
THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold all your shares in Dongpeng Holdings Company Limited, you should at once hand this Scheme Document and the accompanying forms of proxy to the purchaser or to the licensed securities dealer or registered institution in securities or other agent through whom the sale was effected for transmission to the purchaser.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this Scheme Document, 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 Scheme Document.

Profit Strong Investments Limited

利堅投資有限公司

(Incorporated in the British Virgin Islands with limited liability)

Max Glory Ltd.

(Incorporated in the Cayman Islands with limited liability)



DONGPENG HOLDINGS COMPANY LIMITED

東鵬控股股份有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3386)

**PROPOSED PRIVATISATION OF DONGPENG HOLDINGS COMPANY LIMITED
BY THE JOINT OFFERORS
BY WAY OF A SCHEME OF ARRANGEMENT
(UNDER SECTION 86 OF THE COMPANIES LAW)**

Financial Adviser to the Joint Offerors



China International Capital Corporation Hong Kong Securities Limited

Independent Financial Adviser to the Independent Board Committee



Unless the context requires otherwise, capitalised terms used in this Scheme Document are defined under the section headed "Definitions" in Part I of this Scheme Document.

A letter from the Board is set out in Part IV of this Scheme Document. A letter from the Independent Board Committee, containing its advice to the Scheme Shareholders in relation to the Proposal is set out in Part V of this Scheme Document. A letter from Somerley Capital Limited, being the Independent Financial Adviser to the Independent Board Committee, containing its advice to the Independent Board Committee in relation to the Proposal is set out in Part VI of this Scheme Document. An Explanatory Memorandum regarding the Scheme is set out in Part VII of this Scheme Document.

The actions to be taken by the Shareholders are set out in the Part II of this Scheme Document.

Notices convening the Court Meeting and the EGM to be held on Friday, 10 June 2016 are set out in Appendix V and Appendix VI respectively to this Scheme Document. Whether or not you are able to attend the Court Meeting and/or the EGM or any adjournment thereof, you are strongly urged to complete and sign the enclosed pink form of proxy in respect of the Court Meeting and the enclosed white form of proxy in respect of the EGM, in accordance with the instructions printed thereon, and to lodge them 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, as soon as possible but in any event not later than the respective times and dates as stated under "Part II — Actions to be taken" of this Scheme Document. If the pink form of proxy is not so lodged, it may also be handed to the chairman of the Court Meeting at the Court Meeting who shall have absolute discretion as to whether or not to accept it.

This Scheme Document is issued jointly by Profit Strong, Max Glory and the Company.

The English language text of this Scheme Document shall prevail over the Chinese language text.

19 May 2016

TABLE OF CONTENTS

	<i>Page</i>
PART I — DEFINITIONS	1
PART II — ACTIONS TO BE TAKEN	8
PART III — EXPECTED TIMETABLE	11
PART IV — LETTER FROM THE BOARD	13
PART V — LETTER FROM THE INDEPENDENT BOARD COMMITTEE	24
PART VI — LETTER FROM THE INDEPENDENT FINANCIAL ADVISER	27
PART VII — EXPLANATORY MEMORANDUM	57
APPENDIX I — FINANCIAL INFORMATION ON THE COMPANY	I-1
APPENDIX II — GENERAL INFORMATION ON THE COMPANY AND THE JOINT OFFERORS	II-1
APPENDIX III — PROPERTY VALUATION REPORT	III-1
APPENDIX IV — SCHEME OF ARRANGEMENT	IV-1
APPENDIX V — NOTICE OF COURT MEETING	V-1
APPENDIX VI — NOTICE OF EXTRAORDINARY GENERAL MEETING	VI-1

PART I — DEFINITIONS

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

“acting in concert”	has the meaning ascribed to it in the Takeovers Code
“Authorisations”	necessary authorisations, registrations, filings, rulings, consents, opinions, permissions and approvals
“associates”	has the meaning ascribed to it in the Takeovers Code
“Beneficial Owner”	any beneficial owner of Shares
“Board”	the board of directors of the Company
“Cancellation Price”	the cancellation price of HK\$4.48 per Scheme Share payable in cash by the Joint Offerors to the Scheme Shareholders pursuant to the Scheme
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Participant”	a person admitted to participate in CCASS as a participant
“CICC”	China International Capital Corporation Hong Kong Securities Limited, the financial adviser to the Joint Offerors. CICC is a licensed corporation under the SFO, licensed to carry out Type 1 (dealing in securities), Type 2 (dealing in future contracts), Type 3 (leveraged foreign exchange trading), Type 4 (advising on securities), Type 5 (advising on futures contracts) and Type 6 (advising on corporate finance) regulated activities
“Company”	Dongpeng Holdings Company Limited, an exempted company incorporated in the Cayman Islands with limited liability, the ordinary shares of which are currently listed on the Main Board of the Stock Exchange
“Companies Law”	the Companies Law Cap. 22 (Law 3 of 1961), as consolidated and revised of the Cayman Islands
“Conditions”	the conditions to the implementation of the Proposal and the Scheme as set out in the section headed “4. Conditions of the Proposal and the Scheme” of the Explanatory Memorandum
“Consortium Agreement”	the consortium agreement dated 30 January 2016 between Profit Strong and Max Glory in connection with the Proposal

PART I — DEFINITIONS

“Cosmo Ray”	Cosmo Ray Investments Limited (普暉投資有限公司), a company incorporated under the laws of the British Virgin Islands with limited liability
“Court Meeting”	a meeting of the Scheme Shareholders to be convened at the direction of the Grand Court at which the Scheme will be voted upon, which is to be held at Imperial Room III, Mezzanine Floor — Towers Wing, The Royal Pacific Hotel & Towers, 33 Canton Road, China Hong Kong City, Tsim Sha Tsui, Hong Kong at 3:00 p.m. on Friday, 10 June 2016, notice of which is set out in Appendix V of this Scheme Document, or any adjournment thereof
“Disclosure Period”	the period beginning from the date which is six months prior to the Offer Period Commencement Date and ending with the Latest Practicable Date, both dates inclusive
“Effective Date”	the date on which the Scheme, if approved and sanctioned by the Grand Court, becomes effective in accordance with its terms and the Companies Law, being the date on which a copy of the court order of the Grand Court sanctioning the Scheme is delivered to the Registrar of Companies in the Cayman Islands for registration pursuant to section 86(3) of the Companies Law, and which is expected to be Monday, 20 June 2016 (Cayman Islands time)
“EGM”	the extraordinary general meeting of the Company to be held at Imperial Room III, Mezzanine Floor — Towers Wing, The Royal Pacific Hotel & Towers, 33 Canton Road, China Hong Kong City, Tsim Sha Tsui, Hong Kong at 3:30 p.m. on Friday, 10 June 2016 (or so soon thereafter as the Court Meeting convened on the same day and place shall have been concluded or adjourned), notice of which is set out in Appendix VI of this Scheme Document, or any adjournment thereof
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate thereof
“Explanatory Memorandum”	the explanatory memorandum set out in Part VII of this Scheme Document and issued in compliance with the Rules of the Grand Court of the Cayman Islands 1995 (revised)
“Grand Court”	the Grand Court of the Cayman Islands
“Group”	the Company and its subsidiaries

PART I — DEFINITIONS

“High Ride”	High Ride Investments Limited (艾高投資有限公司), a company incorporated under the laws of the British Virgin Islands with limited liability
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee of the Company established by the Board to make a recommendation to the Independent Shareholders in respect of, among others, the Proposal and the Scheme
“Independent Financial Adviser”	Somerley Capital Limited, the independent financial adviser to the Independent Board Committee appointed pursuant to Rule 2.1 of the Takeovers Code in relation to the Proposal, the Scheme and the Rollover Arrangement. Somerley Capital Limited is a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
“Independent Shareholders”	the Shareholders other than (i) the Joint Offerors and the Joint Offerors Concert Parties and (ii) any other Shareholders who are interested in or involved in the Proposal, the Rollover Arrangement, the loan agreement entered into between Profit Strong and the Participating Shareholders as set out in the Explanatory Memorandum, the Special Dividend and the Scheme
“Investor Participant”	a person admitted to participate in CCASS as an investor participant
“Joint Offerors”	Profit Strong and Max Glory
“Joint Offerors Concert Parties”	parties acting in concert or presumed to be acting in concert with any of the Joint Offerors under the definition of “acting in concert” under the Takeovers Code, including the Sequoia Existing Shareholders, Mr. HE Xinming, Superb Idea, Mr. CHEN Kunlie, Cosmo Ray, High Ride, Rich Blossom and Senior Management Shareholders
“Latest Practicable Date”	16 May 2016, being the latest practicable date prior to the printing of this Scheme Document for ascertaining certain information contained herein

PART I — DEFINITIONS

“Last Trading Day”	29 January 2016, being the last trading day prior to the date of suspension of trading in the Shares on the Stock Exchange before the issuance of the announcement by the Company in accordance with Rule 3.7 of the Takeovers Code on 4 February 2016
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	means 31 July 2016, being the date extended from 27 June 2016 as agreed by the Company and the Joint Offerors
“Max Glory”	Max Glory Ltd., an exempted company incorporated in the Cayman Islands with limited liability and wholly owned by Sequoia Advisors, an affiliate of the Sequoia Existing Shareholders
“Meeting Record Date”	Friday, 10 June 2016, or such other time and date as shall have been announced to the Shareholders, being the record date for the purpose of determining the entitlement of Shareholders to attend and vote at the Court Meeting and the EGM
“Offer Period”	the period from 4 February 2016 (being the date on which the Company first announced the possibility of an offer by the Joint Offerors which might lead to a privatisation of the Company) to the Effective Date, both dates inclusive
“Offer Period Commencement Date”	4 February 2016, being the date of the issuance of the announcement by the Company in accordance with Rule 3.7 of the Takeovers Code
“Optionholder(s)”	holder(s) of the Share Options
“Participating Shareholders”	Mr. CHEN Kunlie, Superb Idea, Cosmo Ray, High Ride, Rich Blossom, CAI Chuyang, JIN Guoting, LIN Hong, SHAO Yu, SHI Yufeng and BAO Jianyong
“Post-IPO Share Option Scheme”	the post-IPO share option scheme adopted by the Company on 5 November 2013
“Post-Scheme Shareholders”	the Shareholders immediately after the Scheme becomes effective, including the Joint Offerors, Mr. HE Xinming, Sequoia Existing Shareholders and the Participating Shareholders

PART I — DEFINITIONS

“Pre-IPO Share Option Scheme”	the pre-IPO share option scheme adopted by the Company on 31 October 2013
“Profit Strong”	Profit Strong Investments Limited (利堅投資有限公司), a company incorporated in the British Virgin Islands with limited liability and which is wholly-owned by Mr. HE Xinming
“Profit Strong Group”	Profit Strong, Mr. HE Xinming and their subsidiaries or controlled entities (excluding the Group)
“Proposal”	the proposal for the privatisation of the Company by the Joint Offerors by way of the Scheme and the restoration of the share capital of the Company to the amount immediately before the cancellation of the Scheme Shares, on the terms and subject to the conditions set out in this Scheme Document
“PRC”	the People’s Republic of China, but for the purpose of this Scheme Document, excluding Hong Kong, Macau Special Administrative Region and Taiwan
“Pre-Condition”	the pre-condition to the making of the Proposal and implementation of the Scheme as described under the paragraph headed “Pre-Condition to the Proposal and the Scheme” of the announcement issued by the Joint Offerors and the Company on 18 February 2016, which was satisfied on 25 March 2016
“Registered Owner”	any owner of Shares (including without limitation a nominee, trustee, depositary or any other authorised custodian or third party) entered in the register of members of the Company
“Relevant Authorities”	appropriate governments and/or governmental bodies, regulatory bodies, courts or institutions
“Rich Blossom”	Rich Blossom Investments Limited (富芝投資有限公司), a company incorporated under the laws of the British Virgin Islands with limited liability
“Rollover Agreement”	the rollover agreement entered into between the Joint Offerors and each of the Participating Shareholders on 12 February 2016
“Rollover Arrangement”	the arrangement between the Joint Offerors and the Participating Shareholders under the Rollover Agreement

PART I — DEFINITIONS

“Scheme”	a scheme of arrangement under Section 86 of the Companies Law involving the cancellation of all the Scheme Shares
“Scheme Document”	this composite document, including each of the letters, statements, appendices and notices in it, as may be amended or supplemented from time to time
“Scheme Record Date”	Monday, 20 June 2016, or such other time and date as shall have been announced to holders of Shares, being the record date for the purpose of determining the entitlements of Scheme Shareholders under the Scheme
“Scheme Shareholder(s)”	Holders of Scheme Shares as at the Scheme Record Date
“Scheme Share(s)”	Share(s) other than those held by the Joint Offerors, Mr. HE Xinming, Sequoia Existing Shareholders and the Participating Shareholders
“Senior Management Shareholders”	CAI Chuyang, JIN Guoting, LIN Hong, SHAO Yu, SHI Yufeng and BAO Jianyong
“Sequoia Advisors”	Sequoia Capital China Advisors Limited
“Sequoia Existing Shareholders”	Sequoia Growth, Sequoia Partners and Sequoia Principals
“Sequoia Group”	Sequoia Existing Shareholders, Max Glory and any person they control, is controlled by them or is under the same control as them
“Sequoia Growth”	Sequoia Capital China Growth Fund I, L.P., an exempted limited partnership established in the Cayman Islands and its general partner is Sequoia Capital China Growth Fund Management I, L.P.
“Sequoia Partners”	Sequoia Capital China Growth Partners Fund I, L.P., an exempted limited partnership established in the Cayman Islands and its general partner is Sequoia Capital China Growth Fund Management I, L.P.
“Sequoia Principals”	Sequoia Capital China GF Principals Fund I, L.P., an exempted limited partnership established in the Cayman Islands and its general partner is Sequoia Capital China Growth Fund Management I, L.P.
“Sequoia RMB SP Fund”	上海喆德投資中心(有限合夥), a limited partnership established under the PRC law, whose general partner is 北京紅杉坤德投資管理中心(有限合夥)

PART I — DEFINITIONS

“SFC”	Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of US\$0.000002 each in the share capital of the Company
“Shareholder(s)”	holder(s) of Shares
“Share Option(s)”	the share options granted under the Pre-IPO Share Option Scheme from time to time
“Special Dividend”	a dividend proposed to be declared and paid by the Company after the Scheme becomes effective pursuant to the Consortium Agreement
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Superb Idea”	Superb Idea Investments Limited (鴻思投資有限公司), a company incorporated under the laws of the British Virgin Islands with limited liability
“Takeovers Code”	The Code on Takeovers and Mergers
“trading day”	a day on which the Stock Exchange is open for the business of dealings in securities

All references in this Scheme Document to times and dates are references to Hong Kong times and dates, except as otherwise specified and other than references to the expected date of the Grand Court hearing of the petition to sanction the Scheme and to confirm the capital reduction and the Effective Date, which are the relevant date in the Cayman Islands. For reference only, Cayman Islands time is 13 hours behind Hong Kong time as at the date of this Scheme Document.

PART II — ACTIONS TO BE TAKEN

ACTIONS TO BE TAKEN BY SHAREHOLDERS

A **pink** form of proxy for use at the Court Meeting and a **white** form of proxy for use at the EGM are enclosed with copies of this Scheme Document sent to Registered Owners of Shares. Subsequent purchasers of Scheme Shares will need to obtain a proxy form from the transferor.

Whether or not you are able to attend the Court Meeting and/or the EGM, if you are a Scheme Shareholder, you are strongly urged to complete and sign the enclosed **pink** form of proxy in respect of the Court Meeting, and if you are a Shareholder, you are strongly urged to complete and sign the enclosed **white** form of proxy in respect of the EGM, in accordance with the instructions printed thereon, and to lodge them at the office of the Hong Kong branch share registrar of the Company, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong. In order to be valid, the **pink** form of proxy for use at the Court Meeting should be lodged not later than 3:00 p.m. (Hong Kong time) on Wednesday, 8 June 2016 or be handed to the chairman of the Court Meeting at the Court Meeting who shall have absolute discretion as to whether or not to accept it, and the **white** form of proxy for use at the EGM should be lodged not later than 3:30 p.m. (Hong Kong time) on Wednesday, 8 June 2016. The completion and return of a form of proxy for the Court Meeting and/or the EGM will not preclude you from attending and voting in person at the relevant meeting. In such event, the returned form of proxy will be deemed to have been revoked.

If you do not appoint a proxy and you do not attend and vote at the Court Meeting and the EGM, you will still be bound by the outcome of the Court Meeting and the EGM, if, among other things, the resolutions are passed by the requisite majorities of Independent Shareholders or Shareholders (as the case may be). You are therefore strongly urged to attend and vote at the Court Meeting and the EGM in person or by proxy.

For the purpose of determining the entitlements of Scheme Shareholders to attend and vote at the Court Meeting and Shareholders to attend and vote at the EGM, the register of members of the Company will be closed from Tuesday, 7 June 2016 to Friday, 10 June 2016 (both days inclusive) and during such period, no transfer of Shares will be effected. In order to qualify to vote at the Court Meeting and the EGM, all transfers accompanied by the relevant share certificates must be lodged with Computershare Hong Kong Investor Services Limited, the Hong Kong branch share registrar of the Company at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong before 4: 30 p.m. (Hong Kong time) on Monday, 6 June 2016.

An announcement will be made by the Company in relation to the results of the Court Meeting and the EGM. If all the resolutions are passed at those meetings, further announcement(s) will be made of the results of the Grand Court hearing of the petition to sanction the Scheme and, if the Scheme is sanctioned, the Scheme Record Date, the Effective Date and the date of withdrawal of the listing of the Shares on the Stock Exchange.

PART II — ACTIONS TO BE TAKEN

ACTIONS TO BE TAKEN BY HOLDERS THROUGH TRUST OR CCASS

The Company will not recognise any person as holding any Shares upon any trust. If you are a Beneficial Owner whose Shares are held upon trust by, and registered in the name of, a Registered Owner (other than HKSCC Nominees Limited), you should contact the Registered Owner and provide him, her or it with instructions or make arrangements with the Registered Owner in relation to the manner in which your Shares should be voted at the Court Meeting and/or the EGM. Such instructions and/or arrangements should be given or made in advance of the aforementioned latest time for the lodgment of forms of proxy in respect of the Court Meeting and the EGM in order to provide the Registered Owner with sufficient time to accurately complete his, her or its proxy and to submit it by the deadline stated above. To the extent that any Registered Owner requires instructions from or arrangements to be made with any Beneficial Owner at a particular date or time in advance of the aforementioned latest time for the lodgment of forms of proxy in respect of the Court Meeting and the EGM, any such Beneficial Owner should comply with the requirements of the Registered Owner.

If you are a Beneficial Owner whose Shares are deposited in CCASS and registered under the name of HKSCC Nominees Limited, you must, unless you are an Investor Participant, contact your broker, custodian, nominee, or other relevant person who has, in turn, deposited such Shares with, another CCASS Participant regarding voting instructions to be given to such persons if you wish to vote at the Court Meeting and/or at the EGM. You should contact your broker, custodian, nominee or other relevant person in advance of the deadline in respect of the Court Meeting and the EGM set by them, in order to provide such broker, custodian, nominee or other relevant person with sufficient time to provide HKSCC with instructions or make arrangements with HKSCC in relation to the manner in which the Shares of the Beneficial Owner should be voted at the Court Meeting and/or the EGM.

HKSCC may also vote for and against the Scheme in accordance with instructions received from CCASS Participants (as defined under the General Rules of CCASS). The number of votes cast in favour of the Scheme and the number of CCASS Participants on whose instructions they are cast and the number of votes cast against the Scheme and the number of CCASS Participants on whose instructions they are cast will be disclosed to the Grand Court and may be taken into account in deciding whether or not the Grand Court should exercise its discretion to sanction the Scheme.

PART II — ACTIONS TO BE TAKEN

EXERCISE YOUR RIGHT TO VOTE

IF YOU ARE A SHAREHOLDER OR A BENEFICIAL OWNER, THE COMPANY AND THE JOINT OFFERORS STRONGLY ENCOURAGE YOU TO EXERCISE YOUR RIGHT TO VOTE OR GIVE INSTRUCTIONS TO THE RELEVANT REGISTERED OWNER TO VOTE IN PERSON OR BY PROXY AT THE COURT MEETING AND AT THE EGM. IF YOU KEEP ANY SHARES IN A SHARE LENDING PROGRAMME, WE URGE YOU TO RECALL ANY OUTSTANDING SHARES ON LOAN TO AVOID MARKET PARTICIPANTS USING BORROWED STOCK TO VOTE.

IF YOU ARE A BENEFICIAL OWNER WHOSE SHARES ARE DEPOSITED IN CCASS, WE ENCOURAGE YOU TO PROVIDE HKSCC WITH INSTRUCTIONS OR MAKE ARRANGEMENTS WITH HKSCC IN RELATION TO THE MANNER IN WHICH THOSE SHARES SHOULD BE VOTED AT THE COURT MEETING AND/OR THE EGM WITHOUT DELAY (AS DETAILED IN THE SECTION “ACTIONS TO BE TAKEN — ACTION TO BE TAKEN BY HOLDERS THROUGH TRUST OR CCASS” ABOVE).

IF YOU ARE A REGISTERED OWNER HOLDING SHARES ON BEHALF OF BENEFICIAL OWNERS, WE WOULD BE GRATEFUL IF YOU WOULD INFORM THE RELEVANT BENEFICIAL OWNERS ABOUT THE IMPORTANCE OF EXERCISING THEIR VOTE.

IF YOU ARE IN ANY DOUBT AS TO THE ACTION TO BE TAKEN, YOU ARE ENCOURAGED TO CONSULT YOUR LICENSED SECURITIES DEALER, BANK MANAGER, SOLICITOR, PROFESSIONAL ACCOUNTANT OR OTHER PROFESSIONAL ADVISER.

