% of the current market price per share
Silverman Holdings Ltd.	1616	03/10/2016	less than 90% of the current market price per share
China Putian Food Holding Ltd.	1699	28/09/2016	less than the current market price per share
TC Orient Lighting Holdings Ltd.	515	27/09/2016	less than 80% of the current market price per share
China Fortune Financial Group Ltd.	290	21/09/2016	less than 90% of the current market price per share
Sun Century Group Ltd.	1383	20/09/2016	less than 80% of the current market price per share
Rentian Technology Holdings Ltd.	885	09/09/2016	less than 85% of the current market price per share
Fullshare Holdings Ltd.	607	07/09/2016	less than 95% of the current market price per share
Sino Energy International Holdings Group Ltd.	1096	31/08/2016	less than 80% of the current market price per share
China Agri-Products Exchange Limited	149	23/08/2016	less than the current market price per share
United Photovoltaics Group Ltd.	686	19/08/2016	less than 90% of the current market price per share
SMI Culture & Travel Group Holdings Ltd.	2366	09/08/2016	less than conversion price
SINOPEC Engineering (Group) Co., Ltd.	1386	09/08/2016	less than 80% of the current market price per share
Ground International Development Ltd.	989	08/08/2016	less than 80% of the current market price per share
China Household Holdings Ltd.	692	05/08/2016	less than the current market price per share
China Smartpay Group Holdings Ltd.	8325	31/07/2016	less than 95% of the current market price per share
Sunshine 100 China Holdings Ltd.	2608	29/07/2016	less than the current market price per share
China Innovative Finance Group Ltd.	412	27/07/2016	less than the current market price per share
Flying Financial Service Holdings Ltd.	8030	14/07/2016	less than the current market price per share

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

CN Adjustment Comparables (Note 1)	Stock Code	Date of announcement	The conversion price is subject to adjustments upon (i) the issue of any securities if and whenever the Company shall issue wholly for cash which are convertible into, exchangeable for or carry rights of subscription for Shares; (ii) issue of shares wholly for cash; and/or at an effective price which is: (where the current market price refers to the market price on the specified date determined in the respective announcement)
Kunlun Energy Co. Ltd.	135	14/07/2016	less than the current market price per share
Sino Golf Holdings Ltd.	361	13/07/2016	less than the higher of 80% of the market price per share or the conversion price in effect
Eminence Enterprise Ltd.	616	13/07/2016	less than 80% of the current market price per share
China Weaving Materials Holdings Ltd.	3778	11/07/2016	less than the current market price per share
Huajun Holdings Ltd.	377	05/07/2016	less than the current market price per share
China Zenith Chemical Group Ltd.	362	04/07/2016	For (i): less than the current market price per share For (ii): less than 80% of the current market price per share
Maximum			Up to 20% discount to the market price per share
Minimum			No discount allowed to the market price per share
Mean			At approximately 89.4% of the current market price (Note 3)
<b>Company</b>			<b>At 90% of the current market price</b>

*Notes:*

1. Those did not specify the share price adjustment conditions in their respective announcements are not included in our analysis.
2. SMI Culture & Travel Group Holdings Ltd. (Stock code: 2366), LVGEM (China) Real Estate Investment Company Limited (Stock code: 95) and Mainland Headwear Holdings Limited (Stock code: 1100) are not included in the calculation of mean as their condition of adjustment is not based on the market price.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As illustrated in the above table of the CN Adjustment Comparables, the conversion price of the CN Adjustment Comparables is subject to adjustments upon (i) the issue of any securities if and whenever the Company shall issue wholly for cash which are convertible into, exchangeable for or carry rights of subscription for Shares; (ii) issue of shares wholly for cash; and/or at an effective price which is less than a percentage (ranging from 80% to 100%) of the current market price per share, with a mean at 89.4% of the current market price, on the specified date determined in the respective announcement. Considering that the adjustment condition for the Company is set at a price per Share which is less than 90% of the Current Market Price, which is near to the mean of that of the CN Adjustment Comparables, we are of the view that the Proposed CN Amendments in relation to this adjustment to the Conversion Price is in line with the market practice and is fair and reasonable so far as the Independent Shareholders are concerned.

#### iv. Provision relating to changes in Conversion Price

Existing terms of the Convertible Notes	The Proposed CN Amendments	Our analysis and view
<p>Note: there are no adjustment clauses under the existing terms of the Convertible Notes with respect to the Shares or other securities (including rights or options) or securities which by their terms might be redesignated as Shares are issued to the relevant vendor in relation to any acquisition of assets or business by the Company or its subsidiaries.</p>	<p>To add: No adjustment will be made on the Conversion Price when Shares or other securities (including rights or options) or securities which by their terms might be redesignated as Shares are issued to the relevant vendor in relation to any acquisition of assets or business by the Company or its subsidiaries except in the case of an issue at less than 90% of the Current Market Price.</p>	<p><i>Based on our analysis in the sub-section headed "iii. Adjustment" above, we are of the view that the Proposed CN Amendments in relation to this term is in line with the market practice and is fair and reasonable so far as the Independent Shareholders are concerned.</i></p>

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

### v. Undertaking

Existing terms of the Convertible Notes	The Proposed CN Amendments	Our analysis and view
<p>(i) The Company undertakes that, save with the approval of a resolution of the holder(s) holding Convertible Notes representing, in the aggregate, not less than 50.1 per cent. of the aggregate principal amount of all Convertible Notes then outstanding:</p> <p>(a) To procure that no securities issued without rights to convert into or exchange or subscribe for Shares shall subsequently be granted such rights at a consideration per Share which is less than the Current Market Price per Share.</p>	<p>(i) The Company undertakes that: save with the approval of a resolution of the holder(s) holding Amended and Restated Convertible Notes representing, in the aggregate, not less than 50.1 per cent. of the aggregate principal amount of all Amended and Restated Convertible Notes then outstanding (the “<b>Majority Noteholder(s)</b>”):</p> <p>(a) To be amended as: so long as any of the Amended and Restated Convertible Notes in the amount of not less than HK\$1,000,000,000 remains outstanding, to procure that no securities issued without rights to convert into or exchange or subscribe for Shares shall subsequently be granted such rights at a consideration per Share which is less than 90% of the Current Market Price per Share.</p>	<p><i>The adjustment is proposed to be subject to a less stringent condition from the perspective of the Company regarding the conditions of fund raising since this provides the Company a higher flexibility for fund raising without triggering the adjustment of the Conversion Price. We consider that this will be in the interests of the Company and the Independent Shareholders as a whole.</i></p>

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Based on our analysis in the sub-section headed “iii. Adjustment” above, we are of the view that the Proposed CN Amendments in relation to this term is in line with the market practice and is fair and reasonable so far as the Independent Shareholders are concerned.

vi. Maturity

Existing terms of the Convertible Notes	The Proposed CN Amendments	Our analysis and view
<p>The Convertible Notes is due and will mature on 20 October 2020.</p>	<p>To be amended as: The Amended and Restated Convertible Notes is due and will mature on 20 April 2020 (or, if applicable, 20 April 2024 pursuant to the CN Automatic Extension) (the “Maturity Date”).</p>	<p><i>Considering the possible extension of the maturity date for 4 years if any Convertible Notes is not converted on 20 April 2020, we are of the view that the Proposed CN Amendments could minimise the immediate potential dilution in the shareholding in the Company to the Independent Shareholders. Thus, we consider that the Proposed CN Amendments in relation to this term is in the interest of the Company and the Independent Shareholders.</i></p>

After reviewing the CN Comparable Transactions with the clause in relation to the maturity, we consider that extension of the maturity date is a common market practice since there are cases that the maturity date is rescheduled earlier or extended, which is normally determined on arm’s length negotiation between parties.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

### vii. Events of default

Existing terms of the Convertible Notes	The Proposed CN Amendments	Our analysis and view
<p>(i) if the Company does not perform or comply with any one or more of its other obligations in the Convertible Notes which default is incapable of remedy or, if capable of remedy, is not remedied within 30 days after notice of such default shall have been given to the Company by a CN Holder. <i>(Note)</i></p>	<p>(i) To be amended as: if the Company breaches material obligation which involves a monetary amount of not less than HK\$50,000,000 and which default is not remedied within 30 days after notice of such default shall have been given to the Company by a CN Holder.</p>	<p><i>We are of the view that the Proposed CN Amendments in relation to this term sets out a more objective basis. While setting a more objective basis for a clearer breaching point in terms of the monetary amount, it can avoid unnecessary misunderstanding between a CN Holder and the Company in handling the event of default, and thus reduce the administrative time and cost for arguing in case of breaching material obligation. Therefore, in view of enhancing the administrative efficiency of the Company in handling the event of default, we consider that such amendment is in the interest of the Company and the Independent Shareholders.</i></p>
<p>(ii) Winding-up of, appointment of receiver of, seizure or expropriation of substantial part of the assets of, and cross default regarding an aggregate outstanding amount of at least HK\$50,000,000 committed by the Company or any of its subsidiaries would constitute an event of default.</p>	<p>(ii) To be amended as: Winding-up of, appointment of receiver of, seizure or expropriation of substantial part of the assets of and cross default regarding an aggregate outstanding amount of at least HK\$50,000,000 committed by the Company or any of its subsidiaries with net assets value in excess of HK\$100,000,000 would constitute an event of default.</p>	<p><i>The addition of the requirement for the Company or any of its subsidiaries with net assets value in excess of HK\$100,000,000 offers more protection to the Group. Also, it sets out a more objective basis which can avoid unnecessary misunderstanding between a CN Holder and the Company and enhance the administrative efficiency of the Company in handling the event of default. As such, we consider that such amendment is in the interest of the Company and the Independent Shareholders.</i></p>

*Note:* As advised by the Company and after reviewing the terms of the original terms of the Convertible Notes and the CN Modification Deed, the abovementioned circumstance would constitute the events of default.



## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

After reviewing the CN Comparable Transactions with the clause in relation to the events of default, we consider that specifying the monetary value for the circumstances of defaults, such as the amount of outstanding or future debts or payables, borrowing, liabilities, financial indebtedness, guarantees and indemnities and the amount of net asset value, is a common market practice. As such, we consider the Proposed CN Amendments in relation to the events of default is fair and reasonable so far as the interests of the Company and the Independent Shareholders are concerned.