PART III — EXPECTED TIMETABLE

Hong Kong Time

Date of dispatch of this Scheme Document Thursday, 19 May 2016

Latest time for lodging transfers of Shares
in order to qualify for attending and voting
at the Court Meeting and the EGM 4:30 p.m. on Monday, 6 June 2016

Register of members of the Company closed for
determination of entitlements of Scheme Shareholders
to attend and vote at the Court Meeting and of
Shareholders to attend and vote at the EGM (*Note 1*) from Tuesday, 7 June 2016 to
Friday, 10 June 2016
(both days inclusive)

Latest time for lodging forms of proxy in respect of
Court Meeting (*Note 2*) 3:00 p.m. on Wednesday, 8 June 2016
(or be handed directly to the
Chairman at the Court Meeting)

Latest time for lodging forms of proxy in respect of
EGM (*Note 2*) 3:30 p.m. on Wednesday, 8 June 2016

Meeting Record Date Friday, 10 June 2016

Court Meeting (*Note 3*) 3:00 p.m. on Friday, 10 June 2016

EGM (*Note 3*) 3:30 p.m. on Friday, 10 June 2016
(or immediately after the conclusion
or adjournment of the Court Meeting)

Announcement of the results of the Court Meeting
and the EGM not later than 7:00 p.m.
on Friday, 10 June 2016

Expected last day for dealing in the Shares on the
Stock Exchange 4:00 p.m. on Tuesday, 14 June 2016

Latest time for lodging transfers of Shares in order to
qualify for entitlements under the Scheme 4:30 p.m. on Thursday, 16 June 2016

Register of members of the Company closed for determining
entitlements to qualify under the Scheme (*Note 4*) from Friday, 17 June 2016 onwards

PART III — EXPECTED TIMETABLE

Grand Court hearing of the petition to sanction the Scheme and to confirm the capital reduction	Friday, 17 June 2016 (Cayman Islands Time)
Announcement of the result of the court hearing to sanction the Scheme and to confirm the capital reduction	Monday, 20 June 2016
Scheme Record Date	Monday, 20 June 2016
Effective Date (<i>Note 5</i>)	Monday, 20 June 2016 (Cayman Islands Time)
Announcement of the Effective Date and the withdrawal of the listing of the Shares on the Stock Exchange	Tuesday, 21 June 2016
Expected withdrawal of the listing of Shares on the Stock Exchange becomes effective (<i>Note 6</i>)	4:00 p.m. on Wednesday, 22 June 2016
Latest time to dispatch cheques for cash payment under the Scheme	on or before Wednesday, 29 June 2016

Shareholders should note that the above timetable is subject to change. Further announcement(s) will be made in the event that there is any change.

Notes:

- (1) The register of members of the Company will be closed during such period for the purpose of determining the entitlements of the Scheme Shareholders to attend and vote at the Court Meeting and of the Shareholders to attend and vote at the EGM. This book closure period is not for determining entitlements under the Scheme.
- (2) Forms of proxy should be lodged with the office of the Company's branch share registrar, Computershare Hong Kong Investor Services Limited as soon as possible and in any event no later than the times and dates stated above. If the **pink** form of proxy is not so lodged, it may also be handed to the chairman of the Court Meeting at the Court Meeting who shall have absolute discretion as to whether or not to accept it. In order to be valid, the **pink** form of proxy for the Court Meeting and the **white** form of proxy for the EGM must be lodged no later than the latest times and dates stated above. Completion and return of a form of proxy for the Court Meeting or the EGM will not preclude a Scheme Shareholder and Shareholder, respectively, from attending the relevant meeting and voting in person. In such event, the returned form of proxy will be deemed to have been revoked.
- (3) The Court Meeting and the EGM will be held at Imperial Room III, Mezzanine Floor — Towers Wing, The Royal Pacific Hotel & Towers, 33 Canton Road, China Hong Kong City, Tsim Sha Tsui, Hong Kong at the times and dates specified above. Please see the notice of Court Meeting set out in Appendix V of this Scheme Document and the notice of EGM set out in Appendix VI of this Scheme Document for details.
- (4) The register of members of the Company will be closed during such period for the purpose of determining Scheme Shareholders who are qualified for entitlements under the Scheme.
- (5) The Scheme shall become effective upon all the Conditions set out in the paragraph headed "4. Conditions of the Proposal and the Scheme" in the Explanatory Memorandum having been fulfilled or (to the extent permitted) waived (as the case may be).
- (6) If the Proposal becomes unconditional and the Scheme becomes effective, it is expected that the listing of the Shares on the Stock Exchange will be withdrawn after 4:00 p.m. on Wednesday, 22 June 2016.

PART IV — LETTER FROM THE BOARD



DONGPENG HOLDINGS COMPANY LIMITED

東 鵬 控 股 股 份 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3386)

Executive directors:

Mr. He Xinming (Chairman)
Mr. Chen Kunlie
Mr. Bao Jianyong

Non-executive directors:

Mr. Su Sen
Mr. Sun Qian
Ms. Sun Limei

Independent non-executive directors:

Mr. Yin Hong
Ms. Hsieh H., Lily
Mr. Wu Haibing

Registered office:

Floor 4, Willow House
Cricket Square
P.O. Box 2804
Grand Cayman KY1-1112
Cayman Islands

*Principal place of business
in Hong Kong:*

Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

19 May 2016

To: The Shareholders

Dear Sir or Madam,

**PROPOSED PRIVATISATION OF DONGPENG HOLDINGS COMPANY LIMITED
BY THE JOINT OFFERORS
BY WAY OF A SCHEME OF ARRANGEMENT
(UNDER SECTION 86 OF THE COMPANIES LAW)**

INTRODUCTION

On 30 January 2016, the Joint Offerors requested the Board to put forward a proposal to the Scheme Shareholders for the privatisation of the Company by way of a scheme of arrangement under Section 86 of the Companies Law involving the cancellation of the Scheme Shares and, in consideration thereof, the payment to the Scheme Shareholders of the Cancellation Price in cash for each Scheme Share, and the withdrawal of the listing of the Shares on the Stock Exchange, subject to satisfaction of the Pre-Condition. The Joint Offerors and the Company jointly announced that the Pre-Condition had been satisfied on 25 March 2016.

PART IV — LETTER FROM THE BOARD

The purpose of this Scheme Document is to provide you with further information regarding the Proposal and the expected timetable and to give you notice of the Court Meeting and the EGM (together with proxy forms in relation thereto). Your attention is also drawn to the letter from the Independent Board Committee set out in Part V of this Scheme Document, the letter from Somerley Capital Limited, being the Independent Financial Adviser, set out in Part VI of this Scheme Document, the Explanatory Memorandum set out in Part VII of this Scheme Document and the terms of the Scheme set out in Appendix IV to this Scheme Document.

TERMS OF THE PROPOSAL

The Scheme

Subject to the fulfilment or waiver (as applicable) of the Conditions as described in the Explanatory Memorandum, the Proposal will be implemented by way of the Scheme, pursuant to which the issued share capital of the Company will be reduced by cancelling and extinguishing the Scheme Shares. Upon such reduction, the issued share capital of the Company will be increased to its former amount by the issuance at par to the Joint Offerors of the aggregate number of Shares as is equal to the number of Scheme Shares cancelled. The reserve created in the Company's books of account as a result of the capital reduction will be applied in paying up in full at par the new Shares so issued, credited as fully paid, to the Joint Offerors. Upon the Scheme having become effective, assuming no Share Options are exercised before the Scheme Record Date, the Joint Offerors, namely Profit Strong and Max Glory, will hold approximately 42.61% and 14.54% of the issued share capital of the Company, respectively.

The Scheme will provide that the Scheme Shares will be cancelled and, in consideration thereof, each Scheme Shareholder will be entitled to receive HK\$4.48 in cash for each Scheme Share. The total consideration of approximately HK\$1,488.12 million payable for the Scheme Shares will be payable by the Joint Offerors.

Assuming that the Scheme becomes effective on Monday, 20 June 2016, cheques for cash entitlements under the Scheme are expected to be dispatched to the Scheme Shareholders by ordinary mail at their own risk on or before Wednesday, 29 June 2016.

The Cancellation Price will not be increased, and the Joint Offerors do not reserve the right to do so.

Comparison of value and financial effects

Cancellation Price

The Cancellation Price of HK\$4.48 per Scheme Share represents:

- a premium of approximately 31.76% over the closing price of HK\$3.40 per Share as quoted on the Stock Exchange on the Last Trading Day;

PART IV — LETTER FROM THE BOARD

- a premium of approximately 46.89% over the average closing price of approximately HK\$3.05 per Share based on the daily closing prices as quoted on the Stock Exchange for the 30 trading days up to and including the Last Trading Day;
- a premium of approximately 51.86% over the average closing price of approximately HK\$2.95 per Share based on the daily closing prices as quoted on the Stock Exchange for the 60 trading days up to and including the Last Trading Day;
- a premium of approximately 50.34% over the average closing price of approximately HK\$2.98 per Share based on the daily closing prices as quoted on the Stock Exchange for the 120 trading days up to and including the Last Trading Day;
- a premium of approximately 35.76% over the average closing price of approximately HK\$3.30 per Share based on the daily closing prices as quoted on the Stock Exchange for the 180 trading days up to and including the Last Trading Day; and
- a premium of approximately 7.95% over the closing price of HK\$4.15 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The Cancellation Price has been determined on a commercial basis after taking into account the prices of the Shares traded on the Stock Exchange, the trading multiples of comparable companies listed on the Stock Exchange and with reference to other privatisation transactions in Hong Kong in recent years.

Dividends

The Company's ability to pay dividends is limited by Cayman Islands law, which allows a Cayman Islands company to declare and pay dividends only out of either profit or, subject to being able to pay its debts as they fall due in the ordinary course of business and to approval by way of an ordinary resolution of Shareholders, its share premium account. Shareholders whose names appear on the register of members of the Company as at the record date for entitlement to dividend, if any, declared by the Company on or before the Effective Date will be entitled to receive such dividend (if any). The Company does not expect to declare any dividend on or before the Effective Date.

Share Options

As at the Latest Practicable Date, there are 11,125,000 outstanding Share Options granted under the Pre-IPO Share Option Scheme, each relating to one Share and no share options have been granted under the Post-IPO Share Option Scheme. The 11,125,000 outstanding Share Options are unvested pursuant to the terms of the Pre-IPO Share Option Scheme.

Mr. HE Xinming, Mr. CHEN Kunlie and the Senior Management Shareholders have each undertaken not to accept any offer for all the unvested Share Options held by them. In addition, the remaining Optionholders have each undertaken to irrevocably waive their rights to receive any offer for the Share Options held by them under the Takeovers Code. Please see "14. Rollover Arrangement" and "17. Undertaking Letters" in the Explanatory Memorandum for further details. Accordingly, the Joint Offerors do not need to make any offer to the Optionholders in accordance with Rule 13 of the Takeovers Code.

PART IV — LETTER FROM THE BOARD

Financial Resources

The Joint Offerors intend to finance the cash required for the Proposal from a combination of their respective internal financial resources and available loan facilities. CICC, the financial adviser to the Joint Offerors, is satisfied that sufficient financial resources are available to each of the Joint Offerors for discharging their respective obligations in respect of the full implementation of the Proposal.

REASONS FOR AND BENEFITS OF THE PROPOSAL

The Company plans to implement a series of long-term growth strategies including one-stop home decoration solution and development of e-commerce business, which may affect the Company's short-term growth profile in terms of profit margin, revenue growth and net profit growth, and may result in divergence between the Joint Offerors' views on the Company's potential long-term value and investors' views on the Company's share price. Following the implementation of the Proposal, the Joint Offerors and the Company can make strategic decisions focused on long-term benefits, free from the pressure of market expectations, profit visibility and share price fluctuation associated with being a publicly listed company.

Since its listing in December 2013, the Company's share price performance has not been satisfactory for the following reasons: (i) the net profit of the Company grew at a CAGR of 33.85% for the three years ended 31 December 2015, but the price earnings ratio of the Company remained at around 5 which is less than 6.44 at the time of its initial public offering. It is not commensurate with the growth of the Company's profit and it is way below the Company's and its controlling Shareholder's expectation; (ii) the closing price of the Shares fluctuated around HK\$ 2.56-3.68 per Share (with a medium of HK\$ 2.91 per Share) from August 2015 to the Last Trading Day, being lower than the share price upon the initial public offering of the Company, which is HK\$2.94 per Share; and (iii) the liquidity of Shares has been at a low level over a long period of time. The average daily trading volume of the Shares for the 24 months up to and including the Last Trading Day was approximately 1.11 million Shares per day, representing only approximately 0.09% of the issued Shares as at the Latest Practicable Date. The low trading liquidity of the Shares could make it difficult for the Shareholders to execute substantial on-market disposals without adversely affecting the price of the Shares and also make it difficult for the Shareholders to dispose of a large number of Shares when any event that has an adverse impact on the Company's Share price occurs.

As a leading ceramic material producer in China, the Company values its reputation. The Joint Offerors consider that the depressed share price has had an adverse impact on the Company's reputation with customers, and therefore on its business, and also on employee morale. The implementation of the Proposal could eliminate this adverse impact.

The Proposal is intended to provide the Scheme Shareholders with an opportunity to realise their investment in the Company for cash at an attractive premium without having to suffer any illiquidity discount.

PART IV — LETTER FROM THE BOARD

In addition, the listing of Shares requires the Company to bear administrative, compliance and other listing-related costs and expenses; if these costs and expenses are eliminated, the funds saved could be used for the Company's business operations.

INDEPENDENT BOARD COMMITTEE

An Independent Board Committee, which comprises all the independent non-executive directors of the Company, namely Mr. YIN Hong, Ms. HSIEH H., Lily and Mr. WU Haibing, has been established by the Board to make a recommendation to the Independent Shareholders as to whether the terms of the Proposal, the Scheme and the Rollover Arrangement are, or are not, fair and reasonable and as to voting.

Although Ms. SUN Limei, Mr. SUN Qian and Mr. SU Sen are non-executive directors of the Company, as Ms. SUN Limei is expected to hold a position with the Group after the Scheme becomes effective, Mr. SUN Qian is a director nominated for appointment to the Board by Sequoia Existing Shareholders, which are Joint Offerors Concert Parties, and Mr. SU Sen holds a 100% equity interest in Cosmo Ray, which is a Participating Shareholder, Ms. SUN Limei, Mr. SUN Qian and Mr. SU Sen are regarded as being interested in the Proposal and therefore have not participated in any vote of the Board in relation to the Proposal and the Scheme and will not form part of the Independent Board Committee.

The full text of the letter from the Independent Board Committee is set out in Part V of this Scheme Document.

INDEPENDENT FINANCIAL ADVISER

Somerley Capital Limited has been appointed as the Independent Financial Adviser (with the approval of the Independent Board Committee) to advise the Independent Board Committee in connection with the Proposal, the Scheme and the Rollover Arrangement.

The full text of the letter from the Independent Financial Adviser is set out in Part VI of this Scheme Document.

IRREVOCABLE UNDERTAKINGS

Rollover Agreement

The Joint Offerors and each of the Participating Shareholders have entered into the Rollover Agreement. Under the Rollover Agreement, among other things:

- (a) subject to, among others, the Independent Shareholders' approval as set out in the section headed "Independent Shareholders' Approval" in "14. Rollover Arrangement" in the Explanatory Memorandum, the Participating Shareholders will remain as Shareholders after

PART IV — LETTER FROM THE BOARD

the Scheme becomes effective and none of the Shares held by the Participating Shareholders (including any Shares held by them as a result of exercising the Share Options before the Meeting Record Date) will constitute Scheme Shares or will be voted on the Scheme at the Court Meeting;

- (b) the Participating Shareholders have each undertaken, to the extent permitted under the Takeovers Code, the Listing Rules and applicable laws, to exercise, or as the case may be, to procure the exercise of the voting rights in respect of the Shares owned by them directly on resolutions in relation to the Scheme in accordance with the Joint Offerors' directions, and in the absence of any such directions, to vote in favor of all resolutions which are necessary to implement the Scheme proposed at a general or class meeting of the Company, and that they shall be bound by, and take all actions necessary to implement, the Scheme;
- (c) Mr. CHEN Kunlie and the Senior Management Shareholders have each undertaken to exercise their Share Options immediately after the Share Options vest on 1 April 2016 and before the Scheme Record Date and will not accept the option offer for all the unvested Share Options held by them;
- (d) the Participating Shareholders have further undertaken that they shall not, directly or indirectly, sell, transfer, charge, encumber, grant any option over or otherwise dispose of any interest in any of the Shares held by them, nor will they accept any other offer in respect of all or any of such Shares; and
- (e) the Participating Shareholders will remain on the register of the Company immediately after the Scheme becomes effective and shall be entitled to the Special Dividend as set out in "15. Dividend Payment and Loan Agreement" in the Explanatory Memorandum.

As the Rollover Agreement was only entered into by and between the Joint Offerors and the Participating Shareholders and the Rollover Arrangement thereunder is not offered to all Shareholders, the Rollover Arrangement constitutes a special deal and requires the consent of the Executive under Note 3 to Rule 25 of the Takeovers Code and the approval by the Independent Shareholders.

Please see "14. Rollover Arrangement" in the Explanatory Memorandum for further details.

Undertaking Letters

The remaining Optionholders (i.e. the Optionholders other than Mr. HE Xinming, Mr. CHEN Kunlie and the Senior Management Shareholders) have each given undertakings to the Joint Offerors, among other things, to waive their rights to receive any offer for the Share Options held by them under the Takeovers Code. Please see "17. Undertaking Letters" in the Explanatory Memorandum for further details.

PART IV — LETTER FROM THE BOARD

INFORMATION ON THE COMPANY

The Company is an exempted company incorporated in the Cayman Islands with limited liability whose shares have been listed on the Main Board of the Stock Exchange since 9 December 2013. The Group is principally engaged in the design, development, production, marketing and sale of a wide variety of ceramic tile products and bathroom products.

INFORMATION ON THE JOINT OFFERORS

Profit Strong

Profit Strong is a company incorporated in the British Virgin Islands which is directly and wholly owned by Mr. HE Xinming, the chairman and an executive director of the Company. The principal activity of Profit Strong is investment holding. Please see “13. Information on the Joint Offerors” in the Explanatory Memorandum for further details.

Max Glory

Max Glory is an exempted company incorporated in the Cayman Islands. Its shares are held by Sequoia Advisors, an affiliate of the Sequoia Existing Shareholders, but it is effectively controlled by Sequoia RMB SP Fund through certain arrangements under a share purchase agreement between Sequoia RMB SP Fund, Sequoia Advisors and Max Glory. Please see “13. Information on the Joint Offerors” in the Explanatory Memorandum for further details.

INTENTIONS OF THE JOINT OFFERORS AND THE COMPANY

Your attention is drawn to the section headed “18. Intentions of the Joint Offerors and the Company” in the Explanatory Memorandum.

WITHDRAWAL OF LISTING OF SHARES

Upon the Scheme becoming effective, all Scheme Shares will be cancelled and the share certificates for the Scheme Shares will thereafter cease to have effect as documents or evidence of title. The Company will apply to the Stock Exchange for the withdrawal of the listing of the Shares on the Stock Exchange immediately following the Scheme becoming effective. The Scheme Shareholders will be notified by way of an announcement of the exact date of the last day for dealing in the Shares and on which the Scheme and the withdrawal of the listing of the Shares on the Stock Exchange will become effective.

IF THE SCHEME IS NOT APPROVED OR THE PROPOSAL LAPSES

The listing of the Shares on the Stock Exchange will not be withdrawn if the Scheme does not become effective or the Proposal otherwise lapses.

PART IV — LETTER FROM THE BOARD

If the Scheme is not approved or the Proposal otherwise lapses, there are restrictions under the Takeovers Code on making subsequent offers, to the effect that neither the Joint Offerors nor any person who acted in concert with them in the course of the Proposal (nor any person who is subsequently acting in concert with any of them) may, within 12 months from the date on which the Scheme is not approved or the Proposal otherwise lapses, announce an offer or possible offer for the Company, except with the consent of the Executive.

Shareholders and potential investors should exercise caution when dealing in the Shares and any options or other rights in respect of them. Persons who are in doubt as to the action they should take should consult their stockbroker, bank manager, solicitor or other professional advisers.

COURT MEETING AND EGM

Court Meeting

In accordance with the directions of the Grand Court, the Court Meeting will be held for the purpose of considering and, if thought fit, passing a resolution to approve the Scheme (with or without modifications).

Scheme Shareholders whose names appear in the register of members of the Company as at the Meeting Record Date shall be entitled to attend and vote, in person or by proxy, at the Court Meeting. At the Court Meeting, Scheme Shareholders, present and voting either in person or by proxy, will be entitled to vote all of their Scheme Shares in favour of the Scheme or against it. Alternatively, Scheme Shareholders may vote some of their Scheme Shares in favour of the Scheme and any or all of the balance of their respective Scheme Shares against it (and vice versa). However for the purpose of calculating the “majority in number” requirement at the Court Meeting, Scheme Shareholders may only vote once.

The Scheme is conditional upon, amongst other things, approval by a majority in number of the Scheme Shareholders representing not less than 75% in value of the Scheme Shares present and voting in person or by proxy at the Court Meeting, provided that (i) the Scheme is approved (by way of poll) by Independent Shareholders holding at least 75% of the votes attaching to the Scheme Shares held by Independent Shareholders that are voted either in person or by proxy at the Court Meeting; and (ii) the number of votes cast (by way of poll) by Independent Shareholders present and voting either in person or by proxy at the Court Meeting against the resolution to approve the Scheme at the Court Meeting is not more than 10% of the votes attaching to all Scheme Shares held by all the Independent Shareholders.

In accordance with the Companies Law, the “75% in value” requirement as described above will be met if the total value of Scheme Shares being voted by the Scheme Shareholders in favour of the Scheme is at least 75% of the total value of the Scheme Shares voted by the Scheme Shareholders at the Court Meeting. In accordance with the Companies Law, the “majority in number” requirement as described above will be met if the number of Scheme Shareholders voting in favour of the Scheme exceeds the number of Scheme Shareholders voting against the Scheme. For the purpose of calculating the “majority in number” requirement, the number of Scheme Shareholders, present and voting in person or by proxy, will be counted. For example, if Scheme Shareholder votes all of his/her/its

PART IV — LETTER FROM THE BOARD

Scheme Shares in favour of the Scheme, he/she/it will be counted as one Scheme Shareholder voting in favour of the Scheme for the purposes of the “majority in number” requirement, however, for the purpose of the Takeovers Code, only the number of Scheme Shares from an Independent Shareholder being so voted will count towards the “75% in value” requirement.

Notice of the Court Meeting is set out in Appendix V to this Scheme Document. The Court Meeting will be held at 3:00 p.m. (Hong Kong time) on Friday, 10 June 2016 at Imperial Room III, Mezzanine Floor — Towers Wing, The Royal Pacific Hotel & Towers, 33 Canton Road, China Hong Kong City, Tsim Sha Tsui, Hong Kong.

EGM

The EGM will be held immediately following the Court Meeting.

All Shareholders or Independent Shareholders (as the case may be) whose names appear in the register of members of the Company as at the Meeting Record Date will be entitled to attend and vote, in person or by proxy, at the EGM with respect to (i) the special resolution by Shareholders to approve and give effect to the reduction of the share capital of the Company by cancelling and extinguishing the Scheme Shares; (ii) the ordinary resolution by Shareholders to immediately thereafter increase the issued share capital of the Company to the amount prior to the cancellation of the Scheme Shares and apply the reserve created as a result of the aforesaid cancellation of the Scheme Shares to pay up in full at par such number of new Shares as is equal to the number of Scheme Shares cancelled as a result of the Scheme, credited as fully paid, for issuance to the Joint Offerors; and (iii) the ordinary resolution by Independent Shareholders to approve the Rollover Arrangement.

The special resolution described under (i) in the paragraph above will be passed if not less than three-fourths of the votes cast by Shareholders, present and voting in person or by proxy, at the EGM are in favour of the special resolution. The ordinary resolution described under (ii) in the paragraph above will be passed if more votes are cast in favour of the ordinary resolution than against it by the Shareholders, present and voting either in person or by proxy, at the EGM. The ordinary resolution described under (iii) in the paragraph above will be passed if more votes are cast in favour of the ordinary resolution than against it by the Independent Shareholders, present and voting either in person or by proxy, at the EGM.

At the EGM, a poll will be taken and each Shareholder or Independent Shareholder (as the case may be) present and voting, either in person or by proxy, will be entitled to vote all of his/her/its Shares in favour of (or against) the special resolution and/or the ordinary resolutions. Alternatively, such Shareholder or Independent Shareholder (as the case may be) may vote some of their Shares in favour of the special resolution and/or the ordinary resolutions and any of the balance of their Shares against the special resolution and/or the ordinary resolutions (and vice versa).

Mr. HE Xinming, Profit Strong, Sequoia Existing Shareholders and the Participating Shareholders have undertaken that if the Scheme is approved at the Court Meeting, they will cast the votes in respect of those Shares held by them in favour of the resolutions to be proposed at the EGM and approved by Shareholders.

PART IV — LETTER FROM THE BOARD

Notice of the EGM is set out in Appendix VI of this Scheme Document. The EGM will be held at 3:30 p.m. (Hong Kong time) (or so soon thereafter as the Court Meeting convened for the same day and place shall have been concluded or adjourned) on Friday, 10 June 2016 at Imperial Room III, Mezzanine Floor — Towers Wing, The Royal Pacific Hotel & Towers, 33 Canton Road, China Hong Kong City, Tsim Sha Tsui, Hong Kong.

Assuming that the Conditions are fulfilled (or, as applicable, waived in whole or in part), it is expected that the Scheme will become effective on or before Monday, 20 June 2016. Further announcements will be made giving details of the results of the Court Meeting and EGM and, if all the resolutions are passed at those meetings, the result of the hearing of the petition for the sanction of the Scheme by the Grand Court, the Scheme Record Date, the Effective Date, and the date of withdrawal of the listing of Shares on the Stock Exchange.

Your attention is drawn to “24. Court Meeting and Extraordinary General Meeting” in the Explanatory Memorandum.

OVERSEAS SHAREHOLDERS

Your attention is drawn to the section headed “21. Overseas Shareholders” in the Explanatory Memorandum.

ACTIONS TO BE TAKEN

Your attention is drawn to “Part II — Actions to be taken” of this Scheme Document and the section headed “27. Summary of actions to be taken” in the Explanatory Memorandum.

RECOMMENDATION

The directors of the Company (excluding members of the Independent Board Committee whose views are set out in the letter from the Independent Board Committee in Part V of this Scheme Document) believe that the terms of the Proposal, the Scheme and the Rollover Arrangement are fair and reasonable and in the interests of the Shareholders as a whole.

REGISTRATION AND PAYMENT

Your attention is drawn to the section headed “22. Registration and Payment” in the Explanatory Memorandum.

TAXATION AND INDEPENDENT ADVICE

Your attention is drawn to the section headed “23. Taxation” in the Explanatory Memorandum.

It is emphasized that none of the Joint Offerors, the Company and CICC nor any of their respective directors or associates or any other person involved in the Scheme accept responsibility for any tax or other effects on, or liabilities of, any person or persons as a result of the implementation or otherwise of the Scheme. All Scheme Shareholders are recommended to consult their professional advisers if in any doubt as to the taxation implications of the Proposal.

PART IV — LETTER FROM THE BOARD

FURTHER INFORMATION

You are urged to read carefully the letters from the Independent Board Committee and from Somerley Capital Limited, the Independent Financial Adviser, as set out in Parts V and VI of this Scheme Document, respectively, the Explanatory Memorandum as set out in Part VII of this Scheme Document, the Appendices to this Scheme Document, the Scheme as set out in Appendix IV to this Scheme Document, the notice of Court Meeting as set out in Appendix V to this Scheme Document and the notice of EGM as set out in Appendix VI to this Scheme Document. In addition, a **pink** form of proxy for the Court Meeting and a **white** form of proxy for the EGM are enclosed with copies of this Scheme Document sent to Registered Owners of Shares.

Yours faithfully
For and on behalf of the Board of
Dongpeng Holdings Company Limited
HE Xinming
Chairman

PART V — LETTER FROM THE INDEPENDENT BOARD COMMITTEE



DONGPENG HOLDINGS COMPANY LIMITED

東鵬控股股份有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3386)

*Members of the
Independent Board Committee:*

Mr. YIN Hong
Ms. HSIEH H., Lily
Mr. WU Haibing

Registered office:

Floor 4, Willow House
Cricket Square
P.O. Box 2804
Grand Cayman KY1-1112
Cayman Islands

19 May 2016

To: The Scheme Shareholders

Dear Sir or Madam,

**PROPOSED PRIVATISATION OF DONGPENG HOLDINGS COMPANY LIMITED
BY THE JOINT OFFERORS
BY WAY OF A SCHEME OF ARRANGEMENT
(UNDER SECTION 86 OF THE COMPANIES LAW)**

We have been appointed by the Board as the Independent Board Committee to give a recommendation to the Scheme Shareholders in respect of the Proposal, the Scheme and the Rollover Arrangement, respectively, details of which are set out in “Part IV — Letter from the Board” and the Explanatory Memorandum of this Scheme Document. Terms defined in this Scheme Document shall have the same meanings in this letter unless the context otherwise requires.

Although Ms. SUN Limei, Mr. SUN Qian and Mr. SU Sen are non-executive directors of the Company, as Ms. SUN Limei is expected to hold a position with the Group after the Scheme becomes effective, Mr. SUN Qian is a director nominated for appointment to the Board by Sequoia Existing Shareholders, which are Joint Offerors Concert Parties, and Mr. SU Sen holds a 100% equity interest in Cosmo Ray, which is a Participating Shareholder, Ms. SUN Limei, Mr. SUN Qian and Mr. SU Sen are regarded as being interested in the Proposal and therefore have not participated in any vote of the Board in relation to the Proposal and the Scheme and do not form part of the Independent Board Committee.

PART V — LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Somerley Capital Limited, the Independent Financial Adviser, has been appointed with our approval, to advise us in connection with the Proposal, the Scheme and the Rollover Arrangement. The details of its advice and recommendations and the principal factors taken into consideration in arriving at its recommendations are set out in “Part VI — Letter from the Independent Financial Adviser” of this Scheme Document.

In the letter from the Independent Financial Adviser set out in Part VI of this Scheme Document, the Independent Financial Adviser states that it considers the terms of the Proposal and the Rollover Arrangement to be fair and reasonable and recommend the Independent Board Committee to advise the Scheme Shareholders or Independent Shareholders (as the case may be) to vote in favour of the relevant resolutions to be proposed (i) at the EGM to approve the Rollover Arrangement; and (ii) at the Court Meeting and the EGM to approve and implement the Scheme.

The full text of the letter from the Independent Financial Adviser is set out in Part VI of this Scheme Document.

The Independent Board Committee, having considered the terms of the Proposal, the Scheme and the Rollover Arrangement, and having taken into account the opinion of the Independent Financial Adviser, and in particular the factors, reasons and recommendations set out in its letter in Part VI of this Scheme Document, considers that the terms of the Proposal, the Scheme and the Rollover Arrangement are fair and reasonable as far as the Independent Shareholders are concerned.

Accordingly, the Independent Board Committee recommends:

(a) at the Court Meeting:

(i) the Scheme Shareholders vote in favour of the Scheme;

(b) at the EGM:

(i) the Shareholders vote in favour of:

- (1) the special resolution to approve and give effect to the reduction of the share capital of the Company by cancelling and extinguishing the Scheme Shares;
- (2) the ordinary resolution to immediately thereafter increase the issued share capital of the Company to the amount prior to the cancellation of the Scheme Shares and apply the reserve created as a result of the aforesaid cancellation of the Scheme Shares to pay up in full at par such number of new Shares as is equal to the number of Scheme Shares cancelled as a result of the Scheme, credited as fully paid, for issuance to the Joint Offerors; and

PART V — LETTER FROM THE INDEPENDENT BOARD COMMITTEE

(ii) the Independent Shareholders in favour of:

(1) the ordinary resolution to approve the Rollover Arrangement.

The Independent Board Committee draws the attention of the Scheme Shareholders to (i) the letter from the Board set out in Part IV of the Scheme Document; (ii) the letter from Somerley Capital Limited, the Independent Financial Adviser, which sets out the factors and reasons taken into account in arriving at its recommendation to the Independent Board Committee, set out in Part VI of this Scheme Document; and (iii) the Explanatory Memorandum set out in Part VII of this Scheme Document.

Yours faithfully

YIN Hong
*Independent non-executive
director of the Company*

HSIEH H., Lily
*Independent non-executive
director of the Company*

WU Haibing
*Independent non-executive
director of the Company*

Independent Board Committee

PART VI — LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Set out below is the letter of advice from Somerley Capital Limited, the Independent Financial Adviser to the Independent Board Committee regarding the Proposal, the Scheme, and the Rollover Arrangement, for the purpose of incorporation in the Scheme Document.



SOMERLEY CAPITAL LIMITED

20th Floor
China Building
29 Queen's Road Central
Hong Kong

19 May 2016

To: the Independent Board Committee

Dear Sirs,

**(I) PRE-CONDITIONAL PROPOSAL FOR THE PRIVATISATION OF
DONGPENG HOLDINGS COMPANY LIMITED BY THE JOINT
OFFERORS BY WAY OF A SCHEME OF ARRANGEMENT
(UNDER SECTION 86 OF THE COMPANIES LAW); AND
(II) THE ROLLOVER ARRANGEMENT**

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee in connection with (i) the Proposal by way of a scheme of arrangement under Section 86 of the Companies Law and the restoration of the share capital of the Company to the amount immediately before the cancellation of the Scheme Shares; and (ii) the Rollover Arrangement. Details of the Proposal, the Scheme, and the Rollover Arrangement are set out in the Scheme Document dated 19 May 2016, of which this letter forms a part. Terms used in this letter shall have the same meanings as those defined in the Scheme Document unless the context otherwise requires.

On 18 February 2016, the Joint Offerors (namely Profit Strong and Max Glory) and the Company jointly announced that, on 30 January 2016, the Joint Offerors requested the Board to put forward a proposal to the Scheme Shareholders for the privatisation of the Company by way of the Scheme, subject to satisfaction of the Pre-Condition. The Scheme will involve cancellation of the Scheme Shares, each Scheme Shareholder will be entitled to receive HK\$4.48 in cash for each Scheme Share. Upon the Proposal having become effective, assuming no Share Options are exercised before the Scheme Record Date, Profit Strong and Max Glory will hold approximately 42.61% and 14.54% of the issued share capital of the Company respectively.

In addition, pursuant to the Rollover Arrangement, which constitutes a special deal under Rule 25 of the Takeovers Code, the Joint Offerors would allow the Participating Shareholders to retain their respective shareholdings in the Company after the Scheme becomes effective to provide incentives for Participating Shareholders to continue to contribute to the development of the Group. The Rollover

PART VI — LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Arrangement is one of the conditions of the Proposal. As the Rollover Agreement was only entered into by and between the Joint Offerors and the Participating Shareholders and the Rollover Arrangement is not offered to all Shareholders, it requires the consent of the Executive under Note 3 to Rule 25 of the Takeovers Code. The Joint Offerors have made an application for consent from the Executive in relation to the Rollover Arrangement conditional on the Independent Financial Adviser confirming that the Rollover Arrangement is fair and reasonable, and the passing of an ordinary resolution by the Independent Shareholders (by way of poll) at the EGM to approve the Rollover Arrangement.

The Independent Board Committee comprising all of the independent non-executive Directors, namely Mr. YIN Hong, Ms. HSIEH H., Lily and Mr. WU Haibing, has been established to advise the Independent Shareholders on (i) whether the terms of the Proposal, the Scheme and the Rollover Arrangement are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the voting action that should be taken by the Independent Shareholders at the Court Meeting and the EGM. The Independent Board Committee has approved our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

We are not associated with the Company, the Joint Offerors or any party acting, or presumed to be acting, in concert with any of them and, accordingly, are considered eligible to give independent advice on the Proposal, the Scheme and the Rollover Arrangement. Apart from normal professional fees paid or payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, the Joint Offerors or any party acting, or presumed to be acting, in concert with any of them.

As at the Latest Practicable Date, Somerley Capital Limited does not have any relationships or interests with the Company that could reasonably be regarded as relevant to the independence of Somerley Capital Limited. In the last two years, there has been no other engagement between the Company and Somerley Capital Limited. Accordingly, we do not consider any conflict of interest arises for Somerley Capital Limited in acting as the independent financial adviser of the Proposal.

In formulating our opinion, we have reviewed, among other things, the Rollover Agreement, the Consortium Agreement, the prospectus of the Company dated 18 November 2013, the annual reports of the Company for the years ended 31 December 2013, 2014 and 2015 (the “**2013 Annual Report**”, “**2014 Annual Report**” and “**2015 Annual Report**”, respectively), the interim report of the Company for the six months ended 30 June 2015 (the “**Interim Report**”), the trading performance of the Shares on the Stock Exchange and Bloomberg, and information set out in the Scheme Document. We have relied on the information and facts supplied by the Company, and the opinions expressed by the Directors, and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material aspects as at the Latest Practicable Date. We have sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and opinions expressed to us. We consider that the information we have received is sufficient for us to reach our opinion and give the advice and recommendation set out in this letter. We have no reason to believe that any material information has been omitted or withheld, or doubt the truth or accuracy of the information provided. We have, however, not conducted any independent investigation into the business and affairs of the Group, the Joint Offerors or any of their respective associates or any party acting, or presumed to be acting, in concert with any of them, nor have we

PART VI — LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

carried out any independent verification of the information supplied. We have also assumed that all representations contained or referred to in the Scheme Document were true at the time they were made and at the date of the Scheme Document and will continue to be true up to the time of the Court Meeting and the EGM, and that the Independent Shareholders will be informed as soon as reasonably possible if we become aware of any material change to such representations.

PRINCIPAL TERMS OF THE PROPOSAL AND THE SCHEME

The Proposal and the Scheme

The Scheme will provide that the Scheme Shares will be cancelled and, in consideration thereof, each Scheme Shareholder will be entitled to receive HK\$4.48 in cash for each Scheme Share. Under the Scheme, the total consideration payable for cancellation of the Scheme Shares will be payable by the Joint Offerors.

On the Effective Date, the issued share capital of the Company will be reduced by cancelling and extinguishing the Scheme Shares, and forthwith upon such reduction, the issued share capital of the Company will be increased to its former amount by the issuance at par to the Joint Offerors of the aggregate number of Shares as is equal to the number of Scheme Shares cancelled. The reserve created in the Company's books of account as a result of the capital reduction will be applied in paying up in full at par the new Shares so issued, credited as fully paid, to the Joint Offerors.

The Company will apply to the Stock Exchange for the withdrawal of the listing of the Shares on the Stock Exchange immediately following the Scheme becoming effective.

The Cancellation Price will not be increased, and the Joint Offerors do not reserve the right to do so.

As at the Latest Practicable Date, there were 11,125,000 outstanding Share Options, which when exercised in full, will result in the issue of 11,125,000 new Shares. In accordance with Rule 13 of the Takeovers Code, the Joint Offerors are required to make an appropriate offer to the Optionholders to cancel all outstanding Share Options, vested and unvested, in exchange for cash, being an amount equal to HK\$4.47 for each outstanding Share Option with an exercise price of HK\$0.01. Mr. HE Xinming, Mr. CHEN Kunlie and the Senior Management Shareholders have each undertaken not to accept any offer for all the unvested Share Options held by them. In addition, the other Optionholders have each undertaken to irrevocably waive their rights to receive any offer for the Share Options held by them under the Takeovers Code. Accordingly, no offer is made to the Optionholders by the Joint Offerors in accordance with Rule 13 of the Takeovers Code.

PRE-CONDITION TO THE PROPOSAL AND THE SCHEME

The making of the Proposal is, and the implementation of the Scheme will be, subject to the satisfaction of the Pre-Condition, namely that Sequoia RMB SP Fund has obtained the relevant overseas investment approvals of (i) the National Development and Reform Commission of the PRC or its local counterpart; and (ii) the Ministry of Commerce of the PRC or its local counterpart, in respect of its investment through the Scheme.

PART VI — LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Joint Offerors and the Company jointly announced on 29 March 2016 that the Pre-Condition had been satisfied on 25 March 2016.

CONDITIONS OF THE PROPOSAL AND THE SCHEME

The implementation of the Proposal is, and the Scheme will become effective and binding on the Company and all Shareholders, subject to the fulfilment or waiver (as applicable) of the conditions (the “**Conditions Precedent**”) as set out in the section headed “Conditions of the Proposal and the Scheme” in the “Explanatory Memorandum” contained in the Scheme Document, including but not limited to:

- (a) the approval of the Scheme (by way of poll) by a majority in number of the Scheme Shareholders representing not less than 75% in value of the Scheme Shares held by the Scheme Shareholders present and voting either in person or by proxy at the Court Meeting;
- (b) the approval of the Scheme (by way of poll) by the Independent Shareholders holding at least 75% of the votes attaching to the Scheme Shares held by the Independent Shareholders that are voted either in person or by proxy at the Court Meeting; provided that the number of votes cast (by way of poll) by the Independent Shareholders present and voting either in person or by proxy at the Court Meeting against the resolution to approve the Scheme at the Court Meeting is not more than 10% of the votes attaching to all Scheme Shares held by all the Independent Shareholders; and
- (c) the receipt of an opinion from the independent financial adviser to the Independent Board Committee confirming that the Rollover Arrangement is fair and reasonable, the passing of an ordinary resolution by the Independent Shareholders at an extraordinary general meeting of the Company to approve the Rollover Arrangement, and the consent from the Executive to the Rollover Arrangement.

Conditions precedent set out in paragraphs (a), (b) and (c) above cannot be waived.

Pursuant to Note 2 to Rule 30.1 of the Takeovers Code, the Joint Offerors may only invoke any or all of the Conditions Precedent as a basis for not proceeding with the Proposal and the Scheme if the circumstances which give rise to the right to invoke any such Conditions Precedent are of material significance to the Joint Offerors in the context of the Proposal and the Scheme.

As at the Latest Practicable Date, none of the conditions has been fulfilled or waived.

All of the Conditions Precedent will have to be fulfilled or waived, as applicable, on or before the Long Stop Date (or such later date as the Joint Offerors and the Company may agree or, to the extent applicable, as the Executive may consent and the Grand Court may direct), failing which the Proposal and the Scheme will lapse.

PART VI — LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation with regard to the Proposal and the Scheme, we have taken into account the following principal factors and reasons:

1. Background to and reasons for the Proposal and the Scheme

As set out in the “Explanatory Memorandum” of the Scheme Document, the Company plans to implement a series of long-term growth strategies including one-stop home decoration solution and development of e-commerce business, which may affect the Company’s short-term growth profile in terms of profit margin, revenue growth and net profit growth, and may result in divergence between the Joint Offerors’ views on the Company’s potential long-term value and investors’ views on the Company’s share price. Following the implementation of the Proposal, the Joint Offerors and the Company can make strategic decisions focused on long-term benefits, free from the pressure of market expectations, profit visibility and Share price fluctuation associated with being a publicly listed company.

It was also stated in the “Explanatory Memorandum” of the Scheme Document that since its listing in December 2013, the Company’s share price performance has not been satisfactory. As a leading ceramic material producer in China, the Company values its reputation. The Joint Offerors consider that the depressed share price has had an adverse impact on the Company’s reputation with customers, and therefore on its business, and also on employee morale. The implementation of the Proposal could eliminate this adverse impact.

It is further stated in the “Explanatory Memorandum” of the Scheme Document that the liquidity of the Shares has been at a low level over a long period of time, which will be further discussed in the section headed “3. Analysis of price performance and trading liquidity — (b) Trading liquidity” below. The low trading liquidity of the Shares could make it difficult for the Shareholders to execute substantial on-market disposals without adversely affecting the price of the Shares and also make it difficult for the Shareholders to dispose of a large number of Shares when any event that has an adverse impact on the Company’s share price occurs.

The Proposal is intended to provide the Scheme Shareholders with an opportunity to realise their investment in the Company for cash without having to suffer any illiquidity discount.

In addition, maintenance of the listing status of the Shares on the Stock Exchange requires the Company to bear administrative, compliance and other listing-related costs and expenses. If these costs and expenses are eliminated, the funds saved could be used for the Company’s business operations, which is considered to be in the interest of the Company.

2. Information and prospects of the Group

(a) Background and information of the Company

The Company is incorporated in the Cayman Islands with limited liability, the Shares have been listed on the Main Board of the Stock Exchange since 9 December 2013. The Group is principally engaged in the design, development, production, marketing and sale of a wide variety of ceramic tile products and bathroom products. As disclosed in the Interim Report, the Group is the largest ceramic

PART VI — LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

tile company in China in terms of 2012 retail sales value, and is also the largest industry participant in the high-end ceramic tile segment, according to an independent market research report prepared by Frost & Sullivan* in October 2013. The Group has continued to solidify its leading position within the ceramic tile industry and enhanced its brand through effective marketing strategies.