### *(C) Conclusion*

Based on the above analysis and opinion and taking into account the context of the benefits of the amended terms as a whole including (i) that the maintenance of the stability in the controlling interest in the Company could minimise the disruption in the Group's business operations and development; (ii) a higher flexibility for fund raising without triggering the adjustment of the Conversion Price; and (iii) enhanced administrative efficiency of the Company in handling the events of default, we consider that the Proposed CN Amendments are fair and reasonable and in the interests of the Company and Independent Shareholders as a whole.

### **(III) Right of First Offer**

#### *(A) Background for the Right of First Offer*

Pursuant to the terms of the Amended and Restated Sale and Purchase Agreement, without prejudice and in addition to the Undertakings Consent Requirement (as defined below), if the CN Chargor wishes to transfer or dispose of all or any part of the Amended and Restated Convertible Notes or any interests therein, the Shares Vendor and the Guarantor shall procure that the CN Chargor to comply with the Right of First Offer procedures. For details, please refer to the section headed "3. Special deal in relation to the Right of First Offer" in the Board's Letter.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

### *(B) Reasons for the Right of First Offer*

Upon the Sale and Purchase Completion, the Offeror will be interested in 2,128,560,000 Shares, representing approximately 55.00% of the issued share capital of the Company as at the Latest Practicable Date. Given the Undertakings, the Offer will not be extended to the Convertible Notes and therefore, upon the Sale and Purchase Completion, the CN Chargor will hold HK\$2,182,400,000 Convertible Notes. Assuming full conversion of the Convertible Notes and for illustrative purposes only, the CN Chargor will hold 10,912,000,000 Conversion Shares, representing approximately 281.96% of the issued share capital as at the Latest Practicable Date and approximately 73.82% of the issued share capital as enlarged by the full conversion of the Convertible Notes (if applicable, as amended by the CN Modification Deed).

In order to avoid any unexpected dilution of shareholding or change in control due to dealings or exercise of the conversion rights of the Convertible Notes (if applicable, as amended by the CN Modification Deed), the Offeror proposed and agreed initially with the Shares Vendor of the Right of First Offer as a measure to mitigate the relevant risks arising from the exercise of the conversion rights of the Convertible Notes (if applicable, as amended by the CN Modification Deed) following the Sale and Purchase Completion since the CN Chargor shall serve on the Offeror a notice in writing of its wish to do so and the Offeror may give notice in writing to the CN Chargor if it or its nominee intends to purchase the relevant Amended and Restated Convertible Notes based on the same terms.

### *(C) Analysis on the major terms under the Right of First Offer*

#### *(i) The Transfer Price*

As set out in the Board's Letter, the transfer price in respect of the Relevant Amended and Restated CN (the "**Transfer Price**") shall equal to the value of the Relevant Amended and Restated CN as at the date of the Transfer Notice and valued and certified by a fellow or associate member of The Royal Institution of Chartered Surveyors (Hong Kong Branch) or The Hong Kong Institute of Surveyors and carries on the business in Hong Kong of valuing properties and is authorised to do so by the rules of the relevant professional institution of which he is a member or a licensed corporation under the SFO to carry out regulated activities of type 6 (advising on corporate finance) which is independent from and not connected with the CN Chargor (the "**Independent Valuer**") and that the Transfer Notice shall be accompanied by such certification. The costs and expenses with respect to the appointment of the Independent Valuer shall be borne solely by the CN Chargor.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Having considering that the Transfer Price is to be determined by the abovementioned certified Independent Valuer, we are of the view that the Transfer Price could be determined in a fair reasonable and objective manner which could avoid dispute between the parties to be involved in this transaction regarding the Transfer Price.

### (ii) The Right of First Offer Period

As set out in the Board's Letter, within 25 Business Days after receipt by the General Partner of the Transfer Notice (the "**Right of First Offer Period**"), the General Partner may give notice in writing to the CN Chargor (the "**Exercise Notice**") if it and/or such affiliates persons as it may nominate (which may include, for the avoidance of doubt, the Offeror) (the "**Proposed Transferee(s)**") (for this purpose, as between the Proposed Transferee(s) only, the priority of such purchase shall be first, the General Partner and such affiliates or it may nominate, and second, the Offeror and/or its subsidiaries) intends to purchase the Relevant Amended and Restated CN based on the terms set out in the Transfer Notice (being the Right of First Offer).

The Right of First Offer Period could procure the Offeror to maintain its controlling shareholdings in the Company, which will not initiate the unexpected dilution of shareholdings by parties other than the General Partner and such affiliates. To some extent that, we believe that it facilitates the stability of the business development of the Company without the unexpected changing in controlling shareholdings. We, therefore, are of the view that the Right of First Offer is in the interest of the Company and the Shareholders as a whole.

In addition, if the Exercise Notice is not issued before the end of the Right of First Offer Period, the CN Chargor may transfer or dispose of the Relevant Amended and Restated CN to any independent third party within 25 Business Days after the end of the Right of First Offer Period on the same terms as set out in the Transfer Notice. Independent Shareholders are subject to the same terms set out in the Transfer Notice to purchase the Relevant Amended and Restated CN. Thus without prejudice against the Independent Shareholders, we are of the view that the Right of First Offer is in the interest of the Independent Shareholders.

### (D) Conclusion

Based on the above analysis, we are of the view that the Right of First Offer ensures that the Shares Vendor to procure that the CN Chargor and the Guarantor shall comply with the pre-emptive right procedures in connection with the Right of First Offer. It is a measure to mitigate the relevant risks of any unexpected dilution of shareholding or change in control due to dealings or exercise of the conversion rights of the Convertible Notes (if applicable, as amended by the CN Modification Deed) arising from the exercise of the conversion rights of the Convertible Notes (if applicable, as amended by the CN Modification Deed) following the Sale and

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Purchase Completion, assuming no Reduction Amount is required to be offset/satisfied. We believe the Offeror's controlling interest in the Company can be maintained which could offer a more stable environment for the Group's future operations and development. As such, we consider that the Right of First Offer is fair and reasonable so far as the Independent Shareholders are concerned.

### **(IV) Connected transaction in relation to the proposed Mr. Su's Undertaking Termination**

#### *(A) Background of Existing Business Model and Mr. Su's Undertaking*

References are made to the 2015 VSA Announcements, the 2015 VSA Circular, the Voluntary Announcement and the Adoption of New Business Model Proposal Announcement in connection with the P2P Acquisition.

#### The P2P Acquisition

On 20 October 2015, the Company completed the acquisition of 96% of the issued share capital of Katar Global. Katar Global, through its wholly-owned subsidiaries and the Structured Contracts or the New Structured Contracts (as the case may be), is principally engaged in the operation of a P2P online financing platform in the PRC, matching borrowers with private lenders for various financial products through the internet under the "Caijia" ("財加") brand, which is conducted via the website ([www.91caijia.com](http://www.91caijia.com)) (the "Caijia Website"). Pursuant to the P2P Acquisition, Katar Global shall procure the change of the registered shareholder to any nominees as designated by the Company and on 21 July 2016, the change in registered shareholder from Beijing KangDingAo to the Registered Shareholders was completed. To further safeguard the interests of the Company in the Structured Contracts or the New Structured Contracts (as the case may be), Mr. Su has irrevocably and unconditionally undertaken to the Company that he shall at all times maintain "control" of the Company as defined in and for the purpose of the Draft Law (as promulgated or amended from time to time), currently being not less than 50% of the issued share capital of the Company based on the existing contents of the Draft Law, or such other shareholding percentage ratio(s) of the issued share capital of the Company to ensure that the Structured Contracts or the New Structured Contracts (as the case may be) continue to be in full force and effect pursuant to the relevant updated rules and regulations in the PRC as promulgated or amended from time to time as confirmed by a qualified PRC lawyer, provided that Mr. Su may dispose in any ways any of his securities interest in the Company (including both the Shares and/or the Convertible Notes) with the prior written consent of the Company and such written consent may only be given by the Company so long as (i) the Structured Contracts or the New Structured Contracts (as the case may be) continue to be in full force and effect under the Draft Law or the relevant updated rules and regulations in the PRC as promulgated or amended from time to time as advised and confirmed by a qualified PRC lawyer to the Company to such effect; and/or (ii) the potential

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

purchaser(s) of securities interest in the Company is(are) PRC investor(s) and he(they) has(have) provided an irrevocable undertaking to the Company in substantially the same form as Mr. Su's Undertaking; and/or (iii) Katar Global Group are allowed to continue its businesses without employing the Structured Contracts or the New Structured Contracts (as the case may be) (free from any adverse impacts on Katar Global Group) pursuant to the relevant updated rules and regulations in the PRC as promulgated or amended from time to time. In addition, Mr. Su shall maintain his Chinese nationality and citizenship during the effective period of Mr. Su's Undertaking.

### Undertaking pursuant to the 2015 VSA Sale and Purchase Agreement

The Company has obtained an opinion from a qualified PRC lawyer (the "**PRC Lawyer**") confirming that the Offeror is a "PRC Investor" for purposes of the Draft Law at the material time. Prior to the Sale and Purchase Completion and the completion of the Revised Special Deals, the Offeror will provide an irrevocable undertaking (the "**Offeror's Undertaking**") to the Company that it shall, among others, maintain "control" of the Company as defined in and for the purpose of the Draft Law once it is effective as detailed in the paragraph headed "The Offeror's Undertaking" below. As at the Latest Practicable Date, the Company has not given prior written consent as required under Mr. Su's Undertaking regarding the Amended and Restated Sale and Purchase Agreement. As disclosed in the paragraph headed "Implementation of the Revised Business Model and the Mr. Su's Undertaking Termination" below, the New Business Model Proposal is conditional upon the fulfillment of the Independent Shareholders approving the New Business Model Proposal and all transactions contemplated under the New Business Model Proposal at the SGM. In the event that (i) resolution approving the New Business Model Proposal and the transactions contemplated thereunder is passed and the Revised Business Model becomes effective, the Offeror will not be required to provide the Offeror's Undertaking to the Company; and (ii) resolution approving the New Business Model Proposal and the transactions contemplated thereunder is not passed or resolution approving the New Business Model Proposal and the transactions contemplated thereunder is passed but the Revised Business Model does not become effective, the Offeror shall provide the Offeror's Undertaking to the Company prior to the Sale and Purchase Completion and the completion of the Revised Special Deals.