* *Frost & Sullivan is an independent industry consultant founded in 1961 which has over 35 global offices and employs over 1,800 analysts and experts worldwide. For details of background of Frost & Sullivan, please refer to page 92 of the prospectus of the Company dated 18 November 2013.*

(b) *Financial information of the Group*

(i) Financial performance

Set out below are the consolidated financial results of the Group for each of the three years ended 31 December 2013, 2014 and 2015, as extracted from the 2013 Annual Report, the 2014 Annual Report and the 2015 Annual Report.

	For the year ended 31 December		
	2015	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Audited)	(Audited)	(Audited)
Revenue	4,111,088	3,893,101	3,368,219
Cost of sales	<u>(2,504,539)</u>	<u>(2,395,301)</u>	<u>(2,119,768)</u>
Gross profit/(loss)	1,606,549	1,497,800	1,248,451
Other income	230,970	195,015	82,758
Other gains and losses	2,249	(24,718)	(24,522)
Distribution and selling expenses	(620,173)	(505,723)	(423,965)
Administrative expenses	(279,958)	(281,224)	(215,218)
Share-based payment expenses	(5,017)	(40,323)	(16,971)
Other expenses	(76,484)	(82,344)	(74,352)
Share of loss of an associate	(3,846)	—	—
Change in fair value of redeemable convertible preferred shares	—	—	(35,955)
Finance costs	<u>(22,341)</u>	<u>(35,924)</u>	<u>(38,043)</u>
Profit before tax	831,949	722,559	502,183
Income tax expense	<u>(213,503)</u>	<u>(158,072)</u>	<u>(157,007)</u>
Profit for the year	<u><u>618,446</u></u>	<u><u>564,487</u></u>	<u><u>345,176</u></u>

PART VI — LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

	For the year ended 31 December		
	2015	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Audited)	(Audited)	(Audited)
Profit for the year attributable to:			
Owners of the Company	626,268	563,711	339,498
Non-controlling interests	<u>(7,822)</u>	<u>776</u>	<u>5,678</u>
	<u>618,446</u>	<u>564,487</u>	<u>345,176</u>

The Group is mainly operating in two segments, which are production and sales of (i) ceramic tile products; and (ii) bathroom products. For the three years ended 31 December 2013, 2014 and 2015, revenue from ceramic tile products represented approximately 89.7%, 86.0% and 85.3% of the Group's total revenue respectively.

As set out in the 2014 Annual Report, the Group's revenue increased by 15.6% from RMB3.37 billion in 2013 to RMB3.89 billion in 2014, mainly attributable to (i) new product series introduced from glossy glazed tile category; (ii) antique-inspired tiles and their application in real estate projects; (iii) increase in sales of ceramic chips due to expansion and diversification into mass-market products; and (iv) increase in number of tier one distributors from 592 as at 31 December 2013 to 968 as at 31 December 2014.

Gross profit increased from RMB1.25 billion in 2013 to RMB1.50 billion in 2014, with an increase in gross profit margin from approximately 37.1% in 2013 to approximately 38.5% in 2014. The improvement on gross profit was primarily due to a combination of (i) the continuing improvement in the Group's efficiency as a result of increased production scale and effective cost control in ceramic tile products; and (ii) continuing change in product mix towards high-end products such as glossy glazed tiles.

The Group generated profits attributable to Shareholders of RMB563.7 million in 2014 compared to RMB339.5 million in 2013 mainly due to (i) the improvement in gross profit for 2014 as mentioned above; and (ii) the increase in other income as a result of increase in government grants and bank interest income with better cash management, partially offset by (i) the relevant increment in distribution and selling expenses and administrative expenses with the increase in transportation expenses for corporate sales, sales personnel, local taxes and management consulting expenditure; (ii) more resources incurred in research and development, leading to increase in other expenses; (iii) the increase in share-based payment expenses in relation to Share Options granted by the Company prior to its listing; and (iv) no change in fair value of redeemable convertible preferred shares was recorded in 2014 as the convertible preferred shares have been converted into ordinary shares upon the closing of initial public offering of the Shares on 9 December 2013.

PART VI — LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As set out in the 2015 Annual Report, the Group's revenue increased from approximately RMB3.89 billion in 2014 to approximately RMB4.1 billion in 2015, representing an increase of approximately 5.6%. It was mainly because of (i) rising sales in new product series of the Group in the glazed tile category; (ii) increased popularity of glossy glazed tiles in the retail market; (iii) development of new channels of online sales for ceramic tile products; and (iv) progress on the Group's bathroom business. Such increase in revenue was partially offset by the decrease in average selling price of unglazed tile products to corporate customers and to distributors to encourage more aggressive promotion at end market.

Gross profit in 2015 amounted to approximately RMB1.6 billion, as compared to RMB1.5 billion in 2014. Gross profit margin improved from approximately 38.5% in 2014 to approximately 39.1% in 2015. It was primarily attributable to (i) the enhanced operational efficiency and effective cost control with full utilisations of five new production lines of ceramic tiles, one new production line of bathroom products and continuing production upgrade and optimisation of production process; (ii) the product mix optimisation; and (iii) lower costs of production including raw material cost and fuel cost.

Profit attributable to Shareholders in 2015 was approximately RMB621.4 million, representing an increase of approximately RMB57.5 million or approximately 10.2% from 2014. The improvement in profit during 2015 was mainly due to (i) the increase in gross profit for the year as stated above; (ii) the rise in other income with the increase in government grants of RMB50.0 million; (iii) the decrease in share-based payment expenses in relation to share options granted by the Company before the listing of the Shares on the Stock Exchange; and (iv) the decrease in finance cost as a result of lower level of interest bearing bank borrowings as at 31 December 2015 as compared with 31 December 2014 and lower average cost of bank borrowings during the year.

(ii) Financial position

Set out below is a summary of the Group's consolidated financial positions as at 31 December 2013, 2014 and 2015, as extracted from the 2014 Annual Report and the 2015 Annual Report:

	As at 31 December 2015 RMB'000 (Audited)	As at 31 December 2014 RMB'000 (Audited)	As at 31 December 2013 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	1,475,684	1,345,124	1,094,949
Prepaid lease payments	416,197	374,310	380,870
Interest in an associate	16,154	—	—
Deferred tax assets	39,009	56,731	63,051
Deposits for leasehold land	—	10,290	3,848
Deposits for acquisition of property, plant and equipment	25,468	3,783	4,227
Goodwill and other intangible assets	4,453	4,520	—
Total non-current assets	1,976,965	1,794,758	1,546,945

PART VI — LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

	As at 31 December 2015 RMB'000 <i>(Audited)</i>	As at 31 December 2014 RMB'000 <i>(Audited)</i>	As at 31 December 2013 RMB'000 <i>(Audited)</i>
Current assets			
Inventories	1,019,084	983,971	870,007
Prepayments, trade and other receivables	802,391	656,786	567,260
Other current assets	47,830	9,837	1,061
Short-term investment	304,930	125,993	13,000
Pledged bank deposits	307,136	37,085	12,328
Restricted bank deposits	—	205,720	—
Bank balances and cash	649,630	387,676	803,394
Total current assets	3,131,001	2,407,068	2,267,050
Current liabilities			
Trade and other payables	1,657,384	1,356,508	1,238,533
Other current liabilities	28,557	13,772	38,224
Obligation under a finance lease	5,561	4,896	4,595
Bank borrowings	309,020	157,588	350,967
Tax liabilities	43,324	48,459	79,809
Total current liabilities	2,043,846	1,581,223	1,712,128
Non-current liabilities			
Obligation under a finance lease	19,709	25,270	30,166
Bank borrowings	—	50,000	86,992
Deferred taxation liabilities	101,167	56,738	37,327
Total non-current liabilities	120,876	132,008	154,485
Net assets value	2,943,244	2,488,595	1,947,382
Capital and Reserves			
Share capital	15	15	15
Reserves	2,836,079	2,380,639	1,846,489
Equity attributable to owners of the Company	2,836,094	2,380,654	1,846,504
Non-controlling interests	107,150	107,941	100,878
Total Equity	2,943,244	2,488,595	1,947,382
Net assets value (“NAV”) per Share (Note)	RMB2.24	RMB1.89	RMB1.48

Note: The NAV per Share is calculated based on the Shares in issue as at the respective year end.

The Group's NAV attributable to the Shareholders increased substantially by approximately 28.9% from approximately RMB1.8 billion as at 31 December 2013 to approximately RMB2.4 billion as at 31 December 2014, mainly due to (i) the increase in inventory level from approximately

PART VI — LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

RMB870 million as at 31 December 2013 to approximately RMB984 million as at 31 December 2014 with the increased production volume; (ii) short-term investment representing a financial product issued by a bank in the PRC, which was redeemed in January 2015; and (iii) the increase in trade and other receivables given the rise in revenue. The decrease of bank balances and cash was mainly due to the repayment of bank borrowings and the management's decision of investing excess cash into restricted bank deposit to earn higher interest income.

The Group's NAV attributable to the Shareholders increased to approximately RMB2.8 billion as at 31 December 2015 from approximately RMB2.4 billion as at 31 December 2014. The increase was primarily attributable to (i) the increase in prepayments, trade and other receivables with the growth in corporate sales; and (ii) more short-term investment held by the Group as at 31 December 2015, it represented a financial product issued by a bank in the PRC and was redeemed in January 2016.

As at 31 December 2015, the NAV per Share was approximately RMB2.24, calculated by dividing the NAV of the Group attributable to the Shareholders of approximately RMB2.8 billion by the number of Shares in issue as at 31 December 2015. There was an overall increase in the NAV per Share from approximately RMB1.48 to RMB2.24 from 31 December 2013 to 31 December 2015. The Group has been at net cash position as at 31 December 2013, 31 December 2014 and 31 December 2015.

(iii) Adjusted NAV

In evaluating the Proposal and the Scheme, we have taken into account the adjusted audited consolidated net assets (the "Adjusted NAV") of the Group, based on the 2015 Annual Report and the adjustment as set out in the table below.

	HK\$ million
Audited consolidated NAV of the Group attributable to owners of the Company as at 31 December 2015 (<i>Note 1</i>)	3,374.9
<i>Adjustment:</i>	
— Revaluation surplus arising from the valuation of property interests attributable to the owners of the Company as at 29 February 2016 (<i>Note 2</i>)	<u>167.6</u>
Adjusted NAV	3,542.5
Adjusted NAV per Share (<i>Note 3</i>)	HK\$2.79
Cancellation Price	HK\$4.48
— Premium to Adjusted NAV per Share	60.4%

Notes:

1. The exchange rate of RMB1:HK\$1.19 as at the Latest Practicable Date was extracted from Bloomberg and used in the above calculation.

PART VI — LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

2. This represents revaluation surplus arising from the excess of market value of the property interests held by the Group as valued by Jones Lang LaSalle Corporate Appraisal and Advisory Limited (the “Valuer”) as at 29 February 2016 over their corresponding book values as at 31 December 2015, after adjusting for relevant interest not attributable to the owners of the Company, but without taking into account the relevant tax impact.

If the property interests of the Group were to be disposed at the amount of the valuation, it is estimated that the Adjusted NAV would be lowered by approximately RMB39.7 million, the potential tax liabilities as disclosed in the Property Valuation Report, Appendix III to the Scheme Document.

Part of the revaluation surplus are attributed to certain properties without any of the State-owned Land Use Rights Certificate, the Real Estate Title Certificates or the Building Ownership Certificates including (i) nine buildings and structures with assessed value as at 29 February 2016 amounted to approximately RMB246.0 million (equivalent to approximately HK\$292.7 million) (adjusted for properties interest attributable to the owners of the Company) located at Taiqian Village Committee, Yuantan Town, Qingyuan City; (ii) two building and structures with assessed value of approximately RMB22.6 million (equivalent to approximately HK\$26.9 million) as at 29 February 2016 (adjusted for properties interest attributable to the owners of the Company) located at Peng Shan Village, Zhangongmiao Town, Changde City; (iii) 12 buildings with assessed value of approximately RMB47.9 million (equivalent to approximately HK\$57.0 million) as at 29 February 2016 (adjusted for properties interest attributable to the owners of the Company) located at No.6 Chuangxin Avenue, Meilin Town, Yichun City; and (iv) 12 buildings with assessed value of approximately RMB108.5 million (equivalent to approximately HK\$129.1 million) as at 29 February 2016 (adjusted for properties interest attributable to the owners of the Company) located at No.15 Chuangxin Avenue, Fengcheng Industrial Park, Yichun City. The stated assessed values by the Valuer are based on assumption that the relevant certificates of titles had been fully obtained and the buildings could be freely transferred.

3. Based on 1,268,077,800 Shares in issue as at the Latest Practicable Date.

As set out in the above table, the Cancellation Price of HK\$4.48 per Share represents a premium of approximately 60.4% to the Adjusted NAV per Share of approximately HK\$2.79.

(c) *Prospects of the Group*

As set out in the 2015 Annual Report, activities in home decoration and improvement industry usually lag property purchases by several months to over a year. In the second half of 2014, the Chinese government lifted restrictive policies on the real estate market and as a result, the real estate market started to recover, especially during the second half of 2015. However, the home decoration and improvement industry continued to operate under a challenging market environment for most of 2015. The future development of the Group is likely to be driven by factors set out below:

Economic growth in China

The economic growth of China has been slowing in recent years with a growth rate in gross domestic product of 6.9% in 2015, compared to annual growth of 7.4% and 7.7% in 2014 and 2013 respectively, according to statistics released by the National Bureau of Statistics of the PRC. The statistics also show that industrial production growth in China has slowed to 6.1% in 2015 as compared to 8.3% and 9.7% in 2014 and 2013 respectively. Both the stock market and currency market in the PRC have experienced significant fluctuations during 2015, creating uncertainties on the economic outlook.

PART VI — LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Chinese consumers are upgrading their purchases towards branded and high quality products with increasing disposable income. However, based on data released by the National Bureau of Statistics of the PRC, the national per capita disposable income of China in 2015 slowed to approximately 8.9% as compared to approximately 10.1% in 2014 and 10.9% in 2013, when higher growth in disposable income had promoted the development of the home decoration and improvement industry in the past.

If the decelerating trend in growth of economy and disposable income in China continues, this would potentially affect the demand for high-end home decoration and improvement products, the category of products the Group is focusing on, leading to uncertainties in the development of the Group in the long run.

Development of the PRC real estate market

The PRC real estate market experienced a downturn in 2014. According to statistics released by the National Bureau of Statistics of the PRC, sales of commodity housing recorded a decrease of approximately 6.3% in 2014 from 2013. Gross floor area of commodity housing sold also decreased by approximately 7.6% in 2014 from 2013. Sales of commodity housing increased by approximately 14.4% in 2015 as compared to 2014. Gross floor area of commodity housing sold increased by approximately 6.5% in 2015 as compared to 2014.

However, the position varied in different regions of China. According to the 2015 Annual Report, the gross floor area of commodity houses sold declined 25% and 4% in northeast and northwest of China, as compared to the increase of 21% and 12% in south and central China respectively. It was also stated in the 2015 Annual Report that the unsold housing inventory in the PRC hit a historical high of 719 million square meters at the end of 2015.

The growth rate of investment in the real estate development in the PRC, according to the National Bureau of Statistics of the PRC, dropped to approximately 1.0% in 2015 from approximately 10.5% in 2014 and 19.8% in 2013. Floor area of housing put under construction during the year declined by approximately 14.0% in 2015 as compared to the decline of 10.7% in 2014 and growth of 13.5% in 2013.

A decrease in the future construction of housing would lower the future demand for home decoration and improvement products given the direct impact of the real estate market on the Group's industry.

Outlook

Based on the above, given the declining growth in the economy and disposable income in China, the demand for high-end home decoration and improvement products may weaken. Additionally, the future supply of housing in China is expected to reflect the decline in real estate investment and floor area under construction in 2014 and 2015. It is therefore anticipated that there would be a fall in demand for home decoration and improvement products.

PART VI — LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

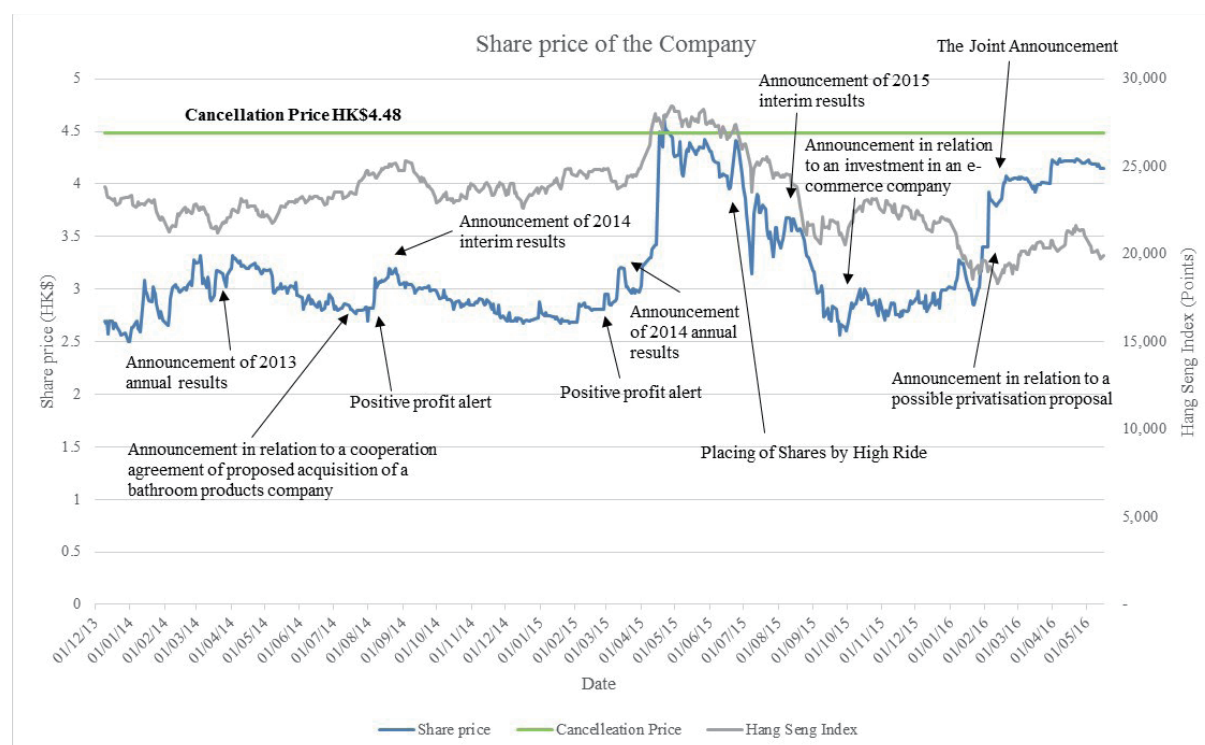
(d) Intentions of the Joint Offerors regarding the Group

As set out in the “Explanatory Memorandum” of the Scheme Document, the Joint Offerors and the Company intend to continue the existing business of the Company upon successful implementation of the Proposal and the Scheme. The Joint Offerors and the Company have no intention to make any major changes to the existing operation and business, or to discontinue the employment of the employees of the Group nor do they have any plans to redeploy any of the fixed assets of the Group after implementation of the Scheme and the Proposal. However, the Joint Offerors and the Company will continue to assess business opportunities as they arise.

3. Analysis of price performance and trading liquidity of the Shares

(a) Historical price performance of the Shares

Set out below is the movement of the closing prices of the Shares during the period from 9 December 2013 (i.e. the date on which the Shares were listed on the Stock Exchange, the “**Listing Date**”) to the Latest Practicable Date (the “**Review Period**”) and a summary of announcements by the Company of significant transactions that took place during the Review Period:



Source: Bloomberg and website of the Stock Exchange

As illustrated in the above, the Shares closed most of the time below the Cancellation Price of HK\$4.48 during the Review Period, ranging from HK\$2.50 to HK\$4.65 per Share. The Shares closed at a price of HK\$2.70 on the first day of listing, which was below its initial public offer price (the “**IPO Price**”) of HK\$2.94. Subsequent to the publication of the 2013 annual results on 27 March 2014,

PART VI — LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

the Share price rose and reached HK\$3.32 on 2 April 2014. On 27 July 2014, the Company announced the entering into a cooperation agreement in relation to an acquisition of 62% equity interest in Guangzhou Yinai Sanitary Products Co., Ltd., which is engaged in the design, customisation and sale of mid to high-end bathroom products. The acquisition was effective in developing and expanding the Group's market share in the relevant segment. Such acquisition was completed on 11 September 2014. On 6 August 2014, the Company issued a positive profit alert for its interim results for the six months ended 30 June 2014, leading to a surge of Share price from HK\$2.89 to HK\$3.10 on the next day of the announcement. The Company later released its 2014 interim results on 26 August 2014 and the Share price reached HK\$3.13 on the next day. Subsequently, there was a general decrease in the Share price over the next few months and the Share price closed at HK\$2.88 on 31 December 2014.

During 2015, the Share price fluctuated between HK\$2.56 and HK\$4.65 per Share. On 10 March 2015, the Company announced a positive profit alert for its annual results for the year ended 31 December 2014, the Share price increased afterwards. The 2014 annual results announcement was published on 16 March 2015. Price of the Shares surged to a maximum of HK\$4.65 on 21 April 2015, mainly attributable to (i) the improvement of business performance as demonstrated in the annual results for the year ended 31 December 2014; and (ii) the positive market environment as a result of the increment in the Hang Seng Index of approximately 12% during April 2015. Placing of Shares by High Ride was announced on 21 June 2015, involving a total of 30,000,000 Shares at a price of HK\$3.70 per Share. The Share price went up to HK\$4.41 on 24 June 2015. The 2015 interim results of the Group was announced on 21 August 2015. Despite the favourable interim results as compared to the corresponding period, the Share price showed a downward trend with a minimum of HK\$2.56 on 24 September 2015. The Company announced an investment in an online to offline business on 11 October 2015, management of the Company expected that the transaction would allow the Group to expand its sales channels through the e-commerce sales platform. The Shares closed at HK\$3.02 on 31 December 2015.

During the period from 25 January 2016 to 29 January 2016, being the last week of trading before the suspension of trading in the Shares pending the release of the announcement on 3 February 2016 in relation to a possible pre-conditional proposal for the privatisation of the Company, the Share price experienced an upward trend from HK\$3.00 on 25 January 2016 to HK\$3.40 on 29 January 2016 (i.e. the Last Trading Day).

In general, during the Review Period before the Last Trading Day, the Share price closed below HK\$4.0 most of the time (481 days out of 529 days) except during the period from mid-April to late June in 2015, with an average of approximately HK\$3.1 per Share. The Cancellation Price of HK\$4.48 per Scheme Share is significantly (i.e. 44.5%) above the average Share price from the Listing Date to the Last Trading Day. The net profit attributable to owners of the Company, after its listing, has increased at a compound annual growth rate of approximately 35.8% for the two years ended 31 December 2015. However, the share price of the Company has under-performed, with an increase of approximately 15.6%, from the IPO Price of HK\$2.94 to HK\$3.4, the closing price of the Last Trading Day. Since the operational achievement of the Company was not reflected in the Share price during the Review Period, it is uncertain whether the gain of approximately 44.5%, which the Cancellation Price provides could be realised in the near future by the Shareholders if the Proposal and the Scheme lapse.

PART VI — LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Trading in the Shares was suspended from 1 to 3 February 2016 pending the release of an announcement in relation to the Takeovers Code. On 4 February 2016, the Company released the announcement in relation to a possible pre-conditional proposal for the privatisation of the Company by Profit Strong and Max Glory, trading of the Shares resumed on the same day. The Share price surged to HK\$3.92 on 4 February 2016, which was believed to be as a result of the possible privatisation of the Company with the Cancellation Price of HK\$4.48 per Scheme Share. The formal announcement regarding the Proposal (the “**Joint Announcement**”) was released on 18 February 2016. Following the Joint Announcement, the Share price closed between HK\$3.92 and HK\$4.24 from the date of the Joint Announcement to the Latest Practicable Date, which were significantly above most of the Share price during the period from the Listing Date to the Last Trading Day. However, Independent Shareholders should note that there is no assurance that the Share price will remain at the current level if the Proposal and the Scheme lapse.

(b) *Trading liquidity*

Set out below in the table are the monthly total trading volumes of the Shares and the percentages of the monthly total trading volume to the total issued Shares and public float of the Company during the Review Period:

	Monthly total trading volume of the Shares	Number of trading days per month	Percentage of the monthly total trading volume of the Shares to the total issued Shares (Note 1)	Percentage of the monthly total trading volume of the Shares to public float of the Company (Note 2)
2013				
December	111,850,500	15	9.0%	44.8%
2014				
January	119,174,533	21	9.6%	47.8%
February	30,935,500	19	2.5%	12.4%
March	35,421,437	21	2.8%	14.2%
April	43,386,000	20	3.5%	17.4%
May	19,447,880	20	1.6%	7.8%
June	6,845,282	20	0.5%	2.7%
July	5,866,000	22	0.5%	2.3%
August	21,931,000	21	1.7%	8.6%
September	9,763,896	21	0.8%	3.8%
October	8,451,700	21	0.7%	3.3%
November	8,737,610	20	0.7%	3.4%
December	2,307,000	21	0.2%	0.9%

PART VI — LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

	Monthly total trading volume of the Shares	Number of trading days per month	Percentage of the monthly total trading volume of the Shares to the total issued Shares (Note 1)	Percentage of the monthly total trading volume of the Shares to public float of the Company (Note 2)
2015				
January	4,189,000	21	0.3%	1.6%
February	3,273,000	18	0.3%	1.3%
March	31,316,590	22	2.5%	12.2%
April	79,801,000	19	6.3%	26.0%
May	36,054,780	19	2.9%	11.7%
June	65,803,000	22	5.2%	19.4%
July	22,198,221	22	1.8%	6.5%
August	14,742,345	21	1.2%	4.3%
September	9,120,598	20	0.7%	2.7%
October	14,892,871	20	1.2%	4.4%
November	9,270,590	21	0.7%	2.7%
December	15,882,206	22	1.3%	4.7%
2016				
January	37,005,614	20	2.9%	10.9%
February				
<i>(Note 3)</i>	75,651,801	15	6.0%	22.3%
March	32,905,500	21	2.6%	9.7%
April	16,040,000	20	1.3%	4.7%
May (up to the Latest Practicable Date)	10,190,000	10	0.8%	3.0%

Source: Bloomberg

Notes:

- (1) The calculation is based on the monthly total trading volumes of the Shares divided by the total issued share capital of the Company at the end of each month or as at the Latest Practicable Date, as applicable.
- (2) The total number of Shares held by the public is calculated based on the number of total issued Shares excluding those held by directors of the Company, Profit Strong, Superb Idea, Cosmo Ray, High Ride, Rich Blossom and Sequoia Existing Shareholders.
- (3) Trading of the Shares was suspended from 1 February 2016 to 3 February 2016.

PART VI — LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Based on the above table, the trading volumes were within the range of approximately 0.2% to 9.6% of the total issued Shares, and between approximately 0.9% and 47.8% of the issued Shares constituting public float of the Company. The trading was relatively active shortly after the listing of the Company. The high trading volume in April and June 2015 was probably due to the positive environment of the market during the period and the placing of the Shares by High Ride. The significant increase in the trading volume in February 2016 was possibly due to the market speculation on likelihood of having Independent Shareholders' approval of the Proposal and the Scheme.

On this basis, we do not consider the trading of the Shares has been consistently active between the Listing Date and the Last Trading Day.

Given the above, the Scheme Shareholders should note that if they wish to realise a significant number of their Shares in the market, it is possible that they might not be able to achieve that without exerting a downward pressure on market price of the Shares. The high level of trading volume subsequent to the announcement in relation to a possible pre-conditional proposal for the privatisation of the Company may not be sustainable if the Proposal and the Scheme lapse, the Proposal and the Scheme provide an opportunity for the Independent Shareholders, especially those holding a large block of the Shares, to dispose their entire holdings at a fixed cash price.

(c) *Cancellation Price comparisons*

The Cancellation Price of HK\$4.48 represents:

- (i) a premium of approximately 31.76% to the closing price of HK\$3.40 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a premium of approximately 46.89% over the average closing price of approximately HK\$3.05 per Share based on the daily closing prices as quoted on the Stock Exchange for the 30 trading days up to and including the Last Trading Day;
- (iii) a premium of approximately 51.86% over the average closing price of approximately HK\$2.95 per Share based on the daily closing prices as quoted on the Stock Exchange for the 60 trading days up to and including the Last Trading Day;
- (iv) a premium of approximately 50.34% over the average closing price of approximately HK\$2.98 per Share based on the daily closing prices as quoted on the Stock Exchange for the 120 trading days up to and including the Last Trading Day;
- (v) a premium of approximately 35.76% over the average closing price of approximately HK\$3.30 per Share based on the daily closing prices as quoted on the Stock Exchange for the 180 trading days up to and including the Last Trading Day;
- (vi) a premium of approximately 7.95% to the closing price of HK\$4.15 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

PART VI — LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(vii) a premium of approximately 67.8% over the audited consolidated net asset value of the Company attributable to the Shareholders of approximately RMB2.24 per Share (equivalent to approximately HK\$2.67 per Share) as at 31 December 2015 as set out in the 2015 Annual Report; and

(viii) a premium of approximately 60.4% over the Adjusted NAV of the Group of approximately HK\$2.79 per Share as set out in the sub-section headed “(b) *Financial information of the Group — (iii) Adjusted NAV*” in this letter.

As analysed in the section headed “3. Analysis of price performance and trading liquidity of the Shares — (a) Historical price performance of the Shares”, the Shares have been trading below the Cancellation Price most of the time since the Listing Date up to the Last Trading Day with an average closing price of HK\$3.10 during this period. The Cancellation Price represents a premium of approximately 44.5% over the average closing price of approximately HK\$3.10 per Share based on the daily closing prices as quoted on the Stock Exchange since the Listing Date up to the Last Trading Day.

(d) *Dividend yield analysis*

No dividend was paid or declared in respect of the financial year 2015. Even assuming that a 2015 dividend had been paid based on a 30% payout ratio of the net profit attributable to owners of the Company (with reference to the dividend payout ratio of 30% in 2013* and 2014), the 2015 dividend of approximately RMB0.15 per Share (equivalent to approximately HK\$0.18 per Share) would represent a dividend yield of approximately 4.02% at the Cancellation Price. According to the statistics on the website of the Hang Seng Index, the dividend yield of the Hang Seng Index is approximately 4.16% as at the Latest Practicable Date, which means that the Shareholders who place a priority on yield would still have a ready opportunity to re-invest the proceeds from the Cancellation Price at a similar yield.

* For the year ended 31 December 2013, the 30% dividend payout ratio was determined based on the net profit attributable to owners of the Company from 1 July 2013 to 31 December 2013, the six months after the track record period as specified in the prospectus of the Company dated 18 November 2013.

(e) *Return on investment (the “ROI”) for the Shareholders who have held the Shares since the IPO (the “IPO Shareholders”)*

If the Shareholders accept the Proposal, the Cancellation Price would offer them a ROI of approximately 52.4% based on the IPO Price of HK\$2.94 per Share, which is well above the underlying return on investment of the Hang Seng Index over the period from the Listing Date to the Last Trading Day of approximately -17.3%.

The Company has been included by Morgan Stanley Capital International (MSCI) as a constituent of the MSCI Global Small Cap Indexes — China (the “**MSCI China Small Cap Index**”) effective on 30 May 2014. During the period from 30 May 2014 to the Last Trading Day, the underlying return on investment of such index was approximately -13.4%. The ROI of accepting the Proposal is more attractive than the underlying return on investment of the MSCI China Small Cap Index.

PART VI — LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In view of the above comparison with the return on investment of the benchmark indices, the Cancellation Price offers the IPO Shareholders a better return relative to the market average.

4. Privatisation precedents

We have compared the Proposal and the Scheme to other privatisation proposals listed on the Stock Exchange announced since 1 January 2014, approximately two years before the Joint Announcement, and up to the Latest Practicable Date, excluding privatisation proposals which were not approved (the “**Privatisation Precedents**”), which represents an exhaustive list of privatisation proposals we were able to identify from the Stock Exchange’s website satisfying the above selection criteria. The table below illustrates the premiums over the relevant last trading day, the relevant 30 days, 90 days, 120 days and 180 days average share prices at which such privatisation proposals have been priced:

Date of initial announcement	Company	Premium of offer/cancellation price over the share price of the relevant company prior to announcement of privatisation proposals					Results of privatisations
		Last trading day	30 days share price average	90 days share price average	120 days share price average	180 days share price average	
2 February 2016	Anhui Tianda Oil Pipe Co Ltd (stock code: 839)	58.1%	48.5%	27.9%	26.9%	19.5%	Not available as at the Latest Practicable Date
2 January 2016	New World China Land Limited (stock code: 917)	25.6%	40.8%	54.0%	57.7%	57.0%	Successful
20 October 2015	Wumart Stores, Inc (stock code: 1025)	90.2%	68.8%	31.8%	18.8%	15.4%	Successful
13 August 2015	Jingwei Textile Machinery Company Limited (stock code: 350) (Note 1)	22.7%	14.0%	7.4%	12.1%	20.0%	Successful
27 May 2015	Dorsett Hospitality Int’l Ltd (stock code: 2266)	32.4%	41.3%	42.4%	39.7%	34.3%	Successful
26 February 2015	econtext Asia Ltd (stock code: 1390)	41.0%	59.9%	51.3%	50.0%	43.2%	Successful
11 December 2014	Hunan Nonferrous Metals Corporation Ltd (stock code: 2626)	68.7%	55.8%	58.4%	64.4%	70.2%	Successful
8 May 2014	Regent Manner Int’l Holdings Ltd (stock code: 1997)	32.4%	37.5%	38.5%	37.3%	35.3%	Successful
1 April 2014	Wing Hang Bank, Limited (stock code: 302) (Note 2)	49.2%	59.2%	67.3%	63.6%	59.4%	Successful
		Highest	90.2%	68.8%	67.3%	64.4%	70.2%
		Lowest	22.7%	14.0%	7.4%	12.1%	15.4%
		Mean	46.7%	47.3%	42.1%	41.2%	39.4%
		Median	41.0%	48.5%	42.4%	39.7%	35.3%
4 February 2016	The Proposal and the Scheme	31.8%	46.9%	54.5%	50.3%	35.8%	

Source: Bloomberg and website of the Stock Exchange

Notes:

- (1) The premiums were calculated based on the offer price of the privatisation proposal over the share price of Jingwei Textile Machinery Company Limited (“**Jingwei**”) prior to the announcement on 28 July 2015 issued by Jingwei on the possible offer to acquire all the issued H shares of Jingwei by China Hengtian Group Limited.

PART VI — LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (2) The premiums were calculated based on the offer price of the privatisation proposal over the share price of Wing Hang Bank, Limited (“WHB”) prior to the announcement on 16 September 2013 issued by WHB in response to media reports regarding a possible disposal of interests in WHB.

Based on the table above, the means of premiums over the last trading day share price, 30 days, 90 days, 120 days and 180 days share price averages were approximately 46.7%, 47.3%, 42.1%, 41.2% and 39.4% respectively. The premiums for the Proposal and the Scheme over the 90 days and 120 days Share price averages are above the corresponding means of premiums of the Privatisation Precedents and the premiums for the Proposal and the Scheme over the 30 days and 180 days Share price averages are close to the corresponding means of premiums of the Privatisation Precedents.

The premium for the Proposal and the Scheme over the Share price on the Last Trading Day is below the mean of premiums of the Privatisation Precedents. However, the Share price on the Last Trading Day increased by approximately 6.9% from the day prior to the Last Trading Day and approximately 19.3% over the five trading days up to and including the Last Trading Day. Such movement was not attributable to any particular corporate actions of the Company as no announcements were made during the week before the Last Trading Day, and therefore was possibly due to speculation of the privatisation of the Company which was subsequently announced on 4 February 2016. Given such price movement on the Last Trading Day, we are of the view that premiums for the Proposal and the Scheme over the Share price for longer period of time, i.e. 30 days, 90 days, 120 days and 180 days Share price average, are a better basis for comparison and assessment of the fairness of the Cancellation Price.

5. Comparable analysis

The Group is principally engaged in the design, development, production, marketing and sale of a wide variety of ceramic tile products and bathroom products, and has generated profits for the years ended 31 December 2013, 2014 and 2015.

Accordingly, we have conducted research on Bloomberg on a best effort basis for companies (i) listed on the Stock Exchange under the industry of “Home & Office Products Manufacturing” as classified by the Bloomberg Industry Classification System; and (ii) principally engaged in the manufacturing and distribution of either (a) ceramic tile products; and/or (b) bathroom products. Based on these criteria and on an exhaustive basis, we are not able to identify any company principally engaging in manufacturing of ceramic tile products listed on the Stock Exchange, and we identified only one company principally engaging in the manufacturing and sale of sanitary ware and accessories, Bolina Holding Co., Ltd (“**Bolina**”).

As revenue from ceramic tile products represented over 85% of the Group’s revenue since 2013, we researched on companies listed on the stock exchanges in the PRC with the same principal business that are profit-making for the past twelve months and identified one comparable company, Shanghai Everjoy Health Group Co Ltd.

We then further expanded our scope and also reviewed listed companies in developed Asian countries (including Middle East) which are engaged in the manufacturing of ceramic tiles and identified three profit-making comparable companies, KPT Industries Ltd, Al Maha Ceramics SAOG and Al-Anwar Ceramic Tiles Co. SAOG.

PART VI — LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Since the Group has been profit-making for each of the years ended 31 December 2013, 2014 and 2015, we consider price to earnings (“P/E”) ratio analysis is necessary for the Proposal and the Scheme. The P/E ratios and the price to book (“P/B”) ratios of the comparable companies mentioned above (the “Comparable Companies”) and the Proposal are set out in the table below:

Name of entities	Principal business	Market capitalisation as at the Latest Practicable Date (Note 1) (HK\$)	P/E ratio (Note 1)	P/B ratio (Note 1)
Bolina Holding Co., Ltd. (1190.HK)	Manufacture and sale of sanitary ware and accessories	2.04 billion	23.6	1.6
KPT Industries Ltd (1805.TT)	Manufacturing of ceramic tiles	129.83 million	5.2	0.6
Al Maha Ceramics SAOG (AMCI.OM)	Manufacturing of ceramic tiles	429.79 million	5.9	2.6
Al-Anwar Ceramic Tiles Co. SAOG (AACT.OM)	Manufacturing of ceramic wall, floor and decorative tiles	1.58 billion	13.9	2.1
Shanghai Everjoy Health Group Co Ltd. (002162.CH)	Manufacturing of ceramic tiles	6.61 billion	271.4	7.0
		Average	64.0	2.8
		Minimum	5.2	0.6
		Maximum	271.4	7.0
The Proposal (Note 2)			7.5	1.7

Source: Bloomberg

Notes:

- (1) The market capitalisations as at the Latest Practicable Date, the P/E ratios and the P/B ratios are extracted from Bloomberg.
- (2) The P/E ratio and the P/B ratio of the Proposal is calculated based on the Cancellation Price of HK\$4.48 per Share, the earnings per share and the NAV per share of the Group for the year ended 31 December 2015 to facilitate our comparison of the P/E ratio and the P/B ratio of the Company as represented by the Cancellation Price to the P/E ratios and the P/B ratios of the Comparable Companies.

PART VI — LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As set out in the table above, the Proposal falls within the range of P/E and P/B ratios of the Comparable Companies but is less favourable than the average P/E and P/B ratios of the Comparable Companies.

Notwithstanding we are of the view that P/E ratio analysis is necessary given the Company is profit making, comparison with Comparable Companies should, in this case, be interpreted with a sceptical mind.

First of all, as we mentioned above, we have identified only one company principally engaging in the manufacturing and sale of sanitary ware and accessories. Given the fact that the Group derives over 85% of its revenue from ceramic tile products, the P/E ratio of Bolina might not be representable for the whole ceramic tile product industry in terms of sample size and the product category.

Secondly, the other three Comparable Companies are both overseas-listed and generating their revenues substantially from places other than the PRC, the P/E ratios of them would be difficult to compare with the P/E ratio of the Company based on the Cancellation Price in terms of prospects of the local industry and the sentiment of the local stock market.

Thirdly, the only Comparable Company identified with revenue substantially generated from the PRC has a P/E ratio of over 270. We consider it is not a meaningful comparison in light of the high P/E ratio of over 270 times, it is therefore an outlier and, in our view, does not form a basis of our assessment.

As such, we are of the view that the comparable analysis above should only be for reference only to the Independent Shareholders in light of the range of P/E ratios that have been trading currently and should not form a material basis to assess the fairness of the Cancellation Price.

THE ROLLOVER ARRANGEMENT

Basis for the Rollover Arrangement

Pursuant to the Rollover Arrangement, the Participating Shareholders would be allowed to retain their respective shareholdings in the Company after the Scheme becomes effective. The Participating Shareholders hold approximately 34.86% of the issued share capital of the Company as at the Latest Practicable Date.

As discussed in the sub-section headed “1. Background to and reasons for the Proposal and the Scheme” above, the Company and the Joint Offerors intend to implement a series of long-term growth strategies for the Group including one-stop home decoration solution and development of e-commerce business. All the Participating Shareholders are directors, senior management, or current/former employees of the Company. They constitute a key part of the management team of the Group that has extensive operational expertise and an in-depth understanding of the PRC home improvement industry with over 10 to 30 years of relevant experience, as well as long-established relationships with suppliers, regulators, local authorities, management and employees of the Group. Accordingly, the Participating Shareholders will contribute to the Company in the areas of production management, strategic planning, financial management, technology research and development, human resources

PART VI — LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

management and product development. Without the Participating Shareholders remaining as Shareholders after completion of the Proposal and the Scheme so that they will have incentives to continue to contribute to the long-term growth and development of the Group and management of the Company, the Joint Offerors would not be sure that the long-term growth strategies for the Group could be implemented and would not therefore have the confidence to put forward the Proposal at a preferential premium to market price.

Assessment of the Rollover Arrangement and the Rollover Agreement

1. Potential risks for the Shareholders in an unlisted company

In the case where the Independent Shareholders were given the opportunity to be the Participating Shareholders, subsequent to the withdrawal of listing of the Shares, their interests after the Scheme had become effective would no longer be safeguarded by regulations to protect minorities applicable to listed companies on the Stock Exchange, as detailed below.

After the withdrawal of listing, the Company would not be subject to the same corporate governance and minority protection requirements as set out in the Listing Rules. In particular, existing protections under the Chapter 14 and Chapter 14A of the Listing Rules regarding notifiable transactions and connected transactions that currently applicable to the Company as a listed company would no longer apply so far as the Independent Shareholders were concerned. In relation to dilution of shareholdings, under the Listing Rules, general mandate for issuing new shares is limited to a maximum of 20% of the issued share capital and specific shareholders' approval is required if such limit has been exceeded. In addition, certain provisions under the SFO would then also not be applicable to the Company and if the Company would still be considered a public company in Hong Kong under, and accordingly would still continue to be subject to, the Takeovers Code as long as it remains a public company. In the event that the Company ceases to be a public company, for example due to having less than 50 members, it would no longer be subject to the Takeovers Code. In that case, the interests of the Independent Shareholders would only be safeguarded primarily by the constitutional documents of the Company and provisions regarding minority shareholders' interest protection under the Companies Law, which do not provide the level of minority protections that would be available had the Takeovers Code continued to apply.

In addition, these Shareholders might find it difficult to realise their shareholdings as no public trading of the Shares would be available.