### The Offeror's Undertaking

Subject to the Sale and Purchase Completion and the existing Structured Contracts being valid and subsisting, the Offeror irrevocably and unconditionally covenant with, and undertake to the Company that the Offeror (together with their close associates) shall at all times maintain "control" of the Company as defined in and for the purpose of the Draft Law (as promulgated or amended from time to time) once it is effective (i.e. "control" being not less than 50% of the issued share capital of the Company

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

based on the existing contents of the Draft Law, or such other shareholding percentage ratio(s) of the issued share capital of the Company to ensure that the Structured Contracts continue to be in full force and effect) (save for the circumstances that the Offeror cannot maintain “control” of the Company because of any unexpected dilution of shareholding to the extent of a change in control due to dealings or exercise of any conversion rights of the Convertible Notes that are not constituted by the Offeror), PROVIDED THAT the Offeror may dispose of in any ways any of their securities interest in the Company (including both the Shares and/or the Convertible Notes) with the prior written consent of the Company and such written consent may only be given by the Company so long as (i) the Structured Contracts continue to be in full force and effect under the Draft Law or the relevant updated rules and regulations in the PRC as promulgated or amended from time to time as advised and confirmed by a qualified PRC lawyer to the Company to such effect; and/or (ii) the potential purchaser(s) of securities interest in the Company is(are) PRC investor(s) and he(they) has(have) provided an irrevocable undertaking to the Company in substantially the same form as the Offeror’s undertaking; and/or (iii) Katar Global remains a subsidiary of the Company, and Katar Global and its subsidiaries are allowed to continue their businesses without employing the Structured Contracts (free from any adverse impacts on Katar Global and its subsidiaries) pursuant to the relevant rules and regulations in the PRC as promulgated or amended from time to time as advised and confirmed by a qualified PRC lawyer to the Company to such effect; and/or (iv) Katar Global ceases to be a subsidiary of the Company. To the extent possible, the Offeror will remain as a PRC investor for the purpose of the Draft Law during the effective period of the Offeror’s undertaking.

The Offeror’s undertaking shall be terminated and lapse automatically only when the Company is no longer required to ensure compliance with the Draft Law and upon the prior consent obtained from the Stock Exchange.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

### *(B) Reasons and rationale for adopting the Revised Business Model*

As disclosed in the Board's Letter, the adoption of the existing VIE Structure of the P2P lending business under the Existing Business Model has exposed the Group to the legal, contractual and financial risks and uncertainties, which cannot be easily and readily avoided or mitigated without a change or clarification of the applicable laws and regulations, as set out in the section of "4. Connected transaction in relation to the proposed termination of Mr. Su's undertaking – Risks specific to the Existing Business Model" in the Board's Letter. Shareholders are advised to refer to this section for more details of the risks involved in the Existing Business Model.

As disclosed in the 2015 VSA Circular, it has been the Company's plan and intention to adopt a new business model in order to remove its reliance on, and henceforth the risks associated with the adoption of, the VIE Structure and the New Structured Contracts in the operation of the P2P lending business.

Having reviewed in detail the operating components and business flow of the P2P lending business, the Board is of the view that control over or entitlement to the business and economic interests of the ICP licensee ("ICP OPCO"), which operates the online platform and provides the Online Matching Services, is not strictly necessary, whether for the purpose of consolidating the financial results of the ICP OPCO into the Group's financial statements, or for service provision. Rather, the Online Matching Services to be provided through online platform(s) can be outsourced to one or more independent third party ICP OPCOs in the same way as a brand owner may outsource and subcontract part of the manufacturing process to a contract manufacturer. The ICP OPCO can be just one of the Group's business partners in its P2P lending business carried out under the "Caijia" brand, while using its own brand to operate its own website(s) or services.

Given that "control" over or entitlement to the business and economic interests of the ICP OPCOs is not strictly required for the purpose of the Group's P2P lending business, and that the P2P lending business itself is profitable and can serve to contribute revenue and profit to the Group, we concur with the Board's view that it is in the interests of the Company and its Shareholders as a whole if the business model of the Group's P2P lending business could be modified in such a way that the VIE Structure, and hence the associated risks and uncertainties, can be removed and replaced by one that is, in the belief of the Board, sustainable and having comparatively lower risks and a higher degree of certainty (in terms of legality and business continuity).

We have reviewed the guidance letter (HKEx-GL77-14 in) updated and issued by the Stock Exchange in August 2015 (the "**Guidance Letter**") in order to assess the rationale of the New Business Model Proposal. As set out in the Guidance Letter, it should unwind the structured contracts as soon as the law allows the business to be operated without them. We consider that the Company should, in compliance of the Guidance Letter, unwind the existing VIE Structure, given that the P2P lending

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

business can still operate without the control over or entitlement to the business and economic interests of ICP OPCO. We have also discussed with the management and understand that the Revised Business Model is one of the ways to best reduce the risks in running the P2P lending business. Thus, based on our review of the Guidance Letter and the consideration of that (i) the New Business Model Proposal will not affect the ordinary and usual course of business of the Group; (ii) the unwinding of the VIE Structures enables the Group immediately enjoy the economic benefits generated from Beijing Huiju Management (through directly exercise its rights as a shareholder to effect changes in the board of directors of Beijing Huiju Management); and (iii) from a legal and compliant standpoint, the associated risks and uncertainties due to the VIE Structures can be removed, we are of the view that the New Business Model Proposal is in the interests of the Company and the Shareholders as a whole.

(C) *Analysis on the Revised Business Model and the arrangements and agreements contemplated thereunder*

1. The Revised Business Model

Under the Revised Business Model, the Online Matching Services now provided through the Caijia Website will be outsourced to third party independent ICP OPCO(s) in such a way that (1) the ICP OPCO will be responsible for establishing, operating and administering a branded website/webpage under the “Caijia” trademark of the Group for providing the Online Matching Services; (2) the ICP OPCO will be paid a fee in return for the provision of the Online Matching Services through the branded website/webpage; (3) the relationship between the Group and each ICP OPCO will be a simple contractual one that existed between the parties to an ordinary online cooperation agreement; and (4) the Company will not seek to own or control, whether directly or indirectly, any part of the business or economic interests of the ICP OPCO through any contractual arrangements same as or similar to those of the New Structured Contracts. It follows that the economic interests and results of the ICP OPCO(s) will not be consolidated into the financial statements of the Group.

The Revised Business Model does not involve any dissipation or disposal of any assets or interests in the Katar Global Group. All the revenue generating assets and entities critical to the P2P lending business will remain under the ownership, control and management of the Group.

Except for the outsourcing of the Online Matching Services to the ICP OPCO(s), the remaining procedures will continue to be undertaken by the Operating Subsidiaries.



## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As a first move to adopt the Revised Business Model, it is proposed that Beijing Huiju Management will enter into the Beijing JuXin Cooperation Agreement with Beijing JuXin Management (being an ICP OPCO and an independent third party), a company established in the PRC with limited liability which possesses a valid ICP licence. It is the Group's plan to enter into further Cooperation Agreement(s) of similar terms with other ICP OPCOs as and when appropriate. As at the Latest Practicable Date, save for the proposal to enter into the Beijing JuXin Cooperation Agreement, the Group has not entered into any Cooperation Agreement with other ICP OPCOs. For the information of the Beijing JuXin Management, please refer to the section of "4. Connected transaction in relation to the proposed termination of Mr. Su's undertaking – Information of the Beijing JuXin Management" in the Board's Letter.

### 2. Adoption of the Revised Business Model and the operation flow

As set out in the 2015 VSA Circular, the Company shall, within 3 months after completion of the P2P Acquisition, look for acquisition opportunities of foreign companies principally engaged in e-commerce related business with track records and if the Group is able to identify and complete such acquisition, the Group can immediately obtain sufficient foreign experiences to achieve the qualification requirement under the State Council promulgated Regulations for the Administration of Foreign-invested Telecommunications Enterprises (the "**Qualification Requirement**") and then initiate the process of acquiring the entire equity interest in Beijing Huiju Management. However, if the Company is not able to identify any suitable acquisition targets, it shall consider either (i) to establish e-commerce related business overseas by itself to gain foreign e-commerce experiences; or (ii) consider modifying the business model of Katar Global Group such that reliance on the P2P Platform is reduced and expanding the businesses outside of the PRC.

Hence, following completion of the P2P Acquisition and the change in Registered Shareholders after exploring various alternatives, the Company plans and intends to adopt the Revised Business Model.

The Company will continue to keep the domain name of www.91caijia.com after the implementation of the Revised Business Model so that no other companies/individuals could register and claim ownership of this domain name. The domain name will be kept idle and dormant and will not be used for providing any value added telecommunications services.

Please refer to the sub-section headed "Operating flow" under the section headed "4. Connected transaction in relation to the proposed termination of Mr. Su's undertaking" in the Board's Letter for the operation flow showing the various components and the operating flow of the P2P lending business of the Group.

3. Major terms of the Beijing JuXin Cooperation Agreement

During the course of our analysis, we could not identify any companies listed on the Stock Exchange with transactions comparable to that of the New Business Model Proposal. We noted that several listed companies on the Stock Exchange are involved in the operation of P2P financing platform. However, we are not aware of any of their operating models similar to the Revised Business Model. Therefore, without similar cooperation agreement publicly available, we have not carried out the approach of comparing the terms of the Beijing JuXin Cooperation Agreement with others.

Accordingly, we have reviewed the Beijing JuXin Cooperation Agreement and have made enquiries with the management of the Company regarding the major terms therein. Given that there is no comparable available for analysis, we resort to the legal opinion from the legal advisers (please refer to the subsection headed “8. Legal opinion from the Group’s PRC Legal Adviser” below for detailed). Despite the lack of the comparable as reference, we consider that the legal opinion from the legal advisers as a basis of arriving at the deduction of our analysis is sufficient to support our view in this regard since, from the standpoint of the qualified lawyer in the PRC, the Revised Business Model and the terms set out in the Beijing JuXin Cooperation Agreement are in full compliance of the relevant PRC laws and regulations. Having reviewed the Beijing JuXin Cooperation Agreement and the legal opinion from the legal advisers, we were given the following understandings:

(a) Service fee

The service fee of 0.55% of total amount of loan successfully matched between investors and borrowers through the online platform of the ICP OPCO (the “**Service Fee**”) was determined after arm’s length negotiations between Beijing JuXin Management and the Company with reference to the net profit margin of the ICP OPCO under the Cooperation Agreement to be around 4% to 6%. As advised by the management of the Company, there was no information available regarding the normal market price of the service fee payable to the ICP OPCO for the provision of its service since the service fee is generally determined by arm’s length negotiations amongst the relevant parties to such contracts, of which the information is confidential and not being disclosed in the public domain. To our best knowledge and effort, we also could not obtain any information in this regard. Therefore, instead of using the market price to serve as a reference to determine the service fee, the Group has estimated the operating costs of a typical ICP OPCO based on its past experience in Beijing Huiju Management and henceforth the net profit margin of the ICP OPCO under the Cooperation Agreement to be approximately 4% to 6%. We consider the Company has adopted a reasonable basis to determine the cost of

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

outsourcing part(s) of the work to the third parties with reference to its past experience and considering the company's profit objectives.

We have assessed the effect of the Service Fee on the profitability of the Katar Global Group and noted that the Service Fee lowers the average profitability of the Katar Global Group by approximately 3.44% on average for the year ended 31 March 2014 and 2015 (please refer to the section headed "(E) Financial Effect of the Revised Business Model" in this letter below for our detailed calculation and analysis). With reference to the net profit margin of the ICP OPCO, we are of the view that, the effect of the Service Fee on the profit of the Katar Global Group for the year ranging from -3.44% to 1.21% for the years ended 31 March 2014, 2015 and 2016, is acceptable as long as the Online Matching Services to be provided through online platform(s) can be outsourced. The Company is no longer required to manage its own ICP licence anymore, which saves its administrative cost in maintaining its licensing status and other matters related to the requirements and standard as required under the applicable laws in the PRC. Therefore, we are of the view that the Service Fee is a reasonable service charge with reference to the net profit margin of the ICP OPCO.

### (b) Restrictive covenants

As set out in the Board's Letter, at any time during the continuance of the Beijing JuXin Cooperation Agreement and for a period of two (2) years after its termination, Beijing JuXin Management will be prohibited from (i) carrying on or engaging, concerning or having any interest, whether on its own account or in conjunction with or on behalf of any person, firm, company or organization, and whether as principal, agent, shareholder, director, partner or otherwise, directly or indirectly, in any business which is or may be in competition with or similar to the P2P lending business in the PRC; and (ii) solicit or persuade any person or corporation who has been a customer or client of the P2P lending business within two (2) years prior to the termination of the Beijing JuXin Cooperation Agreement to do P2P lending business with it or cease doing business with the Group's P2P lending business.

We believe that the restrictive covenants, which are common market practice as an anti-competitive covenants in the cooperation agreements, effective in prohibiting the ICP OPCO(s) from (i) leaking Group's business knowledges to the Group's competitors in exchange for economic benefits; and (ii) starting a new business similar to the Group's P2P lending business and becoming a direct competitor. Thus, we are of the view that the restrictive covenants can provide the Company with sufficient protection, which is in the interests of the Company and the Independent Shareholders.

(c) Non-exclusive term

According to the detailed terms of the Beijing JuXin Cooperation Agreement that we have reviewed, we noted that Beijing JuXin Management agrees that it is not the exclusive service provider in Online Matching Service to the Company, where the Company can cooperate with another third party with the similar terms as Beijing JuXin Cooperation Agreement and grant the right of using “Caijia” trademark to the third party. Such non-exclusive term reduces the over-reliance risk of the Group on Beijing JuXin Management (please refer to the section below headed “(D) Overview of the risks specific to the Existing Business Model and Revised Business Model” for further measures proposed to be adopted by the Group in mitigating the over-reliance risk), which is in the interests of the Company and the Independent Shareholders as a whole.

After reviewing the Beijing JuXin Cooperation Agreement, by taking into account of Service Fee and the restrictive covenants in particular, we consider that the terms of the Beijing JuXin Cooperation Agreement are on normal commercial terms and in the interests of the Company and the Independent Shareholders as a whole.

4. Unwinding of the New Structured Contracts

As confirmed by the Company’s PRC legal adviser, following the entering into of Beijing JuXin Cooperation Agreement/Cooperation Agreement and the revocation of the Group’s ICP licence, the New Structured Contracts are no longer required and the Company will be able to unwind the New Structured Contracts. The Group will exercise its option under the New Exclusive Option Agreement to acquire the entire equity interest in Beijing Huiju Management at a consideration of nil or nominal value, or the minimum price permitted by PRC laws. As a wholly owned subsidiary of the Group, the financial results of Beijing Huiju Management will continue to be consolidated in the financial statements of the Group. It is expected that the adoption of the Revised Business Model will not have any impact on the consolidated balance sheet of the Company, nor will this lead to any impairment on the goodwill of the Katar Global Group.

5. Mr. Su’s Undertaking Termination

Mr. Su’s Undertaking has been provided to give further “assurance” that even if the Draft Law comes into effect, the P2P lending business of the Group operated under the Structured Contracts or the New Structured Contracts (as the case may be) may still be valid and continue. Again, Mr. Su’s Undertaking remains to be a contractual undertaking and the Company can only rely on Mr. Su to act in good faith in the compliance of his undertaking. There is no assurance that Mr. Su will be abide by the terms of Mr. Su’s

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Undertaking. It is possible that Mr. Su may breach Mr. Su's Undertaking and this is beyond the control of the Company as the Shares indirectly held by Mr. Su are not controlled by the Company. He may dispose of his securities interests in the Company without seeking any valid consents from the Company and in the event that his shareholding in the Company decreases to below 50%, the current VIE Structure of the P2P lending business may become ineffective or illegal when the Draft Law comes into force.

Upon the implementation of the Revised Business Model, the relevant regulation regarding the contractual arrangements under the Draft Law, even if enacted, will not apply to the Katar Global Group, and hence Mr. Su's Undertaking shall be allowed to be terminated. This will remove the potential legal and contractual risks relating to the VIE structure of the existing business model and Mr. Su's Undertaking and more importantly, the Company will no longer be subject to any further unnecessary constraints or the need to secure any single Shareholder's (i.e. Mr. Su) agreement and cooperation in any future equity financing activities, if and when required.

We consider that the termination of Mr. Su's Undertaking upon the implementation of the Revised Business Model could reduce the inherent risks associated with Mr. Su's Undertaking and enhance the financing flexibility of the Company for future fund raising, which is beneficial to the future business operations and development of the Group. As such, we are of the view that Mr. Su's Undertaking Termination is fair and reasonable so far as the Independent Shareholders are concerned.

### 6. Implementation of the Revised Business Model and the Mr. Su's Undertaking Termination

Implementation of the Revised Business Model shall not proceed without the passing by the Independent Shareholders a resolution at the SGM to approve the Revised Business Model and the transactions contemplated thereunder, the entering into of the Beijing JuXin Cooperation Agreement/Cooperation Agreement, the revocation of the Group's ICP licence and the unwinding of the Structured Contracts.

Mr. Su's Undertaking Termination shall not proceed without the passing by the Independent Shareholders a resolution at the SGM to approve Mr. Su Undertaking Termination and the transactions contemplated thereunder and the Independent Shareholders' approval of the Revised Business Model at the SGM and the Revised Business Model having become effective.

The Revised Business Model and the Mr. Su's Undertaking Termination and the Revised Special Deals are not inter-conditional with each other.

The entering into of the Beijing Juxin Cooperation Agreement/Cooperation Agreement and the transactions contemplated thereunder is not subject to any regulatory approval.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The revocation of the Group's ICP license is subject to the approval by the Ministry of Industry and Information Technology of the PRC. Subject to the revocation of the Group's ICP license, the termination of the New Structured Contracts is not subject to any regulatory approval in the PRC.

In the event that the resolutions at the SGM to approve the Revised Business Model, Mr. Su's Undertaking Termination and the transactions contemplated thereunder are not approved by the Independent Shareholders, the New Business Model Proposal will not become effective, the Group will continue on the Existing Business Model which the online components of the Group's P2P lending business comprising (a) account registration for potential lenders/investors and accepting deposits by registered lenders/investors; and (b) the Online Matching Services business will continue to be provided through the Caijia Website under the "Caijia" brand managed by Beijing Huiju Management which is a variable interest entity controlled by the Company through the New Structured Contracts. As disclosed in the paragraph headed "The Offeror's Undertaking", subject to the Sale and Purchase Completion and the existing Structured Contracts being valid and subsisting, the Offeror will provide the Offeror's Undertaking for the purpose of the Draft Law.

### 7. Termination of the Company's undertaking

Upon the Mr. Su's Undertaking Termination, the relevant agreement regarding the enforcement of Mr. Su's Undertakings by the Company (the "**Company's Undertaking**") to Mr. Su will no longer apply, and hence, the Company's Undertaking to procure Mr. Su to comply with the Mr. Su's Undertaking is no longer necessary which shall be allowed to be terminated.

Accordingly, we consider that the Company will not be liable for the Company's Undertaking as a result of Mr. Su's Undertaking Termination, and thus reducing its risks. Therefore we are of the view that the termination of the Company's Undertaking is fair and reasonable so far as the Independent Shareholders are concerned.

### 8. Legal opinion from the Group's PRC Legal Adviser

The Company obtained legal opinions issued by Jingtian & Gongcheng (the "**PRC legal adviser**") on 10 March 2016, 18 April 2016 and 21 April 2016 respectively (the "**First Opinions**"). In the First Opinions, the PRC legal adviser agrees that Beijing Huiju Management and the ICP OPCOs under the Cooperation Agreement(s) have no "control" relationship and the businesses operation under the Cooperation Agreement do not involve the "legal form concealing illegal intention" defined in the Contract Law of China. Upon the entering into of the Cooperation Agreement, the Group will not directly or indirectly operate website or provide value-added telecommunication services. The business scope of the Company will no longer involve any operational internet content service, it will not require the Structured

Contracts or the New Structure Contracts (as the case may be) and holding of the ICP license. (i) The material for the promotion of the “Caijia” brand P2P lending business provided by Beijing Huiju Management, designing of the website is not related to the definition of “網路出版物” under the regulations of “網路出版服務管理規定”; and (ii) the services provided by Beijing Huiju Management to Beijing JuXin Management does not involve the definition of “網路出版服務” under the regulations of “網路出版服務管理規定”. After the revocation of the Beijing Huiju Management and its subsidiaries’ ICP license, Beijing Huiju Management can become a subsidiary of Beijing Huiju Financial. Upon the termination of the remaining New Structured Contracts, the relevant regulation regarding the contractual arrangement under the Draft Law, even if enacted, will not apply to the Katar Global Group.