2. Fully informed views on the prospects of the Group

The Participating Shareholders are parties acting in concert with the Joint Offerors in relation to the Proposal and the Scheme. All of the Participating Shareholders are directors, senior management, or current/former employees of the Group with expertise in the ceramic tiles or home improvement industry, they are actively involved in the management and operations of the Group. On the other hand, in our opinion, from the perspective of the Independent Shareholders, participation in the Rollover Arrangement would involve significant risks. The Independent Shareholders are offered the certainty, if the required approval levels are obtained, of an immediate gain of approximately 50% over the 30-120 trading days average prices, which we consider a fair basis of comparison. They do

PART VI — LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

not have, and can never have, the Participating Shareholders' detached knowledge of the Group's operations which comes from "hands on" involvement in the operations of the Group. In our view, only the Participating Shareholders can take a fully informed view of the risks of remaining as investors in the Company and forgoing the immediate investment gain offered by the Cancellation Price. As outlined by the Board in the 2015 Annual Report, the home decoration and improvement industry is facing many uncertainties such as intense competition, excess capacity, slowdown of real estate market growth and tightening government policy over environment protection. These uncertainties include in particular:

(i) *Economic growth in China*

Regarding the economic growth in China, two major economic indicators, gross domestic products and level of disposable income, have shown a declining growth in 2015 as compared to 2014 and 2013. Given that the growth in gross domestic products decreased to approximately 6.9% in 2015 and industrial production growth dropped to 6.1% in the same year, coupled with the fluctuations in the stock market and currency market, economic outlook of China is not particularly positive.

As for the level of disposable income, despite a rise in level of disposable income in 2015 of approximately 8.9%, such increase was less than 2014 and 2013. Chinese consumers are upgrading their purchases towards branded and high quality products when the level of income rises. The home decoration and improvement industry has been able to benefit from the increasing level of income in the past few years.

Overall, if the declining growth in China's economy and level of disposable income continues, this would hinder the development of the home decoration and improvement industry. As the Group is focusing on high-end home decoration and improvement products, demand for its products would possibly be affected as a result of a decelerating growth in the economy and disposable income.

(ii) *Development of the PRC real estate market*

With regards to the PRC real estate market, the real estate market has recovered in 2015 with an increase in sales and gross floor area of commodity housing sold. Having said that, the position varied in different regions in China. In addition, the level of unsold housing inventory in the PRC was at a record high of 719 million square meters at the end of 2015.

In 2016 and succeeding years, the real estate market is likely to be affected by the significant decrease in growth of investment in the real estate development in the PRC from 2013 to 2015. Together with the decline in floor area of housing put under construction in recent years, the supply of housing would be lower in future years.

With the direct impact of the real estate market on the home decoration and improvement industry, the decrease in supply of housing would affect the future demand for home decoration and improvement products, leading to uncertainties on the business of the Group in the future.

PART VI — LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

3. Premium of the Cancellation Price over market

The Independent Shareholders have been afforded the opportunity to realise their holdings at the Cancellation Price under the Scheme, which is not available to the Participating Shareholders, and is conditional upon the approval of the Rollover Arrangement.

During the Review Period, the Share price closed below the Cancellation Price, except for five trading days in April 2015, with an average of approximately HK\$3.1 per Share. Despite the net profit attributable to owners of the Company increasing after its listing at a compound annual growth rate of approximately 35.8%, the Share price grew more slowly at approximately 15.6% from the IPO price of HK\$2.94 to HK\$3.40, the closing price of the Last Trading Day. Considering that the operational achievement of the Company may not be reflected in the Share price as demonstrated during the Review Period, it is uncertain whether the gain the Cancellation Price provides could be realised in the near future by the Shareholders if the Proposal and the Scheme lapse.

As set out in the section headed “4. Privatisation precedents” of this letter, the premiums for the Proposal and the Scheme range from 35.8% to 54.5%, close to or above the means of premiums of the Privatisation Precedents over the 30 days, 90 days, 120 days and 180 days share price averages. We consider the premiums over the Share price for longer period of time are a better basis of comparison given the price movement of the Shares on the Last Trading Day. As such, the Cancellation Price is considered to be fair and reasonable.

4. Terms of the Rollover Agreement

The Joint Offerors and each of the Participating Shareholders have entered into the Rollover Agreement.

Terms of the Rollover Agreement are set out in the sub-section headed “Rollover Agreement” in the “Explanatory Memorandum” contained in the Scheme Document and are summarised as follows:

(i) *Remain as Shareholders*

Subject to, among others, the Independent Shareholders’ approval of the Rollover Arrangement, the Participating Shareholders will remain as Shareholders after the Scheme becomes effective and none of the Shares held by the Participating Shareholders (including any Shares held by them as a result of exercising the Share Options before the Scheme Record Date) will constitute Scheme Shares or will be voted on the Scheme at the Court Meeting.

(ii) *Vote for the Scheme*

The Participating Shareholders have each undertaken, to the extent permitted under the Takeovers Code, the Listing Rules and applicable laws, to exercise or to procure the exercise of the voting rights in respect of the Shares owned by them directly on resolutions in relation to the Scheme in accordance with the Joint Offerors’ directions, and in the absence of any such directions, to vote in favor of all resolutions which are necessary to implement the Scheme proposed at a general or class meeting of the Company, and that they shall be bound by, and take all actions necessary to implement, the Scheme.

PART VI — LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(iii) *Not accept any offer for all the unvested Share Options*

Under the Rollover Agreement, Mr. CHEN Kunlie and the Senior Management Shareholders have each undertaken to exercise their Share Options immediately after the Share Options vest on 1 April 2016 and before the Scheme Record Date and will not accept any offer for all the unvested Share Options held by them.

(iv) *Not dispose the Shares*

The Participating Shareholders have further undertaken that they shall not, directly or indirectly, sell, transfer, charge, encumber, grant any option over or otherwise dispose of any interest in any of the Shares held by them, nor will they accept any other offer in respect of all or any of such Shares.

(v) *Entitlement to Special Dividend*

According to the Rollover Agreement, the Participating Shareholders will remain on the register of the Company immediately after the Scheme becomes effective and shall be entitled to the Special Dividend.

Assessment of terms of the Rollover Agreement

As the Shares owned by the Participating Shareholders would not form part of the Scheme Shares, the Participating Shareholders will remain as Shareholders after the Scheme becomes effective and the Shares owned by them will not be voted at the Court Meeting and at the EGM for the ordinary resolution to approve the Rollover Arrangement.

Accordingly, the undertakings by all or certain Participating Shareholders regarding the voting as to approval of the Scheme, exercising vested Share Options and not accepting offer for unvested Share Options and not disposing the Shares are consistent with the purpose of retaining the Participating Shareholders as the Shareholders after the Scheme becomes effective pursuant to the Rollover Arrangement. Without the Participating Shareholders remaining as Shareholders after completion of the Proposal and the Scheme so that they will have incentives to continue to contribute to the long-term growth and development of the Group and management of the Company, the Joint Offerors would not be sure that the long-term growth strategies for the Group could be well implemented and would not therefore have the confidence to put forward the Proposal.

Lastly, pursuant to the Consortium Agreement, the Joint Offerors have agreed to procure the Company to declare and pay the Special Dividend in cash of an aggregate amount of HK\$735.09 million, within three business days after the withdrawal of the listing of the Shares on the Stock Exchange becomes effective, to the Post-Scheme Shareholders in proportion to their shareholdings in the Company at that time.

As advised by the management of the Company, the Company does not intend to propose Special Dividend if the Proposal and the Scheme are withdrawn or lapse. Taking into account that the listing of the Shares on the Stock Exchange will be withdrawn upon the Scheme becoming effective and the Company will subsequently become a private company, retained shareholders of the Company,

PART VI — LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

including the Joint Offerors and the Joint Offerors' Concert Parties, should be allowed to make decisions for the Company that they deem appropriate. As such, we are of the view that the declaration and payment of the Special Dividend subsequent to the withdrawal of the listing of the Shares on the Stock Exchange is acceptable as they are entitled to as Shareholders. More importantly, the Independent Shareholders would not be able to obtain the gain the Cancellation Price could provide if they were entitled to the Special Dividend as the Participating Shareholders.

Given the purpose of the Rollover Agreement is to retain the Participating Shareholders as the Shareholders after the Scheme becomes effective and the Participating Shareholders constitute a key part of the management team of the Group, without the Participating Shareholders remaining as Shareholders after completion of the Proposal and the Scheme, the Joint Offerors would not have the confidence to put forward the Proposal and the Independent Shareholders would not be able to benefit from the Scheme, in particular, the gain the Cancellation Price could provide. Accordingly, we consider terms of the Rollover Agreement acceptable.

Conclusion

The approval by the Independent Shareholders of the terms of the Rollover Arrangement is one of the Conditions Precedents of the Proposal and the Scheme, therefore it is part and parcel of the Proposal and the Scheme if the Independent Shareholders are to vote in favour of the Scheme. Considering (i) that the Joint Offerors are not willing to put forward the Proposal, which we consider is beneficial to Independent Shareholders, without the Participating Shareholders remaining as Shareholders; (ii) that the Independent Shareholders' interests in the Company would no longer be safeguarded by regulatory mechanisms applicable to listed companies on the Stock Exchange subsequent to the withdrawal of listing of the Shares in the case where the Independent Shareholders were given the opportunity to be the Participating Shareholders; (iii) in our opinion, only the Participating Shareholders can take a fully informed view of the risks of the prospects of the Group; (iv) the Independent Shareholders would be able to benefit from the Scheme by realising their investment at a fair and reasonable price, which would only be available to the Independent Shareholders following the approval of the Rollover Arrangement by them; and (v) terms of the Rollover Agreement are acceptable for the purpose of retaining the Participating Shareholders as the Shareholders after the Scheme becomes effective so that the Joint Offerors would put forward the Proposal, we are of the view that the Rollover Arrangement, which is a condition of the Proposal and the Scheme, is fair and reasonable.

Independent Shareholders should note that the Proposal and the Scheme are conditional upon the passing of an ordinary resolution by the Independent Shareholders at the EGM to approve the Rollover Arrangement and the consent from the Executive to the Rollover Arrangement, otherwise the Proposal and the Scheme will lapse.

DISCUSSION AND ANALYSIS

The Proposal and the Scheme

The Group, with a leading market position in the ceramic tile market, has been growing in terms of revenue since 2010. Recently, growth has been slowing as reflected by the decrease in revenue

PART VI — LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

growth from approximately 15.6% to 5.6% and growth in the net profit attributable to owners of the Company from approximately 66.0% to 11.1% over the years 2013 to 2015. The outlook for the growth of the real estate market in China is mixed in the near term. Consequently, the future of the Group is subject to uncertainties given the downward trend of growth in Chinese economy, the mixed outlook of the real estate market in the PRC and the intense competition within the China's home improvement industry. In light of the uncertainties on the future development of the Group, we are of the view that the Cancellation Price of HK\$4.48 pursuant to the Scheme represents a valuable opportunity for the Independent Shareholders to realise their investment at a premium to market price.

Historical share price performance

Pursuant to the Scheme, the Scheme Shares will be cancelled and, in consideration thereof, each Scheme Shareholder will be entitled to receive HK\$4.48 in cash for each Scheme Share. We have assessed the fairness of the Cancellation Price by reviewing the Share price of the Company since its listing. During the Review Period, the Share price ranged from HK\$2.50 to HK\$4.65 per Share. The Share price closed below HK\$4.0 for the great majority of the time (481 days out of 529 days) since 9 December 2013, i.e. the Listing Date, up to the Last Trading Day, with an average of approximately HK\$3.1 per Share. Share price and trading volume uplifts were seen after the publication of the announcements relating to the pre-conditional proposal for the privatisation of the Company by Profit Strong and Max Glory on 4 February 2016 and 18 February 2016. The Share price closed at HK\$4.15 on the Latest Practicable Date.

Share price has not reflected operational performance

The Share price during the Review Period has not reflected the improving operational performance of the Company, creating uncertainty as to whether good results will necessarily produce an increasing Share price.

Dividend yield and ROI

The Cancellation Price represented premiums of 31.76% and 7.95% to the closing prices of the Shares as at the Last Trading Day and the Latest Practicable Date. In respect of dividend yield, assuming that the Company had declared a final dividend based on the dividend payout ratio of 30% for 2015, it would represent a dividend yield of approximately 4.02% at the Cancellation Price. The Shareholders would still have a ready opportunity to re-invest the proceeds from the Cancellation Price at a similar yield given that the dividend yield of the Hang Seng Index is approximately the same as at the Latest Practicable Date. In addition, the ROI for the IPO Shareholders calculated based on the IPO Price and the Cancellation Price is well above the underlying return on investment of the Hang Seng Index and the MSCI China Small Cap Index. On these bases, we consider the Cancellation Price to be fair.

Trading volume

In respect of trading volume of the Shares, the Shares were not consistently actively traded between the Listing Date and the Last Trading Day, and was within the range of approximately 0.2% to 9.6% of the total issued Shares. Given that the Scheme Shareholders might not be able to dispose

PART VI — LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

the Shares without causing a downward pressure on the market price of the Shares and the relatively high level of trading recently may not be sustainable if the Proposal and the Scheme lapse, we consider the Proposal and the Scheme offer an opportunity for the Independent Shareholders to dispose their shareholdings, especially those holding a large block of the Shares, at a fixed cash price, which is at a premium of the market price of the Shares as at the Latest Practicable Date.

Privatisation precedents

In order to assess the fairness and reasonableness of the Cancellation Price, we have identified other privatisation proposals listed on the Stock Exchange announced since 1 January 2014. Considering the price movement of the Shares on and shortly before the Last Trading Day, premiums over the Share price for longer period of time are a better basis for comparison and assessment of the fairness of the Cancellation Price. The premiums for the Scheme and the Proposal over the 90 days and 120 days Share price averages are above the corresponding means of premiums of the Privatisation Precedents and the premiums for the Proposal and the Scheme over the 30 days and 180 days Share price averages are close to the corresponding means of premiums of the Privatisation Precedents, on this basis, it is considered that the Cancellation Price is fair and reasonable.

Comparable companies

In addition, we have on a best effort basis identified five Comparable Companies and compared the P/E ratios of the Comparable Companies with that of the Proposal (calculated based on the Cancellation Price). The Proposal falls within the range of the P/E ratios and is less favourable than the average P/E ratios of the Comparable Companies. As the Comparable Companies are (i) overseas-listed with revenue generated substantially from places other than the PRC; (ii) not principally engaging in the provision of ceramic tile products; or (iii) with a particularly high P/E ratio which is considered to be an outlier, we consider the analysis does not form a material basis in assessing the fairness of the Cancellation Price.

The Rollover Arrangement

The Proposal and the Scheme are conditional upon the Rollover Arrangement. As the Participating Shareholders have extensive operational and industrial expertise in the PRC home improvement and the ceramic tile industry, their continued contributions to the Group is important for the Group to implement long-term growth strategies subsequent to the privatisation of the Company. The Rollover Arrangement is to incentivise the Participating Shareholders to continue to contribute to the Company after its privatisation and without that arrangement the Joint Offerors would not be willing to put forward the Proposal.

If the Scheme becomes effective, the Shareholders' interests would no longer be protected by the regulations applicable to listed companies subsequent to the withdrawal of the listing of the Shares on the Stock Exchange. Such Shareholders may also find it difficult to realise their shareholdings as no public trading of the Shares would be available. In addition, we consider that only the Participating Shareholders make a more fully informed assessment of the risks involved in the uncertainties regarding the growth of the Group, as set out above.

PART VI — LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Rollover Arrangement is one of the Conditions Precedents of the Proposal and the Scheme, under which the Shareholders are given the opportunity to realise their investment at the Cancellation Price which is considered to be fair and reasonable, given that (i) historical performance of the Shares did not reflect the operational achievement of the Company, where the Scheme offers an opportunity for the Shareholders to obtain capital gain on their investment; (ii) the Cancellation Price offers a more favourable ROI than the market average returns; (iii) the Cancellation Price represents a premium of approximately 60.4% over the Adjusted NAV of the Group; and (iv) premiums of the Proposal and the Scheme over the 90 days and 120 days Share price averages are above the corresponding means of premiums of the Privatisation Precedents and premiums of the Proposal and the Scheme over the 30 days and 180 days Share price averages are close to the corresponding means of premiums of the Privatisation Precedents.

Taking into account that the terms of the Rollover Agreement is acceptable for the purpose of retaining the Participating Shareholders as the Shareholders after the Scheme becomes effective so that the Joint Offerors would put forward the Proposal, together with the fact that (i) the Rollover Arrangement is part and parcel of the Proposal and the Scheme if the Independent Shareholders are to vote in favour of the Scheme; (ii) the Joint Offerors are not willing to put forward the Proposal, without the Participating Shareholders remaining as Shareholders; (iii) only the Participating Shareholders can take a fully informed view of the risks of the prospects of the Group; (iv) the Independent Shareholders' interests in the Company would no longer be safeguarded by regulatory mechanisms applicable to listed companies on the Stock Exchange subsequent to the withdrawal of listing of the Shares in the case where the Independent Shareholders were given the opportunity to be the Participating Shareholders; and (v) the Independent Shareholders would be able to benefit from the Scheme which would only be available to them following the approval of the Rollover Arrangement, we are of the view that the Rollover Arrangement is fair and reasonable.

OPINION AND RECOMMENDATIONS

Based on the above principal factors and reasons, we consider the terms of the Proposal, the Scheme and the Rollover Arrangement are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the relevant resolutions to be proposed (i) at the EGM to approve the Rollover Arrangement; and (ii) at the Court Meeting and the EGM to approve and implement the Scheme.

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED
David Ching
Director

Mr. David Ching is a licensed person registered with the Securities and Futures Commission and a responsible officer of Somerley Capital Limited, which is licensed under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. He has over ten years of experience in the corporate finance industry.

PART VII — EXPLANATORY MEMORANDUM

This Explanatory Memorandum constitutes the statement required under Order 102, rule 20(4)(e) of the Rules of the Grand Court of the Cayman Islands 1995 (revised).

SCHEME OF ARRANGEMENT TO CANCEL ALL THE SCHEME SHARES IN CONSIDERATION OF THE JOINT OFFERORS AGREEING TO PAY THE CANCELLATION PRICE

1. INTRODUCTION

The Joint Offerors and the Company jointly issued an announcement dated 18 February 2016, which stated that on 30 January 2016, the Joint Offerors requested the Board of the Company to put forward the Proposal to the Scheme Shareholders regarding the proposed privatisation of the Company by way of the Scheme.

The Scheme and the Proposal involve the cancellation of all the Scheme Shares in exchange for the Cancellation Price, as a result of which it is intended that the Company will be owned by the Joint Offerors as to 42.61% and 14.54% assuming no Share Options are exercised before the Scheme Record Date and the listing of the Shares on the Stock Exchange will be withdrawn. The expected last date for trading in the Shares on the Stock Exchange will be Tuesday, 14 June 2016.

The purpose of this Explanatory Memorandum is to explain the terms and effects of the Proposal, which are to be implemented by the Scheme, and to provide Shareholders with other relevant information in relation to the Scheme and the Proposal, in particular, to provide the intentions of the Joint Offerors with regard to the Company and the shareholding structure of the Company before and after the Scheme and the Proposal.

Particular attention of the Shareholders is drawn to the following sections of this Scheme Document: (a) the Letter from the Board set out in Part IV of this Scheme Document; (b) the Letter from the Independent Board Committee set out in Part V of this Scheme Document; (c) the Letter from the Independent Financial Adviser set out in Part VI of this Scheme Document; and (d) the terms of the Scheme set out in Appendix IV to this Scheme Document.

2. TERMS OF THE SCHEME AND THE PROPOSAL

The Proposal is to be implemented by way of the Scheme by the Joint Offerors.

Under the Scheme, the Scheme Shares will be cancelled and, in consideration thereof, each Scheme Shareholder whose name appears on the register of members of the Company as at the Scheme Record Date will be entitled to receive the Cancellation Price. The Cancellation Price will not be increased, and the Joint Offerors do not reserve the right to do so.

PART VII — EXPLANATORY MEMORANDUM

Shareholders whose names appear on the register of members of the Company as at the record date for entitlement to a dividend (if any) declared by the Company on or before the Effective Date will be entitled to receive such dividend (if any). The Company does not expect to declare any further dividend on or before the Effective Date.

As at the Latest Practicable Date, the authorised share capital of the Company was US\$50,000 divided into 25,000,000,000 Shares of par value US\$0.000002, and the issued share capital of the Company was approximately US\$2,536.16 divided into 1,268,077,800 Shares of par value US\$0.000002. All of the Shares rank equally in all respects as regards to rights to capital, dividends and voting. As at the Latest Practicable Date, the Shareholders (other than the Joint Offerors and Joint Offerors Concert Parties) were interested in 332,169,000 Shares, representing approximately 26.19% of the issued share capital of the Company.

As at the Latest Practicable Date, there were 11,125,000 Share Options granted under the Pre-IPO Share Option Scheme, each giving the holder of each Share Option the right to subscribe for one new Share. The exercise price of the Share Options is HK\$0.01 per Share.

In the event that any Share Option is vested and exercised prior to the Meeting Record Date, the relevant registered holder of the Shares converted from such Share Option shall be entitled to attend and vote at the Court Meeting and the EGM in respect of the relevant Shares. In the event that any Share Option is vested and exercised prior to the Scheme Record Date, the relevant holder of the Shares converted from such Share Option shall be subject to and eligible for the Scheme.

Any holder of Share Options whose Share Options remain unvested or whose Share Options have vested but have not been exercised as at the Meeting Record Date and/or the Scheme Record Date (as the case may be), will not be entitled to attend and vote at the Court Meeting and the EGM in respect of such Share Options, and will not be eligible to participate in the Scheme.

Apart from Mr. HE Xinming, Mr. CHEN Kunlie and the Senior Management Shareholders, there are no Optionholders who are Joint Offeror Concert Parties. Save for 11,125,000 Share Options, there are no outstanding options, warrants, derivatives or other securities issued by the Company that carry a right to subscribe for or which are convertible into Shares.

No offer will be made for the Share Options in accordance with Rule 13 of the Takeovers Code. Please see the paragraph headed “9. Share Options” in this part for further details.

After the Scheme becomes effective, the listing of the Shares on the Stock Exchange will be withdrawn and the Company will be owned by the Joint Offerors as to 42.61% and 14.54% assuming no Share Options are exercised before the Scheme Record Date. The Scheme and the Proposal are conditional upon the fulfilment or waiver, as applicable, of the Conditions as described in the paragraph headed “4. Conditions of the Proposal and the Scheme” below. All the Conditions will have to be fulfilled or waived, as applicable, on or before the Long Stop Date (or such later date as the Joint Offerors and the Company may agree or, to the extent applicable, as the Executive may consent and the Grand Court may direct), failing which the Scheme and the Proposal will lapse. Further announcements on any changes regarding the timetable of the Scheme and the Proposal will be made as and when necessary.