As disclosed in 2015 VSA Circular, the Circular on Strengthening the Administration of Foreign Investment in Value-added Telecommunications Services issued by the Ministry of Industry and Information Technology of the PRC (the “MIIT”) on 13 July 2006 (the “MIIT Circular”) prohibits a domestic company that holds an ICP licence from leasing, transferring or selling the licence to foreign investors in any form, and from providing any assistance, including providing resources, sites or facilities, to foreign investors to provide ICP services illegally in the PRC. Under the Cooperation Agreement, Beijing Huiju Management mainly conducts the offline business promotion, offline approval and management of loans, bad debt arrangement and the design of website products, training services and internet information technology support and consultation while the ICP OPCO(s) mainly engaged in the registration of the investors’ details and matching of the lenders and borrowers business. Also, Beijing Huiju Management allows the ICP OPCO(s) to use its registered “Cajia” trademark. The Cooperation Agreement has definite content of service, rights and responsibilities for Beijing Huiju Management and the ICP OPCO(s), the Cooperation Agreement does not violate the “leasing, transferring or selling the licence” under the MIIT Circular.

On 29 September 2016, the Company also obtained another PRC legal opinion (the “**Second Opinion**”) from King & Wood Mallesons (being “**the Group’s PRC Legal Adviser**”) and the Second Opinion essentially agrees with the First Opinions and concludes, on the premises that the parties comply with the Cooperation Agreement entered between the Beijing Huiju Management and the ICP OPCO(s), the Revised Business Model is basically referring to the Operating Subsidiaries providing outsourced services to the ICP OPCO(s) and does not amount to “leasing of ICP licence” as defined in the MIIT Circular and does not fall under the definition of “網路出版服務管理規定”. Since it has been confirmed by the Group’s PRC Legal Adviser that upon the termination of the remaining New Structured Contracts, the relevant regulation relating to the contractual arrangements under the Draft Law will not apply to the Group’s P2P lending business and in these circumstances, Mr. Su’s Undertaking, which was given purely to ensure compliance with the Draft Law, should no longer be required.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Upon the termination of the remaining New Structured Contracts, the relevant regulation regarding the contractual arrangement under the Draft Law, even if enacted, will not apply to the Katar Global Group, and hence Mr. Su's Undertaking shall be allowed to be terminated.

We consider that the Company has procured enough consultation on the legal compliance of the Revised Business Model to ensure that the Cooperation Agreement complies with relevant PRC laws and it does not violate the regulations of “網路出版服務管理規定” dated 14 February 2016 published by Ministry of Industry and Information Technology of the PRC. As such, based on the legal opinion from two legal advisers, namely, Jingtian & Gongcheng and King & Wood Mallesons, we are of the view that, from the legal and compliant perspective, the New Business Model Proposal is fair and reasonable so far as the Independent Shareholders are concerned.

*(D) Overview of the risks specific to the Existing Business Model and Revised Business Model*

Upon the adoption of the Revised Business Model, the existing role and function of Beijing Huiju Management and the Caijia Website will be shifted to and taken up by the ICP OPCO(s) and the branded website(s)/webpage(s) operated pursuant to the terms of the Cooperation Agreement(s). Beijing Huiju Management will then not be required to hold and maintain its ICP licence and the VIE Structure is no longer required. Accordingly, it is proposed that following the adoption of the Revised Business Model: (1) Beijing Huiju Management shall apply for the revocation of its ICP licence; (2) the Group shall then exercise its option under the New Exclusive Option Agreement to acquire the entire equity interest in Beijing Huiju Management at a consideration of nil or nominal value, or the minimum price permitted by PRC laws; and (3) the remaining New Structured Contracts shall be terminated.

As the Group will no longer own or control, whether directly or indirectly, any part of the business or economic interests of the ICP OPCO(s) through any contractual arrangements under the Revised Business Model, the VIE Structure and the New Structured Contracts required under the Existing Business Model, following its termination, will not be replicated for the purpose of the Revised Business Model.



## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

### 1. Risks specific to the Existing Business Model

Under the Existing Business Model, the risks attributable to the indirect control obtained through New Structured Contracts, include that (i) the Registered Shareholders may act in breach of the New Structured Contracts; (ii) the uncertainties in the PRC legal system may limit the ability of the Group to enforce the New Structured Contracts; (iii) there is a possibility that the Ministry of Commerce of the PRC and other competent authorities may have different opinions on the interpretation of the relevant regulations, and thus may deny the validity, effectiveness and enforceability of the New Structured Contracts; and (iv) it is possible that any New Structured Contracts that provide de facto control may be deemed illegal or even void when the Draft Law comes into effect, notwithstanding Mr. Su's Undertaking. The ineffective control over Beijing Huiju Management under the Existing Business Model might have a material adverse impact on the business, financial condition and results of operations of the Group's P2P lending business.

Apart from the abovementioned risks attributable to the New Structured Contracts under VIE Structure, the Company also exposes to the potential risks arising from the Mr. Su's Undertaking. It is possible that Mr. Su may breach Mr. Su's Undertaking and this is beyond the control of the Company as the Shares indirectly held by Mr. Su are not controlled by the Company. Also, for the purpose of the Draft Law, the Company has undertaken to enforce Mr. Su's Undertaking, pursuant to which Mr. Su is required to maintain "control" of the Company (currently being not less than 50% of the issued share capital of the Company). To maintain the effectiveness of Mr. Su's Undertaking, the Company's freedom and ability to raise funds to finance its operation and/or further business opportunities through equity financing will be greatly hampered.

However, under the Revised Business Model, the termination of the existing VIE Structure and Mr. Su's Undertaking can eliminate all the above mentioned risks specific to the Existing Business Model. Considering that (i) Beijing Huiju Financial will have a direct ownership of Beijing Huiju Management, and Beijing Huiju Financial will be able to directly exercise its rights as a shareholder to effect changes in the board of directors of Beijing Huiju Management; (ii) the Group is no longer subject to the uncertainties under the VIE Structure through the New Structured Contracts; (iii) the Group no longer exposes to the counterparty risk of Mr. Su; and (iv) the Group can have the freedom to raise funds to finance its operation and/or further business opportunities through equity financing, we are of the view that the adoption of the Revised Business Model is in the interests of the Company as well as the Independent Shareholders.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

### 2. Risks specific to the Revised Business Model

Under the Revised Business Model, the Company will also, no doubt, expose to a number of risks, which are, however, avoidable and controllable as compared to the risks specific to the Existing Business Model. As set out in the Board's Letter, we noted that the Company intends to adopt corresponding measures to mitigate the risks specific to the Revised Business Model:

Risks specific to the Revised Business Model	Corresponding measures would be adopted by the Company	Our analysis and view
<p>(a) Under the Cooperation Agreement(s), the Group will not seek to control or own the business and economic interests of the ICP OPCO(s). The website/webpage and the Online Matching Services will be operated and provided by the ICP OPCO(s) independently, subject only to the terms of the Cooperation Agreement(s). The accessibility and quality of the website/webpage and/or the Online Matching Services so provided by the ICP OPCO(s) may fall short of the standards required by the Group and the ICP OPCO(s) may also default in the performance of its obligations under the Cooperation Agreement(s).</p>	<p>(i) The Group is highly selective in choosing and admitting an ICP OPCO(s) as its business partner for the P2P lending business. There are detailed screening procedures taking into account a number of factors including the professional qualifications, experience and expertise, financial strength and credibility, personal and business ethics and integrity, business reputation and record of the ICP OPCO(s) candidate and its shareholder(s) and management team. Only those ICP OPCO(s) that possess proven experience and business records who are committed to provide the highest possible quality services will be engaged by the Group as the business partners.</p>	<p><i>We are of the view that through a strict procedure in assessing the candidate of providing the service of Online Matching Services, the Company could ensure that the performance level and the quality of services provided by ICP OPCO(s) live up to the standard required by the Group.</i></p>
	<p>(ii) The Group will provide all necessary trainings and technical supports to the ICP OPCO(s) to ensure the quality of the website/webpage and the Online Matching Services are up to the required performance levels and operational standards.</p>	<p><i>We are of the view that the measure is effective in mitigating the risk in the sense that it can minimise the default risk of the ICP OPCO(s) and thus ensure their performance in compliance with the obligations under the Cooperation Agreement(s).</i></p>

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Risks specific to the Revised Business Model	Corresponding measures would be adopted by the Company	Our analysis and view
	<p>(iii) The following safeguards which have been/will be incorporated in the operating flow and/or the Cooperation Agreement(s):</p> <ul style="list-style-type: none"> <li>- The ICP OPCO(s) is/are required to operate the website and to provide the Online Matching Services in accordance with the performance levels (covering areas like hardware, network and software requirements, customer registration and account management, support, maintenance and service levels) and operational standards (covering areas like network security, system uptime, general respond and repair provisions) prescribed in the Cooperation Agreement(s) in order to maintain and protect the integrity, value and business reputation of the “Caijia” brand and the P2P lending business operated thereunder.</li> <li>- The ICP OPCO(s) is/are required to provide a monthly report to the Group providing information in sufficient detail to demonstrate its compliance with its obligations under the Cooperation Agreement(s).</li> </ul>	<p><i>After reviewing the Beijing JuXin Cooperation Agreement, we are of the view that the performance levels determined provides the Company an objective basis to assess the performance of the ICP OPCO(s). A strict reporting system can also ensure the Online Matching Service provided by the ICP OPCO(s) in compliance with its obligations under the Cooperation Agreement(s). We believe that timely reporting would ensure timely remedial action, if any, could be taken by the Company in case non-compliance by the ICP OPCO(s) arise.</i></p>

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Risks specific to the Revised Business Model	Corresponding measures would be adopted by the Company	Our analysis and view
<p>(b) The ICP OPCO(s) may have acquired significant level of business knowledges (including the identities of lenders, borrowers and methods on operating the business model) in operating a P2P platform after cooperating with the Group. It is possible that the ICP OPCO(s) will leak such knowledge to the Group's competitors in exchange for economic benefits or even start a new business similar to the Group's P2P lending business and become a direct competitor, which may undermine the Group's P2P lending business's customer base and profitability.</p>	<p>(i) Under the Revised Business Model, the Operating Subsidiaries will continue to be responsible for identifying borrowers and carrying out the credit assessments. The databases and records of both the borrowers and lenders also belong to the Operating Subsidiaries. The online platform of the ICP OPCO(s) forms only a part of the whole operating chain. Without the efforts of and support as provided by the Operating Subsidiaries, the operation of the online platform alone cannot provide the required services to compete against the Group's P2P lending business.</p>	<p><i>The Online Matching Service only covers the internet technology related procedures including customers' online registration and matching, technical support and maintenance for network security, system uptime, etc. In the sense that the core value of the business of online money lending business has to do with other matters including but not limit to credit assessment of lenders, identification of borrowers and capital resources for back up, etc., the know-how of internet technology standalone will not cultivate the ICP OPCO(s) the competing capability (which might pose a threat to the Group's P2P lending business).</i></p> <p><i>Thus, we consider the limited extent of the Online Matching Service minimise the risk of leaking knowledge of the business of online money lending.</i></p>

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Risks specific to the Revised Business Model	Corresponding measures would be adopted by the Company	Our analysis and view
	<p>(ii) The loan agreements will be entered into by the borrower, the lender/investor, the ICP OPCO(s) and the Group. All loan agreements are in standardized form and all settlements will be handled by Union Mobile Pay Co., Ltd, an independent third party company. Such setup can ensure that the Group will receive its share of management and service fees and that the ICP OPCO(s) is only able to collect its own fees in accordance with the payment terms of the loan agreements so that the interests of the lenders, borrowers and the Group will not be affected even if there is any default by the ICP OPCO(s) or any untoward circumstance in relation to the website/webpage and/or the Online Matching Services.</p>	<p><i>We consider the engagement of a third party in the provision of the service related to the loan agreements and settlements can diversify the default risk arising from ICP OPCO(s) since the extent of Online Matching Service is limited. In the event that ICP OPCO(s) defaults, all the settlement can still proceed, which will not adversely affect the financial position of the Company.</i></p>

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Risks specific to the Revised Business Model	Corresponding measures would be adopted by the Company	Our analysis and view
	<p>(iii) To avoid any actual or potential conflict of interest and unfair competition from the ICP OPCO(s), at any time during the continuance of the Cooperation Agreement(s) and for a period of two (2) years after its termination, the ICP OPCO(s) will be prohibited from (i) carrying on or engaging, concerning or having any interest, whether on its own account or in conjunction with or on behalf of any person, firm, company or organization, and whether as principal, agent, shareholder, director, partner or otherwise, directly or indirectly, in any business which is or may be in competition with or similar to the P2P lending business in the PRC; (ii) solicit or persuade any person or corporation who has been a customer or client of the P2P lending business of the Group within two (2) years prior to the termination of the Cooperation Agreement(s) to have business dealings in P2P lending business with it or cease to have business dealings with the Group's P2P lending business.</p>	<p><i>It is a common market practice of adopting anti-competitive covenants in the cooperation agreements to prohibit the ICP OPCO(s) from being a competitor to the Company. We consider it is in the interests of the Company and the Independent Shareholders.</i></p>

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Risks specific to the Revised Business Model	Corresponding measures would be adopted by the Company	Our analysis and view
(c) The Company may face the risk of over-reliance on any single website for the provision of the Online Matching Service.	(i) It is the Group's plan to enter into further Cooperation Agreement(s) of similar terms with other ICP OPCOs as and when appropriate.  To reduce and mitigate any risks of over-reliance on any single website for the provision of the Online Matching Services, the Group will continue to enter into Cooperation Agreements with other suitable ICP OPCOs. This will also help the Group in expanding its presence and market share in the P2P lending business.	<i>We were advised by the management of the Company that, save for Beijing JuXin Management, the Company had approached three ICP OPCOs by proposing the similar terms as those in Beijing JuXin Cooperation Agreement for exploring the opportunity of cooperation in order to minimise the risk of over-reliance on Beijing JuXin Management. Three ICP OPCOs expressed preliminary interests in the proposed collaboration. Save for the preliminary interests expressed by the three ICP OPCOs, there is no material updates in the current status of the negotiation with the three ICP OPCOs, as advised by the management of the Company. For our due diligence purpose, we have reviewed the list of the ICP OPCOs that approached by the Company and we hereby confirm their validity of ICP licence as at the Latest Practicable Date with reference to the website of MIIT (<a href="https://tsm.miit.gov.cn/">https://tsm.miit.gov.cn/</a>).</i>

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Risks specific to the Revised Business Model	Corresponding measures would be adopted by the Company	Our analysis and view
	<p>The Group does not have to rely on any single ICP OPCO or any single website to carry on its business under the Revised Business Model. In addition to the Cooperation Agreement, the Group may enter into further cooperation agreements with other suitable ICP OPCOs in the future to reduce and mitigate any risks of over-reliance on any single website for the provision of the Online Matching Services and to help expanding the Group's market share in the P2P lending business. The Group is still in discussion on terms similar to those of the Cooperation Agreement proposed to be entered into with Beijing JuXin Management with other ICP OPCOs and no legally binding agreements in relation to terms similar to those of the Cooperation Agreement have been entered between the Group and the other ICP OPCOs as at the Latest Practicable Date.</p>	<p><i>In addition, we noted that Beijing JuXin Management is granted with the ICP licence in Beijing, the PRC. According to the website of Beijing Communications Administration (<a href="http://www.bca.gov.cn">www.bca.gov.cn</a>), the latest two lists of the ICP licence issued on 9 June 2017 have summarised that (i) up to 28 October 2016, there were over 5,000 ICP OPCOs granted with ICP licence in Beijing, the PRC, where Beijing JuXin Management is one of them; and (ii) starting from 1 November 2016 up to 9 June 2017, there were over 1,000 ICP OPCOs newly granted with the ICP licence in Beijing, the PRC. Apart from those ICP OPCOs in Beijing, there are many other ICP OPCOs throughout other provinces in the PRC.</i></p> <p><i>Given that (i) the preliminary interests expressed by three ICP OPCOs; and (ii) there are numerous ICP OPCOs in the market, we believe that the Company can readily find the substitutes of the ICP OPCO(s) to provide the service in the event that the Company terminates the cooperation with Beijing JuXin Management, which reduces the over-reliance risk on a single one ICP OPCO.</i></p>

Based on the above, we concur with the Board's view that the above measures to be adopted by the Company are effective in limiting the extent of the effect arising from the abovementioned risks. In view of (i) the risks specific to the Existing Business Model will be eliminated; and (ii) the controllable risks under the Revised Business Model can be mitigated by the measures adopted by the Company, we are of the view that the Revised Business Model is fair and reasonable and in the interests of the Company and Independent Shareholders.



## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

### (E) *Financial Effect of the Revised Business Model*

As disclosed in the Board's Letter, the adoption of the Revised Business Model will have no adverse effect to the Group's revenue while the service fees paid to ICP OPCO(s) will have minimal effect on the overall profitability of the Group's P2P lending business. However the service fee of 0.55% of total amount of loan successfully matched between investors and borrowers through the online platform of the ICP OPCO was determined after arm's length negotiations between Beijing Juxin Management and the Group. The Company has made the enquiry with other ICP OPCOs but since the business models of those companies which engaged in P2P lending business are commercial secrets and there is no public information available, the Company is unable to obtain the market details.

The Group has estimated the operating costs of a typical ICP OPCO based on its experience in Beijing Huiju Management and henceforth the net profit margin of the ICP OPCO under the Cooperation Agreement to be approximately 4% to 6%. Under the existing business model, Beijing Huiju Management is the entity that provides the Online Matching Services, and for the years 2013, 2014 and 2015, the net profit margins were -32%, 3% and 8% respectively. Accordingly, the Board considers that the service fee rate is fair and reasonable.

Assuming that the Cooperation Agreement had been entered into between the Katar Global and the ICP OPCO(s) and service fees of 0.55% of total amount of loan successfully matched through the on online platform(s) had been paid to the ICP OPCO(s) since 2013, the financial results of the Katar Global Group would be as follows:

	For the year ended 31 December 2016 <i>HKD'000</i>	For the year ended 31 December 2015 <i>HKD'000</i>	For the year ended 31 December 2014 <i>HKD'000</i>	For the year ended 31 December 2013 <i>HKD'000</i>
Profit/(loss) for the year	310,416 <i>(Note 1)</i>	87,097 <i>(Note 1)</i>	11,019 <i>(Note 1)</i>	(7,328) <i>(Note 1)</i>
Add: saving of operating costs of Katar Global's online platform, net of tax	9,752	4,708	2,288	1,281
Less: service fees paid to ICP OPCO(s), net of tax <i>(Note 2)</i>	(5,992)	(5,256)	(5,115)	(653)
Projected profit/(loss) for the year	314,176	86,549	8,192	(6,700)
Increase/(decrease) in profit/2013: decrease in loss	3,760	(548)	(2,827)	628

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Notes:

1. The figures are extracted from the audited results of the Katar Global Group.
2. Service fees calculated at 0.55% of total amount of loan successfully matched between investor and borrower through the online platform. The calculation is shown in the following table.

		For the year ended 31 December 2016 <i>HKD'000</i>	For the year ended 31 December 2015 <i>HKD'000</i>	For the year ended 31 December 2014 <i>HKD'000</i>	For the year ended 31 December 2013 <i>HKD'000</i>
Total amount of loan successfully matched	A	1,452,569	1,274,114	1,239,939	158,385
Service fees paid to ICP OPCO(s), net of tax	B=A*0.55%* (1-25%)	5,992	5,256	5,115	653

*Note:* There were mild increase in amount of loan successfully matched from year 2014 to year 2015. As over 50% of amount of loan successfully matched in year 2014 were arisen from last quarter of 2014, majority portion of monthly service fee and management fee charged to borrowers and lenders/investors from loan arisen from 2014 were recognised in year 2015 and caused significant increase in profit for the year in year 2015 compared with year 2014, even though the loan amount did not increase in the same extent.