PART VII — EXPLANATORY MEMORANDUM

If the Scheme and the Proposal do not become unconditional, the Company has no intention to seek the immediate withdrawal of the listing of the Shares on the Stock Exchange.

Settlement of the Cancellation Price will be implemented in full in accordance with the terms of the Scheme and the Proposal, respectively, without regard to any lien, right of set-off, counterclaim or other analogous right to which the Joint Offerors may otherwise be, or claim to be, entitled against any such Scheme Shareholder.

3. CANCELLATION CONSIDERATION

The Cancellation Price represents:

- a premium of approximately 31.76% over the closing price of HK\$3.40 per Share as quoted on the Stock Exchange on the Last Trading Day;
- a premium of approximately 46.89% over the average closing price of approximately HK\$3.05 per Share based on the daily closing prices as quoted on the Stock Exchange for the 30 trading days up to and including the Last Trading Day;
- a premium of approximately 51.86% over the average closing price of approximately HK\$2.95 per Share based on the daily closing prices as quoted on the Stock Exchange for the 60 trading days up to and including the Last Trading Day;
- a premium of approximately 50.34% over the average closing price of approximately HK\$2.98 per Share based on the daily closing prices as quoted on the Stock Exchange for the 120 trading days up to and including the Last Trading Day;
- a premium of approximately 35.76% over the average closing price of approximately HK\$3.30 per Share based on the daily closing prices as quoted on the Stock Exchange for the 180 trading days up to and including the Last Trading Day;
- a premium of approximately 7.95% over the closing price of HK\$4.15 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- a premium of approximately 67.8% over the audited net assets value per Share attributable to the Shareholders of approximately RMB2.24 (equivalent to approximately HK\$2.67) as at 31 December 2015; and
- a premium of approximately 60.4% over the adjusted net assets value per Share of approximately HK\$2.79 as at 31 December 2015, the calculation of which is set out in the section headed “5 Adjusted NAV” in Appendix I to this Scheme Document.

PART VII — EXPLANATORY MEMORANDUM

4. CONDITIONS OF THE PROPOSAL AND THE SCHEME

The implementation of the Proposal is, and the Scheme will become effective and binding on the Company and all Shareholders, subject to the fulfilment or waiver (as applicable) of the following conditions:

- (a) the approval of the Scheme (by way of poll) by a majority in number of the Scheme Shareholders representing not less than 75% in value of the Scheme Shares held by the Scheme Shareholders present and voting either in person or by proxy at the Court Meeting;
- (b) the approval of the Scheme (by way of poll) by Independent Shareholders holding at least 75% of the votes attaching to the Scheme Shares held by Independent Shareholders that are voted either in person or by proxy at the Court Meeting; provided that the number of votes cast (by way of poll) by Independent Shareholders present and voting either in person or by proxy at the Court Meeting against the resolution to approve the Scheme at the Court Meeting is not more than 10% of the votes attaching to all Scheme Shares held by the Independent Shareholders;
- (c) (i) the passing of a special resolution by a majority of not less than three-fourths of the votes cast by the Shareholders present and voting in person or by proxy at an extraordinary general meeting of the Company to approve and give effect to the reduction of the share capital of the Company by cancelling and extinguishing the Scheme Shares, and (ii) the passing of an ordinary resolution by the Shareholders at an extraordinary general meeting of the Company to immediately thereafter increase the issued share capital of the Company to the amount prior to the cancellation of the Scheme Shares and apply the reserve created as a result of the aforesaid cancellation of the Scheme Shares to pay up in full at par such number of new Shares as is equal to the number of Scheme Shares cancelled as a result of the Scheme, credited as fully paid for issuance to the Joint Offerors;
- (d) the Grand Court's sanction of the Scheme (with or without modifications) and the Grand Court's confirmation of the reduction of the share capital of the Company, and the delivery to the Registrar of Companies in the Cayman Islands of a copy of the order of the Grand Court for registration;
- (e) (i) the receipt of an opinion from the Independent Financial Adviser confirming that the Rollover Arrangement is fair and reasonable, (ii) the passing of an ordinary resolution by the Independent Shareholders at an extraordinary general meeting of the Company to approve the Rollover Arrangement, and (iii) the consent from the Executive to the Rollover Arrangement;
- (f) compliance, to the extent necessary, with the procedural requirements and conditions, if any, under Sections 15 and 16 of the Companies Law in relation to the reduction of the issued share capital of the Company;
- (g) all Authorisations in connection with the Proposal having been obtained from, given by or made with (as the case may be) the Relevant Authorities in the Cayman Islands, Hong Kong and any other relevant jurisdictions;

PART VII — EXPLANATORY MEMORANDUM

- (h) all Authorisations in connection with the Proposal remaining in full force and effect without variation, and all necessary statutory or regulatory obligations in all relevant jurisdictions having been complied with and no requirement having been imposed by any Relevant Authorities which is not expressly provided for, or is in addition to requirements expressly provided for, in any relevant laws, rules, regulations or codes in connection with the Proposal or any matters, documents (including circulars) or things relating thereto, in each aforesaid case up to and at the time when the Scheme becomes effective;
- (i) all necessary consents which may be required for the implementation of the Proposal and the Scheme under any existing contractual obligations of the Company being obtained by the relevant party(ies), where any failure to obtain such consent or waiver would have a material adverse effect on the business of the Group;
- (j) no government, governmental, quasi-governmental, statutory or regulatory body, court or agency in any jurisdiction having taken or instituted any action, proceeding, suit, investigation or enquiry or enacted, made or proposed, and there not continuing to be outstanding, any statute, regulation, demand or order that would make the Proposal or the Scheme or its implementation in accordance with its terms void, unenforceable, illegal or impracticable (or which would impose any material and adverse conditions or obligations with respect to the Proposal or the Scheme or its implementation in accordance with its terms), other than such actions, proceedings, suits, investigations or enquiries as would not have a material adverse effect on the legal ability of the Joint Offerors to proceed with the Proposal or the Scheme; and
- (k) since 18 February 2016, there having been no adverse change in the business, assets, financial or trading positions, profits or prospects of any member of the Group (to an extent which is material in the context of the Group taken as a whole or in the context of the Proposal).

The Joint Offerors reserve the right to waive conditions (g), (h), (i), (j) and (k) either in whole or in part, either generally or in respect of any particular matter. Conditions (a), (b), (c), (d), (e) and (f) cannot be waived in any event. Pursuant to Note 2 to Rule 30.1 of the Takeovers Code, the Joint Offerors may only invoke any or all of the Conditions as a basis for not proceeding with the Scheme and the Proposal if the circumstances which give rise to a right to invoke any such Condition are of material significance to the Joint Offerors in the context of the Scheme and the Proposal.

As at the Latest Practicable Date, none of the conditions has been fulfilled or waived. In respect of condition (g), as at the Latest Practicable Date, the Joint Offerors and the Company do not reasonably foresee any necessary authorisations, registrations, filings, rulings, consents, opinions, permissions and approvals required for the Proposal and the Scheme, save for the approvals set out in the Pre-Condition, the consents from the Executive and the sanction of the Grand Court.

All of the Conditions will have to be fulfilled or waived, as applicable, on or before the Long Stop Date (or such later date as the Joint Offerors and the Company may agree or, to the extent applicable, as the Executive may consent and the Grand Court may direct), failing which the Proposal and the Scheme will lapse. The Company has no right to waive any of the Conditions.

PART VII — EXPLANATORY MEMORANDUM

Assuming that the above Conditions are fulfilled (or, as applicable, waived in whole or in part), it is expected that the Scheme will become effective on or before Monday, 20 June 2016 (Cayman Islands time). Further announcements will be made including, in particular, in relation to (i) the results of the Court Meeting and the EGM and, if the resolutions are passed at those meetings; (ii) the result of the Grand Court hearing of the petition to sanction of the Scheme and to confirm the capital reduction; (iii) the Scheme Record Date; (iv) the Effective Date and the withdrawal of the listing of the Shares on the Stock Exchange as further set out in “Part III — Expected Timetable” of this Scheme Document.

If the Scheme is not approved or the Proposal otherwise lapses, the Company has no intention to seek the immediate withdrawal of the listing of the Shares on the Stock Exchange. An announcement will be made in due course in such event.

Shareholders and/or potential investors should be aware that the implementation of the Scheme and the Proposal is subject to the Conditions being fulfilled or waived, as applicable, and thus the Proposal may or may not be implemented and the Scheme may or may not become effective. Shareholders and potential investors should therefore exercise caution when dealing in the securities of the Company. Persons who are in doubt as to the action they should take should consult their licensed securities dealer or registered institution in securities, bank manager, solicitor or other professional advisers.

5. THE SCHEME AND THE COURT MEETING

Pursuant to Section 86 of the Companies Law, where an arrangement is proposed between a company and its members or any class of them, the Grand Court may, on the application of the company or any member of the company, order a meeting of the members of the company or class of members, as the case may be, to be summoned in such manner as the Grand Court directs.

It is expressly provided in Section 86 of the Companies Law that if a majority in number representing 75% in value of the members or class of members, as the case may be, present and voting either in person or by proxy at the meeting held as directed by the Grand Court as aforesaid, agree to any arrangement, the arrangement shall, if sanctioned by the Grand Court, be binding on all members or class of members, as the case may be, and also on the company. For the avoidance of doubt, the Grand Court will be requested to order the convening of a meeting of a class of members being the Scheme Shareholders.

PART VII — EXPLANATORY MEMORANDUM

6. ADDITIONAL REQUIREMENTS AS IMPOSED BY RULE 2.10 OF THE TAKEOVERS CODE

In addition to satisfying any requirements imposed by law as summarised above, other than with the consent of the Executive to dispense with compliance or strict compliance therewith, Rule 2.10 of the Takeovers Code requires that the Scheme may only be implemented if:

- (a) the Scheme is approved by at least 75% of the votes attaching to the Scheme Shares held by the Independent Shareholders that are cast either in person or by proxy at the Court Meeting; and
- (b) the number of votes cast by the Independent Shareholders present and voting either in person or by way of proxy at the Court Meeting against the resolution to approve the Scheme at the Court Meeting is not more than 10% of the votes attaching to all Scheme Shares held by all the Independent Shareholders.

For the purpose of this vote, the Independent Shareholders comprise all the Shareholders as at the Meeting Record Date other than the Joint Offerors, the Joint Offeror Concert Parties and any other Shareholders who are interested in or involved in the Proposal, the Rollover Arrangement, the loan agreement entered into between Profit Strong and the Participating Shareholders as set out in the section headed “15. Dividend Payment and Loan Agreement” in this Explanatory Memorandum, the Special Dividend and the Scheme. For the avoidance of doubt, the Independent Shareholders include any member of the CICC group acting in its capacity as a Registered Owner of the Shares held on behalf of a Beneficial Owner where the Beneficial Owner (i) controls the voting rights attaching to those Shares; (ii) if the Shares are voted, gives instructions as to how those Shares are to be voted; and (iii) is not a Joint Offeror or a Joint Offeror Concert Party. Shareholders that are not Independent Shareholders will be required to abstain from voting at the Court Meeting in accordance with the Takeovers Code.

As at the Latest Practicable Date, the Independent Shareholders held in aggregate 332,169,000 Scheme Shares. On that basis, and assuming no Share Options are exercised before the Meeting Record Date, 10% of the votes attached to Scheme Shares held by all the Independent Shareholders referred to in (b) above therefore represent approximately 33,216,900 Shares as at the Latest Practicable Date.

7. BINDING EFFECT OF THE SCHEME AND THE PROPOSAL

Upon the Scheme and the Proposal becoming effective, it will be binding on the Company and all the Shareholders, regardless of how they voted (or whether they voted) at the Court Meeting and the EGM.

PART VII — EXPLANATORY MEMORANDUM

8. SCHEME SHARES

On the assumption that no outstanding Share Options are exercised before the Scheme Record Date and that there is no change in shareholdings of the Company, the table below sets out the shareholding structure of the Company as at the Latest Practicable Date and immediately upon completion of the Proposal:

Shareholders	As at the Latest Practicable Date		Upon completion of the Proposal	
	Number of Shares	%	Number of Shares	%
Joint Offerors				
Profit Strong ¹	392,518,463	30.95	540,349,629	42.61
Max Glory	—	—	184,337,834	14.54
Joint Offeror Concert Parties				
Sequoia Existing Shareholders ²	97,552,800	7.69	97,552,800	7.69
Mr. HE Xinming ³	3,750,000	0.30	3,750,000	0.30
Superb Idea ⁴	160,763,325	12.68	160,763,325	12.68
Mr. CHEN Kunlie	1,500,000	0.12	1,500,000	0.12
Cosmo Ray ⁵	33,074,966	2.61	33,074,966	2.61
High Ride ⁶	188,617,978	14.87	188,617,978	14.87
Rich Blossom ⁷	45,025,268	3.55	45,025,268	3.55
Senior Management Shareholders ⁸	13,106,000	1.03	13,106,000	1.03
Aggregate number of Shares of the Joint Offerors and the Joint Offeror Concert Parties	935,908,800	73.81	1,268,077,800	100.00
Other public Shareholders	332,169,000	26.19	—	—
Total number of Independent Shareholders	332,169,000	26.19	—	—
Total	1,268,077,800	100.00	1,268,077,800	100.00
Total number of Scheme Shares	332,169,000	26.19		

Notes:

- Profit Strong is wholly owned by Mr. HE Xinming, the controlling shareholder of the Company.
- Sequoia Growth, Sequoia Partners and Sequoia Principals hold 6.71%, 0.16% and 0.83% of the issued share capital of the Company, respectively.
- Mr. HE Xinming holds 1,875,000 Share Options, which will only vest on 1 April 2017 subject to the fulfilment of certain conditions set out in the Pre-IPO Share Option Scheme.

PART VII — EXPLANATORY MEMORANDUM

4. Superb Idea is wholly owned by Mr. CHEN Kunlie, an executive director of the Company. Mr. CHEN Kunlie also holds 750,000 Share Options, which will only vest on 1 April 2017 subject to the fulfilment of certain conditions set out in the Pre-IPO Share Option Scheme.
5. Cosmo Ray is wholly owned by Mr. SU Sen, a non-executive director of the Company.
6. High Ride's shareholders comprise HE Xinzong (23.15%), CHEN Yezhi (20.68%), OU Haoquan (20.45%), LUO Siwei (15.29%), ZHONG Baomin (9.33%), JIANG Anning (6.68%), and KUANG Zhijun (4.42%), all of whom are either current or former employees of the Group.
7. Rich Blossom's shareholders comprise BAO Jianyong (an executive director of the Company, 31.82%), FENG Zhihua (11.74%), ZHAO Haobiao (10.17%), CHEN Haihong (10.07%), LIN Zhihua (10.06%), CHEN Susong (7.69%), ZHONG Guoxiong (6.15%), LONG Xiang (6.15%) and LI Weixuan (6.15%), who are either current or former employees of the Group.
8. The Senior Management Shareholders comprise CAI Chuyang, JIN Guoting, LIN Hong, SHAO Yu, SHI Yufeng and BAO Jianyong, who are members of the senior management of the Company. The Senior Management Shareholders also hold 5,875,000 Share Options, which will only vest on 1 April 2017 subject to the fulfilment of certain conditions set out in the Pre-IPO Share Option Scheme.
9. All percentages in the above table are approximations.

Following the Effective Date and the withdrawal of listing of the Shares on the Stock Exchange, the Joint Offerors, namely Profit Strong and Max Glory, will beneficially hold 42.61% and 14.54% of the issued share capital of the Company, respectively on the assumption that no Share Options are exercised before the Scheme Record Date and there is no other change in shareholding in the Company before completion of the Proposal.

As at the Latest Practicable Date, there are 1,268,077,800 Shares in issue and the Scheme Shareholders are interested in 332,169,000 Shares, representing approximately 26.19% of the issued share capital of the Company.

As at the Latest Practicable Date, the Joint Offerors beneficially held 392,518,463 Shares representing approximately 30.95% of the issued share capital of the Company. Such Shares will not form part of the Scheme Shares and will not be voted on the Scheme at the Court Meeting. As at the Latest Practicable Date, the Joint Offeror Concert Parties legally and/or beneficially held in aggregate 543,390,337 Shares, representing approximately 42.85% of the issued share capital of the Company. The Shares legally and/or beneficially held by the Joint Offeror Concert Parties will not form part of the Scheme Shares and will not be voted on the Scheme or the Court Meeting.

Save for 11,125,000 Share Options, there were no options, warrants or convertible securities in respect of the Shares held by the Joint Offerors or the Joint Offeror Concert Parties or outstanding derivatives in respect of the Shares entered into by the Joint Offerors or the Joint Offeror Concert Parties as at the Latest Practicable Date, and save for 11,125,000 Share Options, the Company did not have in issue any warrants, options, derivatives, convertible securities or other securities convertible into the Shares as at the Latest Practicable Date.

PART VII — EXPLANATORY MEMORANDUM

9. SHARE OPTIONS

The Company adopted the Pre-IPO Share Option Scheme on 31 October 2013 pursuant to which, among others, directors of the Company (including executive directors and independent non-executive directors) and its employees are eligible for the grant of the Share Options. As at the Latest Practicable Date, there were 11,125,000 Share Options, which when exercised in full, will result in the issue of 11,125,000 new Shares, representing approximately 0.88% of the issued capital of the Company as at the Latest Practicable Date and approximately 0.87% of the issued capital of the Company as enlarged by the issue of such new Shares. The exercise price of each of those outstanding Share Option is HK\$0.01 per Share. All the 11,125,000 Share Options will only vest on 1 April 2017 subject to the fulfillment of certain conditions set out in the Pre-IPO Share Option Scheme.

In accordance with Rule 13 of the Takeovers Code, the Joint Offerors are required to make an appropriate offer to the Optionholders to cancel all outstanding Share Options, vested and unvested, in exchange for cash, being an amount equal to HK\$4.47 for each outstanding Share Option with an exercise price of HK\$0.01.

However, Mr. HE Xinming, Mr. CHEN Kunlie and the Senior Management Shareholders have each undertaken not to accept any offer for all the unvested Share Options held by them. In addition, the other Optionholders have each undertaken to irrevocably waive their rights to receive any offer for the Share Options held by them under the Takeovers Code. Accordingly, the Joint Offerors do not need to make any offer to the Optionholders in accordance with Rule 13 of the Takeovers Code. Please see “14. Rollover Arrangement” and “17. Undertaking Letters” in this Explanatory Memorandum for further details.

10. TOTAL CONSIDERATION

On the assumption that no Share Options are exercised before the Scheme Record Date, the amount of cash required to implement the Scheme would be approximately HK\$1,488.12 million.

The Joint Offerors intend to finance the cash required for the Scheme from a combination of their respective internal financial resources and available loan facilities.

CICC, the financial adviser to the Joint Offerors in connection with the Scheme and the Proposal, is satisfied that sufficient financial resources are available to each of the Joint Offerors for discharging their respective obligations in respect of the full implementation of the Proposal.

11. REASONS FOR, AND BENEFITS OF, THE SCHEME AND THE PROPOSAL

The Company plans to implement a series of long-term growth strategies including one-stop home decoration solution and development of e-commerce business, which may affect the Company's short-term growth profile in terms of profit margin, revenue growth and net profit growth, and may result in divergence between the Joint Offerors' views on the Company's potential long-term value and investors' views on the Company's share price. Following the implementation of the Proposal, the Joint Offerors and the Company can make strategic decisions focused on long-term benefits, free from the pressure of market expectations, profit visibility and share price fluctuation associated with being a publicly listed company.

PART VII — EXPLANATORY MEMORANDUM

Since its listing in December 2013, the Company's share price performance has not been satisfactory for the following reasons: (i) the net profit of the Company grew at a CAGR of 33.85% for the three years ended 31 December 2015, but the price earnings ratio of the Company remained at around 5 which is less than 6.44 at the time of its initial public offering. It is not commensurate with the growth of the Company's profit and it is way below the Company's and its controlling Shareholder's expectation; (ii) the closing price of the Shares fluctuated around HK\$ 2.56-3.68 per Share (with a medium of HK\$ 2.91 per Share) from August 2015 to the Last Trading Day, being lower than the share price upon the initial public offering of the Company, which is HK\$2.94 per Share; and (iii) the liquidity of Shares has been at a low level over a long period of time. The average daily trading volume of the Shares for the 24 months up to and including the Last Trading Day was approximately 1.11 million Shares per day, representing only approximately 0.09% of the issued Shares as at the Latest Practicable Date. The low trading liquidity of the Shares could make it difficult for the Shareholders to execute substantial on-market disposals without adversely affecting the price of the Shares and also make it difficult for the Shareholders to dispose of a large number of Shares when any event that has an adverse impact on the Company's Share price occurs.

As a leading ceramic material producer in China, the Company values its reputation. The Joint Offerors consider that the depressed share price has had an adverse impact on the Company's reputation with customers, and therefore on its business, and also on employee morale. The implementation of the Proposal could eliminate this adverse impact.

The Proposal is intended to provide the Scheme Shareholders with an opportunity to realise their investment in the Company for cash at an attractive premium without having to suffer any illiquidity discount.

In addition, the listing of Shares requires the Company to bear administrative, compliance and other listing-related costs and expenses; if these costs and expenses are eliminated, the funds saved could be used for the Company's business operations.

12. INFORMATION ON THE COMPANY

The Company is an exempted company incorporated in the Cayman Islands with limited liability whose shares have been listed on the Main Board of the Stock Exchange since 9 December 2013. The Group is principally engaged in the design, development, production, marketing and sale of a wide variety of ceramic tile products and bathroom products.

As at the Latest Practicable Date, the Company is solvent and is not unable to pay its debts as they fall due and will not become unable to do so immediately after the Latest Practicable Date.

13. INFORMATION ON THE JOINT OFFERORS

Profit Strong

Profit Strong is a company incorporated in the British Virgin Islands which is directly and wholly owned by Mr. HE Xinming, the chairman and an executive director of the Company. The principal activity of Profit Strong is investment holding.