Although the profits of the P2P lending business may to a certain extent be affected by the payment of service fees to the ICP OPCO(s), as elaborated above, the effect would be minimal and the P2P lending business will remain to be profitable (except for year 2013).

In view that the Katar Global Group commenced its business in May 2013 as disclosed in 2015 VSA Circular, we consider that it is not applicable to take into account the financial result for the year ended 31 December 2013 as it did not reflect a full-year figure for the purpose of our analysis. Further, with reference to the note below the above table, as majority portion of monthly service fee and management fee charged to borrowers and lenders/investors from loan arisen from 2014 were recognised in year 2015, we consider that the figure for each of the year ended 31 December 2014 and 2015 might be distorted when being reviewed independently since the revenue for the year ended 31 December 2014 is under-estimated and the revenue for the year ended 31 December 2015 is over-estimated. In avoidance of such distortion, we try to calculate the percentage decrease in profitability with reference to the average profit for the two years ended 31 December 2015 and the average decrease in profit for the two years ended 31 December 2015. By dividing the average decrease in the profit (being HK\$1,687,500, which is the average of HK\$2,827,000 and HK\$548,000) by the average profit of the Katar Global Group for the year (being HK\$49,058,000, which is the average of HK\$11,019,000 and HK\$87,097,000), the Service Fee lowers the average profitability of the Katar Global Group by approximately 3.44% on average for the two years ended 31 December 2015. As for the year ended 31 December 2016, the Service Fee increases the profitability of the Katar Global Group by approximately 1.21% (as calculated by dividing the increase in the profit (being approximately HK\$3,760,000) by the profit

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

of the Katar Global Group for the year (being approximately HK\$310,416,000)). As advised by the management of the Company, such increase in the profitability for the year ended 31 December 2016 was mainly attributable to the reduction in the operating cost as a result of engaging Beijing JuXin Management, which comprises (i) the one-off payment in upgrading the system of the online platform as recorded in the financial statement will be added back as the Company will not be needed to incur such cost; and (ii) the reduction in the remuneration paid to the technical personnel responsible for maintenance of the online platform, whereas these costs and expenses are responsible by Beijing JuXin Management independently in operating the website under the Revised Business Model. Therefore, we noted that the effect of the Service Fee on the profit of the Katar Global Group for the year ranges from -3.44% to 1.21%. Taking into account that the above variation of the effect on profitability is not material, we consider such financial effect acceptable since, after the adoption of the Revised Business Model, the Company can eliminate the risks arising from the VIE Structure as analysed in the section headed "Overview of the risks specific to the Existing Business Model and Revised Business Model" above, which can in turn prevent the Company from suffering the potential loss under the Existing Business Model, which may be even tremendously greater than the cost of paying 0.55% of total amount of loan successfully matched between investors and borrowers through the online platform of the ICP OPCO.

Therefore, we consider the financial effect is acceptable while taking other factors into account as a whole.

### *(F) Conclusion*

As discussed above, in the event that the resolution approving the New Business Model Proposal and the transactions contemplated thereunder is passed and the Revised Business Model becomes effective, the consequences can be summarised as follows:

- i. the VIE Structure and New Structured Contracts will terminate and all the risks specific to the Existing Business Model will be eliminated;
- ii. the Company will acquire the entire equity interest in Beijing Huiju Management;
- iii. the Online Matching Services now provided through the Caijia Website will be outsourced to Beijing JuXin Management through entering into the Beijing JuXin Cooperation Agreement
- iv. the Group will revoke its ICP licence; and
- v. Mr. Su's Undertaking will terminate and thus Company's undertaking to enforce Mr. Su's Undertaking will also terminate; meanwhile the Offeror will not be required to provide the Offeror's Undertaking to the Company.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

However, in the event that the resolution approving the New Business Model Proposal and the transactions contemplated thereunder is not passed or the Revised Business Model could not become effective, the Group will continue on the Existing Business Model and Mr. Su's Undertaking will continue to be valid and remain in full force and effect. The Group will continuously be exposed to the risks specific to Existing Business Model as discussed in the above section headed "(D) Overview of the risks specific to the Existing Business Model and Revised Business Model".

Taking into account the pros and cons as analysed above and that (i) the risks specific to the Existing Business Model will be eliminated; (ii) the controllable risks under the Revised Business Model can be mitigated by the measures adopted by the Company; (iii) the terms in the Beijing JuXin Cooperation Agreement are on normal commercial terms; and (iv) the financial effect of adopting the Revised Business Model is acceptable, we are of the view that the New Business Model Proposal is fair and reasonable and in the interests of the Company and Independent Shareholders.

### OPINION AND RECOMMENDATION

Having considered the abovementioned principal factors and reasons, we are of the view that the Revised Special Deals and the New Business Model Proposal and the transactions contemplated thereunder respectively are fair and reasonable and in the interests of the Company and the Shareholders as a whole. The terms of the Revised Special Deals and the New Business Model Proposal are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the ordinary resolution(s) to approve the Revised Special Deals and the New Business Model Proposal and the transactions contemplated thereunder respectively at the SGM.

Yours faithfully,  
For and on behalf of

**Royal Excalibur Corporate Finance Company Limited**

**Kevin Chan**

*Director*

*Mr. Kevin Chan is a person licensed to carry out Type 6 (advising on corporate finance) regulated activity under the SFO and regarded as a responsible officer of Royal Excalibur Corporate Finance Company Limited who has over 18 years of experience in corporate finance industry.*

## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. 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

### (i) Interests of the Directors or chief executive of the Company

As at the Latest Practicable Date, none of the Directors and chief executive of the Company had any interests or short positions in the existing Shares, underlying shares and debentures of the Company and 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 are deemed or taken 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 referred to therein or which were required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules to be notified to the Company and the Stock Exchange.

### (ii) Interests of the substantial Shareholders

As at the Latest Practicable Date, so far as is known to the Directors and the chief executive of the Company, the following person had an interest or short position in the Shares and underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at a general meeting of any member of the Group:

Name	Capacity and nature of interest	Number of Shares held (Position)	Percentage of the Company's issued share capital (%)
Mr. Su Weibiao	Held by controlled corporation	13,621,219,755 (Long)	351.96
Allied Summit (Note 1)	Beneficial owner	13,621,219,755 (Long)	351.96
The Offeror (Note 2)	Beneficial owner	2,128,560,000	55.00

*Notes:*

- (1) Allied Summit is owned as to 80% by Mr. Su and as to remaining 20% by Mr. Ng.
- (2) On 27 August 2016, the Shares Vendor, the Offeror and the Guarantor entered into the Sale and Purchase Agreement (as amended and supplemented by the Supplemental Sale and Purchase Agreement dated 4 October 2016 and the Second Sale and Purchase Agreement dated 15 November 2016 and amended and restated by the Amendment and Restatement Amendment dated 7 June 2017), pursuant to which the Offeror has conditionally agreed to purchase and the Shares Vendor has conditionally agreed to sell, the 2,128,560,000 Sale Shares, representing approximately 55.00% of the entire issued share capital of the Company as at the Latest Practicable Date.

Save as disclosed above, the Directors or chief executive of the Company are not aware of any party who, as at the Latest Practicable Date, had, or were deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

### 3. DIRECTORS' INTERESTS

As at the Latest Practicable Date, none of the Directors had any interests, either directly or indirectly, in any assets which had been acquired or disposed of by or leased to any member of the Group, or which were proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2015, the date to which the latest published audited consolidated accounts of the Group were made up.

As at the Latest Practicable Date, there was no contract or arrangement subsisting in which any Director was materially interested and which was significant in relation to the business of the Group.

### 4. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors nor their respective associates had an interest in any business apart from the Group's business which competes or is likely to compete, either directly or indirectly, with the Group's business.

### 5. LITIGATION

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

### 6. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with any member of the Group other than contracts expiring or determinable by the Group within one year without payment of compensation (other than statutory compensation).

## 7. EXPERTS AND CONSENTS

The followings are the qualification of the experts who have given opinions or advice contained in this circular:

Name	Qualification
Veda Capital Limited ("Veda")	a corporation licensed to carry out business in type 6 (advising on corporate finance) regulated activity under the SFO
Royal Excalibur	a corporation licensed to carry out business in type 6 (advising on corporate finance) regulated activity under the SFO

Each of Veda and Royal Excalibur has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its advice or report, as the case may be, and reference to its name in the form and context in which they are respectively included.

As at the Latest Practicable Date, each of Veda and Royal Excalibur was not beneficially interested in the share capital of any member of the Group nor did they 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, each of Veda and Royal Excalibur did not have any direct or indirect interest in any assets which have been acquired, disposed of by or leased to, or which were proposed to be acquired, disposed of by or leased to, any member of the Group since 31 December 2016 (the date to which the latest published audited financial statements of the Company were made up).

## 8. MATERIAL CONTRACTS

The following contracts have been entered into by the Group (not being contracts entered into in the ordinary course of business) within the two years immediately preceding the Latest Practicable Date and are or may be material:

- (i) the 2015 VSA Sale and Purchase Agreement (as supplemented by the supplemental agreement dated 10 July 2015) entered into among the Company, Allied Summit and Mr. Su on 20 May 2015 in relation to the acquisition of 96% of the entire issued share capital of Katar Global Group from Allied Summit by the Group for a consideration of HK\$2,400 million, subject to adjustment and retention pursuant to the Guaranteed Profit;
- (ii) the Securities Business Disposal Agreement entered into between the Company as vendor and the Securities Business Purchaser as purchaser on 8 August 2016 in relation to the disposal of 100% of the entire issued share capital of Glory Creator by the Company to the Securities Business Purchaser for a consideration of HK\$12,850,000;

- (iii) the Listed Shares Disposal Agreement entered into between the Company as vendor and the Listed Shares Disposal Purchaser as purchaser on 27 August 2016 (as amended and supplemented by the Supplemental Listed Shares Disposal Agreement) in relation to the disposal of the IPIH Sale Shares and the KPM Sale Shares at an aggregate consideration of HK\$776,342,000;
- (iv) the Supplemental Listed Shares Disposal Agreement entered into between the Company and the Listed Shares Disposal Purchaser on 4 October 2016 to amend certain terms of the Listed Shares Disposal Agreement;
- (v) the CN Modification Deed entered into between the Company and the CN Holder on 27 August 2016 (as amended and supplemented by the First Supplemental CN Modification Deed and the Second Supplemental CN Modification Deed) in relation to the proposed amendment of certain terms and conditions of the Convertible Notes;
- (vi) the First Supplemental CN Modification Deed entered into between the Company and the CN Holder on 4 October 2016 in relation to the amendment of certain terms of the CN Modification Deed;
- (vii) the CN Transfer Agreement entered into among the Shares Vendor, CN Chargor and the Guarantor on 27 August 2016 (as amended and supplemented by the Supplemental CN Transfer Agreement and the Second Supplemental CN Transfer Agreement) in relation to the sale and purchase of the Convertible Notes (if applicable, as amended by the CN Modification Deed) in aggregate at the maximum consideration of HK\$2,182,400,000;
- (viii) the Supplemental CN Transfer Agreement entered into between the Shares Vendor, the CN Chargor and the Guarantor on 4 October 2016 in relation to the amendment of certain terms of the CN Transfer Agreement;
- (ix) the Second Supplemental CN Transfer Agreement entered into between the Shares Vendor, the CN Chargor and the Guarantor on 15 November 2016 in relation to the amendment of certain terms of the CN Transfer Agreement;
- (x) the Second Supplemental CN Modification Deed entered into between the Company and the CN Holder on 7 June 2017 in relation to the amendment of certain terms of the CN Modification Deed;
- (xi) the Deed of CN Transfer Termination dated 31 March 2017 entered into between the Shares Vendor, the Previous CN Chargor and the Previous Guarantor to terminate the CN Transfer Agreement, the Supplemental CN Transfer Agreement and the Second Supplemental CN Transfer Agreement;



- (xii) the Deed of Listed Shares Disposal Termination dated 31 March 2017 entered into between the Company and the Listed Shares Disposal Purchaser to terminate the Listed Shares Disposal Agreement and the Supplemental Listed Shares Disposal Agreement; and
- (xiii) the New Structured Contracts.

## 9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the principal place of business of the Company in Hong Kong from 9:00 a.m. to 6:00 p.m. on any Business Day from the date of this circular up to and including the closing date of the SGM:

- (i) the Bye-laws of the Company;
- (ii) the annual reports of the Company for each of the three financial years ended 31 December 2014, 2015 and 2016;
- (iii) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out on pages 75 to 76 of this circular;
- (iv) the letter of advice from Royal Excalibur to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 77 to 130 of this circular;
- (v) the written consents referred to in the paragraph headed "Experts and consents" of this appendix;
- (vi) the material contracts referred to in the paragraph headed "Material contracts" in this appendix; and
- (vii) this circular.

## 10. MISCELLANEOUS

- (i) The registered office of the Company is situated at Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda and the principal office of the Company is situated at Units 3301-03, 33/F, West Tower Shun Tak Centre, 168-200 Connaught Road Central, Sheung Wan, Hong Kong.
- (ii) The Hong Kong branch share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17M/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.

- (iii) The company secretary of the Company is Ms. Zhang Tan Fung (“**Ms. Zhang**”). Ms. Zhang was appointed as the company secretary of the Company on 24 November 2014. She is a member of the Hong Kong Institute of Certified Public Accountants.
- (iv) In the event of any inconsistency, the English text of this circular shall prevail over the Chinese text.
- (v) The English translation of Chinese names in this circular, where indicated<sup>(#)</sup>, are included for information purpose only, and should not be regarded as the official English translation of such Chinese names.

## NOTICE OF SGM



### PACIFIC PLYWOOD HOLDINGS LIMITED

### 太平洋實業控股有限公司\*

*(Incorporated in Bermuda with limited liability)*

**(Stock code: 767)**

**NOTICE IS HEREBY GIVEN** that the special general meeting (the “SGM”) of Pacific Plywood Holdings Limited (the “Company”) will be held at Units 4202–03, 42nd Floor, The Center, 99 Queen’s Road Central, Hong Kong on Thursday, 27 July 2017 at 10:30 a.m. for the purpose of considering and, if thought fit, passing the following resolutions:

#### ORDINARY RESOLUTIONS

1. “THAT
  - (a) subject to the fulfillment of the conditions therein, the modification deed dated 27 August 2016 (as amended and supplemented by a supplemental deed thereto dated 4 October 2016 and a second supplemental deed thereto dated 7 June 2017) entered into between the Company and Allied Summit Inc. (the “CN Modification Deed”) in relation to the proposed amendment of certain terms and conditions of the convertible notes (the “Proposed CN Amendments”) in an aggregate outstanding principal amount of HK\$2,182,400,000 due in 2020 issued by the Company on 20 October 2015 (the “Convertible Notes”) (a copy of the CN Modification Deed has been produced to the SGM marked “A” and signed by the chairman of the SGM for the purpose of identification) and the transactions contemplated thereunder, be and are hereby approved, confirmed and ratified;
  - (b) subject to The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) consenting to the Proposed CN Amendments and that the Stock Exchange granting approval for the listing of, and permission to deal in, the Conversion Shares (as defined below), the issue of the Conversion Shares (as defined below) to the CN Holder(s) (as defined in the circular of the Company dated 6 July 2017 (the “Circular”)) upon the exercise of the conversion rights attached to the Convertible Notes be and are hereby approved and confirmed;
  - (c) the directors of the Company (the “Directors”) be and are hereby granted a specific mandate to allot and issue ordinary shares of HK\$0.001 each in the share capital of the Company (the “Conversion Shares”) at the conversion price of HK\$0.2 per Conversion Share (subject to adjustments according to the terms of the Convertible Notes (as amended modified or supplemented from time to time (including the

\* For identification purpose only

## NOTICE OF SGM

amendments pursuant to the Proposed CN Amendments) and any extension thereof)) upon exercise of the conversion rights attaching to the Convertible Notes; and

- (d) any one or more of the Directors be and is/are hereby authorised to do all such acts and things and execute all such documents which he/they consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the CN Modification Deed and the transactions contemplated thereunder, as are, in the opinion of the Directors, in the interest of the Company and its shareholders as a whole.”

### 2. “THAT

- (a) the first right granted by Allied Summit Inc. (the “**CN Chargor**”) to Huarong Financial Services Asset Management L.P. (the “**Offeror**”) that if the CN Chargor wishes to transfer or dispose of all or part of the Convertible Notes (as amended modified or supplemented from time to time (including the amendments pursuant to the Proposed CN Amendments) and any extension thereof) or any interests therein to any independent third party, the CN Chargor shall serve on the Offeror a notice in writing of its wish to do so and the Offeror may give notice in writing to the CN Chargor if it or its nominee intends to purchase the relevant Convertible Notes based on the same terms (the “**Right of First Offer**”) be and are hereby approved, confirmed and ratified; and
- (b) any one or more of the Directors be and is/are hereby authorised to do all such acts and things and execute all such documents which he/they consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the Right of First Offer and the respective transactions contemplated thereunder, as are, in the opinion of the Directors, in the interest of the Company and its shareholders as a whole.”

### 3. “THAT

- (a) the proposed adoption of the Revised Business Model (as defined in the Circular) by the Company in the operation of the P2P lending business and the transactions contemplated thereunder, be and are hereby approved, confirmed and ratified; and
- (b) any one or more of the Directors be and is/are hereby authorised to do all such acts and things and execute all such documents which he/they consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the Revised Business Model (as defined in the Circular) and the transactions contemplated thereunder, as are, in the opinion of the Directors, in the interest of the Company and its shareholders as a whole.”

## NOTICE OF SGM

4. “**THAT**

- (a) subject to the passing of the resolution number (3) above and the Revised Business Model (as defined in the Circular) having become effective, the termination of Mr. Su’s Undertaking (as defined in the Circular) be and is hereby approved, confirmed and ratified; and
- (b) any one or more of the Directors be and is/are hereby authorised to do all such acts and things and execute all such documents which he/they consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the termination of Mr. Su’s Undertaking (as defined in the Circular) and the transactions contemplated thereunder, as are, in the opinion of the Directors, in the interest of the Company and its shareholders as a whole.”

Yours faithfully,  
By order of the Board  
**Pacific Plywood Holdings Limited**  
**Huang Chuan Fu**  
*Executive Director and Chairman*

Hong Kong, 6 July 2017

*Registered office:*

Canon’s Court  
22 Victoria Street  
Hamilton HM 12  
Bermuda

*Head office and principal place  
of business:*

Units 3301–3303, 33/F  
West Tower Shun Tak Centre  
168–200 Connaught Road  
Sheung Wan  
Hong Kong

## NOTICE OF SGM

*Notes:*

1. In order to determine members who are entitled to attend and vote at the SGM, the register of members of the Company will be closed from Monday, 24 July 2017 to Thursday, 27 July 2017, both days inclusive, during which period no transfer of shares can be registered. All transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4: 30 pm on Friday, 21 July 2017.
2. A member entitled to attend and vote at the meeting of the Company convened by the above notice is entitled to appoint one or more proxy to attend and vote on his behalf. A member who is the holder of two or more shares and entitled to attend and vote at the meeting convened by the above notice is entitled to appoint more than one proxy to represent him and vote on his behalf. A proxy need not be a member of the Company.
3. To be valid, the form of proxy together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power or authority must be deposited at the office of the Company's branch share registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than Tuesday, 25 July 2017 at 10:30 a.m. (Hong Kong Time).
4. Delivery of an instrument appointing a proxy should not preclude a member from attending and voting in person at the above meeting or any adjournment thereof and in such event, the instrument appointing a proxy shall be deemed to be revoked.
5. In the case of joint holders of a share, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he/she/it were solely entitled thereto to. If more than one of such joint holders are present at the above meeting, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders. 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.
6. All of the above resolutions will be voted by way of poll at the SGM.
7. As at the date of this notice, the board of Directors comprises Mr. Huang Chuan Fu, Mr. Liang Jian Hua, Ms. Jia Hui and Mr. Jiang Yi Ren as the executive Directors; Mr. Wong Chun Hung, Mr. Zheng Zhen and Mr. To Langa Samuelson as independent non-executive Directors.