PART VII — EXPLANATORY MEMORANDUM

Profit Strong and Superb Idea have each provided share charges over the Shares held by them (together with any Shares that may be acquired by them) and rights accruing or incidental thereto from time to time to CICC as security for Profit Strong's obligations and liabilities under a facility agreement with CICC for implementation of the Scheme ("CICC Facility"). Under Profit Strong's share charge:

- (a) Profit Strong provided share charges over the Shares held by it (together with any Shares that may be acquired by it) and rights accruing or incidental thereto from time to time ("Charged Assets") to CICC as security for Profit Strong's obligations and liabilities under the CICC Facility;
- (b) Profits Strong agreed to deliver to CICC all certificates, documents of title and other documentary evidence of ownership of the Shares held by it (together with any Shares that may be acquired by it), and any instruments of transfer and undated sold note and other relevant documents for the purpose of the charge;
- (c) Profit Strong has undertaken not to (i) create or permit any security interest or other interest or right over all or part of the Charged Assets; (ii) sell, transfer, lease, licence or otherwise dispose of any interest in the Charged Assets; or (iii) take or permit any action which is reasonably likely to depreciate the Charged Assets;
- (d) Profit Strong shall pay all dividends, interest and other monies in respect of any Charged Assets into an escrow account; and exercise voting rights in relation to the Charged Assets in accordance with the facility agreement and the charge; and
- (e) the security provided under the charge will become enforceable upon (i) the occurrence of an event of default of the facility agreement; or (ii) the making of an application or the presentation of a petition for a winding-up in relation to Profit Strong or the giving or filing by any person of notice in relation to the appointment of a receiver, or an administrator or an administrative receiver of Profit Strong.

Max Glory

Max Glory is an exempted company incorporated in the Cayman Islands. Its shares are held by Sequoia Advisors, an affiliate of the Sequoia Existing Shareholders, but it is effectively controlled by Sequoia RMB SP Fund through the voting proxy and other arrangements under a share purchase agreement between Sequoia RMB SP Fund, Sequoia Advisors and Max Glory. Pursuant to the share purchase agreement, (a) Sequoia Advisors has granted an irrevocable voting proxy to Sequoia RMB SP Fund for all the matters of Max Glory that require its shareholder's approval until the termination of the share purchase agreement or the closing of the share purchase set out in (d) below and cause the director of Max Glory to act in accordance with the instructions of Sequoia RMB SP Fund during the same period; (b) Sequoia RMB SP Fund will indemnify Sequoia Advisors for all losses that may result therefrom; (c) Sequoia RMB SP Fund will be solely responsible for arranging financial resources for Max Glory for the purpose of the Scheme; and (d) subject to the satisfaction of the Pre-Condition, Sequoia RMB SP Fund will purchase the entire issued share capital of Max Glory from Sequoia Advisors at par value.

PART VII — EXPLANATORY MEMORANDUM

Max Glory's principal business is investment holding. Sequoia RMB SP Fund is a limited partnership established under the PRC law and managed by its general partner 北京紅杉坤德投資管理中心 (有限合夥). The general partner of 北京紅杉坤德投資管理中心 (有限合夥) is 上海桓遠投資管理有限公司. The sole director of 上海桓遠投資管理有限公司 is Mr. ZHOU Kui.

Joint Offeror Concert Parties

Profit Strong is directly and wholly owned by Mr. HE Xinming. Accordingly, Mr. HE Xinming is presumed to be acting in concert with Profit Strong under class (1) of the definition of "acting in concert" in the Takeovers Code.

As stated above, Max Glory is effectively controlled by Sequoia RMB SP Fund and is wholly owned by Sequoia Advisors, an affiliate of Sequoia Existing Shareholders. Accordingly, the Sequoia Existing Shareholders are presumed to be acting in concert with Max Glory under class (1) of the definition of "acting in concert" in the Takeovers Code. The general partner of all Sequoia Existing Shareholders, namely, Sequoia Growth, Sequoia Partners and Sequoia Principals, is Sequoia Capital China Growth Fund Management I, L.P., whose general partner is SC China Holding Limited. SC China Holding Limited is a wholly owned subsidiary of SNP China China Enterprise Limited, which is wholly owned by Mr. SHEN Nanpeng.

The Participating Shareholders are Joint Offerors Concert Parties on the following basis:

- (a) Key Participating Shareholders presumed to be acting in concert with the Joint Offerors. Mr. CHEN Kunlie and Mr. BAO Jianyong are both executive directors of the Company and Mr. SU Sen is a non-executive director of the Company. Mr. HE Xinzhong is Mr. HE Xinming's brother. Mr. HE Xinming is an executive director and a controlling shareholder of the Company and directly holds a 100% equity interest in Profit Strong, a Joint Offeror. Accordingly, when the Joint Offerors approached the directors of the Company including Mr. CHEN Kunlie, Mr. SU Sen and Mr. BAO Jianyong to discuss the Scheme, they have been presumed to be acting in concert with the Joint Offerors under class (6) of the definition of "acting in concert" in the Takeovers Code. In addition, as Mr. HE Xinzhong is a close relative of Mr. HE Xinming, Mr. HE Xinzhong is presumed to be acting in concert with Mr. HE Xinming under class (8) of the definition of "acting in concert" in the Takeovers Code.
- (b) Loan arrangement. Pursuant to the loan agreement as set out in the section headed "15. Dividend Payment and Loan Agreement" in this Explanatory Memorandum, Profit Strong will borrow from the Participating Shareholders an amount equal to their respective share of the Special Dividend to repay part of Profit Strong's bank loan. Given this financial assistance arrangement in connection with the Scheme, the Participating Shareholders are presumed to be acting in concert with Profit Strong under class (9) of the definition of "acting in concert" in the Takeovers Code.
- (c) Historical concert party arrangements. Mr. HE Xinming, Mr. CHEN Kunlie, Mr. SU Sen, and a majority of the High Ride shareholders comprising Mr. HE Xinzhong, Mr. CHEN Yezhi, Mr. OU Haoquan, Mr. LUO Siwei and Mr. ZHONG Baomin (together, the "Historical

PART VII — EXPLANATORY MEMORANDUM

Concert Parties”), have been acquainted with each other since 1997 as colleagues of Shiwan Central Factory, the Company’s predecessor. On 7 April 2006, they entered into an oral agreement in respect of the management of the Group as a group of persons acting in concert (the “Oral Agreement”). Pursuant to the Oral Agreement, Mr. HE Xinming had taken the leading role in the decision-making, operation, and management of the Group since 7 April 2006. The other Historical Concert Parties had supported Mr. HE Xinming’s decisions in relation to the operation and management of the Group by exercising their voting rights at the shareholders’ meetings and board meetings of the Group members in accordance with the decisions of Mr. HE Xinming since then. On 6 June 2013, Mr. HE Xinming and the other Historical Concert Parties entered into a confirmation and an undertaking to confirm the existence of such concert party arrangement set out in the Oral Agreement, which was disclosed in the prospectus of the Company dated 18 November 2013.

Although Mr. HE Xinming entered into a termination deed with the other Historical Concert Parties on 16 February 2015 to terminate the concert party arrangement between them, nearly a decade of concert party arrangement among Mr. HE Xinming and the other Historical Concert Parties, which includes most of the key Participating Shareholders, presents strong evidence to support their concert party relationship given the newly proposed concert party arrangements described above.

14. ROLLOVER ARRANGEMENT

The Joint Offerors would like to allow the Participating Shareholders to retain their respective shareholdings in the Company after the Scheme becomes effective. The Participating Shareholders hold 34.86% of the issued share capital of the Company as at the Latest Practicable Date.

A substantial majority of the Participating Shareholders are directors, senior management, or other employees of the Company. They constitute a key part of the management team of the Group that has extensive operational expertise and an in-depth understanding of the PRC home improvement industry with over 10 to 30 years of relevant experience, as well as long-established relationships with suppliers, regulators, local authorities, management and employees of the Group. It is believed that the Participating Shareholders can contribute to the Company in the areas of production management, strategic planning, financial management, technology research and development, human resources management and product development. Therefore, it is important for the Company to retain them as Shareholders after the completion of the Scheme so that they will have incentives to continue to contribute to the development of the Group.

Rollover Agreement

The Joint Offerors and each of the Participating Shareholders have entered into the Rollover Agreement. Under the Rollover Agreement:

- (a) subject to, among others, the Independent Shareholders’ approval as set out in the section headed “Independent Shareholders’ Approval” below, the Participating Shareholders will

PART VII — EXPLANATORY MEMORANDUM

remain as Shareholders after the Scheme becomes effective and none of the Shares held by the Participating Shareholders (including any Shares held by them as a result of exercising the Share Options before the Scheme Record Date) will constitute Scheme Shares or will be voted on the Scheme at the Court Meeting;

- (b) the Participating Shareholders have each undertaken, to the extent permitted under the Takeovers Code, the Listing Rules and applicable laws, to exercise, or as the case may be, to procure the exercise of the voting rights in respect of the Shares owned by them directly on resolutions in relation to the Scheme in accordance with the Joint Offerors' directions, and in the absence of any such directions, to vote in favor of all resolutions which are necessary to implement the Scheme proposed at a general or class meeting of the Company, and that they shall be bound by, and take all actions necessary to implement, the Scheme;
- (c) Mr. CHEN Kunlie and the Senior Management Shareholders have each undertaken to exercise their Share Options immediately after the Share Options vest on 1 April 2016 and before the Scheme Record Date and will not accept the offer for all the unvested Share Options held by them;
- (d) the Participating Shareholders have further undertaken that they shall not, directly or indirectly, sell, transfer, charge, encumber, grant any option over or otherwise dispose of any interest in any of the Shares held by them, nor will they accept any other offer in respect of all or any of such Shares; and
- (e) the Participating Shareholders will remain on the register of the Company immediately after the Scheme becomes effective and shall be entitled to the Special Dividend as set out in "15. Dividend Payment and Loan Agreement" in this Explanatory Memorandum.

The Rollover Agreement will be terminated if the Scheme lapses or is withdrawn in accordance with its terms.

Independent Shareholders' Approval

As the Rollover Agreement was only entered into by and between the Joint Offerors and the Participating Shareholders and the Rollover Arrangement thereunder is not offered to all Shareholders, the Rollover Arrangement requires the consent of the Executive under Note 3 to Rule 25 of the Takeovers Code. The Joint Offerors have made an application for consent from the Executive in relation to the Rollover Arrangement conditional on the Independent Financial Adviser confirming that the Rollover Arrangement is fair and reasonable, and the passing of an ordinary resolution by the Independent Shareholders (by way of poll) at an extraordinary general meeting of the Company to approve the Rollover Arrangement. Accordingly, as set out in Condition (e), the Proposal and the Scheme are subject to (i) the receipt of an opinion from the Independent Financial Adviser confirming that the Rollover Arrangement is fair and reasonable, and (ii) the passing of an ordinary resolution by the Independent Shareholders (by way of poll) at an extraordinary general meeting of the Company to approve the Rollover Arrangement.

PART VII — EXPLANATORY MEMORANDUM

15. DIVIDEND PAYMENT AND LOAN AGREEMENT

Under the Consortium Agreement, the Joint Offerors have agreed to procure that the Company declares and pays the Special Dividend in cash of an aggregate amount of HK\$735.09 million within 3 business days after the withdrawal of the listing of the Shares on the Stock Exchange becomes effective to the Post-Scheme Shareholders in proportion to their shareholdings in the Company at that time.

The Participating Shareholders have entered into a loan agreement with Profit Strong, pursuant to which each Participating Shareholder has agreed to provide Profit Strong with a loan in an amount equal to the amount of its entitlement from the Special Dividend without any interest for a term of two years commencing from the date of the Participating Shareholders having received their share of the Special Dividend and transferred such principal amount to Profit Strong. Such loans will amount to HK\$256.27 million in total.

16. CONSORTIUM AGREEMENT

Profit Strong and Max Glory have entered into the Consortium Agreement pursuant to which they have agreed, among other things, that:

- (a) the new Shares as are equal to the number of Scheme Shares will be issued to Profit Strong as to 44.50% and Max Glory as to 55.50%;
- (b) all decisions relating to the Proposal will be made jointly by the Joint Offerors;
- (c) each Joint Offeror shall ensure to arrange sufficient financial resources to announce and implement the Scheme and the option offer and to fulfill their respective payment obligations under the Scheme and the option offer and to comply with the requirements of the Takeovers Code on a several but not joint basis;
- (d) before the Scheme becomes effective, lapses or is withdrawn, each party shall not sell, transfer, charge, encumber, grant any option over or otherwise dispose of any interest in any of the Shares held by it, nor will it accept any other offer in respect of all or any of such, except for the security granted or to be granted under its relevant financing arrangement for implementation of the Scheme;
- (e) none of the Joint Offerors shall acquire, subscribe for or otherwise deal in the Shares, convertible securities, options or other securities of the Company without the prior consent of the other Joint Offeror;
- (f) the Joint Offerors shall procure that the Company declares and pays the Special Dividend in cash of an aggregate amount of HK\$735.09 million within 3 business days after the withdrawal of the listing of the Shares on the Stock Exchange becomes effective to the Post-Scheme Shareholders in proportion to their shareholdings in the Company at that time; and

PART VII — EXPLANATORY MEMORANDUM

- (g) without the prior written consent of the other Joint Offeror, upon the Scheme becoming effective, no Joint Offeror, if applicable, shall exercise its voting rights to agree to the: (i) change or alteration of the share capital of the Company; (ii) disposal of all or substantially all of the assets of the Company; (iii) amendment to the memorandum and articles of association of the Company; or (iv) appointment or removal of any director of the Company.

17. UNDERTAKING LETTERS

The remaining Optionholders (i.e. the Optionholders other than Mr. HE Xinming, Mr. CHEN Kunlie and the Senior Management Shareholders), who are currently employees of the Group, have each given an undertaking letter to the Joint Offerors, pursuant to which they have undertaken:

- (a) to irrevocably waive their rights to receive any offer for the outstanding Share Options held by them under the Takeovers Code from the Joint Offerors arising from the Proposal and the Scheme;
- (b) not to accept any offer for a Share Option which has lapsed or will have lapsed before the Scheme Record Date;
- (c) not to exercise the Share Options prior to the completion of the Scheme, except for the 375,000 Share Options held by LIANG Huicai, a vice president of the Group, who has undertaken to exercise such 375,000 Options immediately after such Share Options become vested on or around 1 April 2016 and before the Scheme Record Date, and all Shares issued as a result of the exercise of such Share Options shall become part of the Scheme Shares and he would vote in favor of the Scheme in respect of such Shares;
- (d) that they will not, prior to the completion of the Scheme: (i) offer, sell, give, transfer, pledge, encumber, charge, or grant any right over or otherwise dispose of or deal with any of the Share Options or any interest therein; (ii) enter into any swap or other arrangement that transfers to another party in whole or in part any of the legal, beneficial or economic consequences of ownership of, any of the Share Options or any interest therein; (iii) subject any of the Share Options to any encumbrance are set out in (i); or (iv) enter into any agreement with a view to effecting any of the foregoing, in each case, whether directly or indirectly and whether beneficially, legally or otherwise;
- (e) not to, whether directly or indirectly, take any action which will preclude, prejudice, restrict or delay the successful outcome of the Proposal or the Scheme; and
- (f) to irrevocably waive and shall not bring any claims nor action against the Company in respect of the Share Options held by them.

The Undertaking Letters will terminate and cease to have any effect upon the Scheme having been withdrawn, lapsed or closed.

PART VII — EXPLANATORY MEMORANDUM

18. INTENTIONS OF THE JOINT OFFERORS AND THE COMPANY

The Joint Offerors and the Company intend to continue the existing business of the Company upon successful implementation of the Scheme and the Proposal. The Joint Offerors and the Company have no intention to make any major changes to the existing operation and business, or to discontinue the employment of the employees of the Group nor do they have any plans to redeploy any of the fixed assets of the Group after implementation of the Scheme and the Proposal. However, the Joint Offerors and the Company will continue to assess business opportunities as they arise.

19. WITHDRAWAL OF LISTING OF SHARES

Upon the Scheme becoming effective, all Scheme Shares will be cancelled and the share certificates in respect of the Scheme Shares will thereafter cease to have effect as documents or evidence of title.

The Company will apply to the Stock Exchange for the withdrawal of the listing of the Shares on the Stock Exchange, in accordance with Rule 6.15 of the Listing Rules, immediately following the Effective Date.

The Scheme Shareholders will be notified by way of an announcement of the exact dates of the last day for dealing in the Shares on the Stock Exchange and the day on which the Scheme and the withdrawal of the listing of the Shares on the Stock Exchange will become effective. A detailed timetable of the Scheme has been included in “Part III — Expected Timetable” in this Scheme Document.

20. IF THE SCHEME IS NOT APPROVED OR THE PROPOSAL LAPSES

The listing of the Shares on the Stock Exchange will not be withdrawn if the Scheme does not become effective or the Proposal otherwise lapses.

If the Scheme is not approved or the Proposal otherwise lapses, there are restrictions under the Takeovers Code on making subsequent offers, to the effect that neither the Joint Offerors nor any person who acted in concert with them in the course of the Proposal (nor any person who is subsequently acting in concert with any of them) may within 12 months from the date on which the Scheme is not approved or the Proposal otherwise lapses announce an offer or possible offer for the Company, except with the consent of the Executive.

If the Independent Board Committee or the Independent Financial Adviser does not recommend the Proposal, and the Scheme is not approved, all expenses incurred by the Company in connection therewith shall be borne by the Joint Offerors in accordance with Rule 2.3 of the Takeovers Code.

PART VII — EXPLANATORY MEMORANDUM

21. OVERSEAS SHAREHOLDERS

The making of the Proposal to the Scheme Shareholders who are not resident in Hong Kong may be subject to the laws of the relevant jurisdictions in which such Scheme Shareholders are located. Such Scheme Shareholders should inform themselves about and observe any applicable legal, tax or regulatory requirements. It is the responsibility of any overseas Scheme Shareholders wishing to take any action in relation to the Scheme and the Proposal to satisfy themselves as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consents which may be required, or the compliance with any other necessary formalities and the payment of any issue, transfer or other taxes due in such jurisdiction. Any acceptance by such Scheme Shareholders will be deemed to constitute a representation and warranty from such persons to the Joint Offerors, the Company and their respective advisers, including the financial adviser to the Joint Offerors, that those local laws and regulatory requirements have been complied with.

Scheme Shareholders are recommended to consult their own professional advisers if they are in any doubt as to their positions.

22. REGISTRATION AND PAYMENT

Assuming that the Scheme Record Date falls on Monday, 20 June 2016, it is proposed that the register of members of the Company will be closed from Friday, 17 June 2016 onwards (or such other date as the Shareholders may be notified by way of an announcement) in order to establish entitlements under the Scheme. In order to qualify for entitlements under the Scheme, the Shareholders should ensure that their Shares are lodged with the Hong Kong branch share registrar of the Company for registration in their names or in the names of their nominees before 4:30 p.m. on Thursday, 16 June 2016. The Hong Kong branch share registrar of the Company is Computershare Hong Kong Investor Services Limited, which is located at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

Payment of the Cancellation Price to Scheme Shareholders

Upon the Scheme becoming effective, payment of the Cancellation Price for the Scheme Shares will be made to the Scheme Shareholders whose names appear on the register of members of the Company as at the Scheme Record Date. On the basis that the Scheme becomes effective on or about Monday, 20 June 2016 (Cayman Islands time), cheques for payment of the Cancellation Price will be paid for by the Joint Offerors as soon as possible but in any event within 7 business days (as defined in the Takeovers Code) following the Scheme having become effective and accordingly, the cheques are expected to be dispatched on or before Wednesday, 29 June 2016. In the absence of any specific instructions to the contrary received in writing by Computershare Hong Kong Investor Services Limited, the Hong Kong branch share registrar of the Company, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, cheques will be sent by ordinary post addressed to the persons entitled thereto at their respective registered addresses or, in the case of joint holders, to the registered address of that joint holder whose name stands first in the register of members of the Company in respect of the joint holding. All such cheques will be sent at the risk of the person(s) entitled thereto and none of the Joint Offerors, the Company and CICC will be responsible for any loss or delay in dispatch.

PART VII — EXPLANATORY MEMORANDUM

On or after the day being six calendar months after the posting of such cheques, the Joint Offerors shall have the right to cause the cancellation of any cheque which has not been cashed or has been returned uncashed and shall place and all monies represented by the cheque in a deposit or custodian account in the Joint Offerors name with a licensed bank in Hong Kong selected by the Company.

Before the expiry of six years from the Effective Date, the Joint Offerors shall make payments from the deposit or custodian account of the sums, together with interest thereon, to persons who satisfy the Joint Offerors that they are entitled thereto. On the expiry of six years from the Effective Date, the Joint Offerors shall be released from any further obligation to make any payments under the Scheme and the Joint Offerors shall be absolutely entitled to the balance (if any) of the sums then standing to the credit of the deposit or custodian account in its name, including accrued interest subject to any deduction required by law and expenses incurred.

Assuming that the Scheme becomes effective, all existing certificates representing the Scheme Shares will cease to have effect as documents or evidence of title as from the Effective Date, which is expected to be on or about Monday, 20 June 2016 (Cayman Islands time).

Settlement of the Cancellation Price to which the Scheme Shareholders are entitled under the Scheme will be implemented in full in accordance with the terms of the Scheme, without regard to any lien, right of set-off, counterclaim or other analogous right to which the Joint Offerors may otherwise be, or claim to be, entitled against any such Scheme Shareholder.

23. TAXATION

Hong Kong stamp duty and tax consequences

As the Scheme does not involve the sale and purchase of Hong Kong stock, no Hong Kong stamp duty will be payable pursuant to the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong) on the cancellation of the Scheme Shares upon the Scheme becoming effective. No Cayman Islands stamp duty will become payable as a result of the Scheme.

The Scheme Shareholders, whether in Hong Kong or in other jurisdictions, are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of the Scheme and the Proposal and, in particular, whether the receipt of the Cancellation Price would make such Scheme Shareholder liable to taxation in Hong Kong or in other jurisdictions.

It is emphasized that none of the Joint Offerors, the Company and CICC or any of their respective directors, officers or associates or any other person involved in the Scheme and the Proposal accepts responsibility for any taxation effects on, or liabilities of, any persons as a result of their acceptance or rejection of the Scheme.

PART VII — EXPLANATORY MEMORANDUM

24. COURT MEETING AND EXTRAORDINARY GENERAL MEETING

In accordance with the directions of the Grand Court, the Court Meeting will be held for the purpose of considering and, if thought fit, passing a resolution to approve the Scheme (with or without modifications). Scheme Shareholders whose names appear on the register of members of the Company as at the Meeting Record Date will be entitled to attend and vote, in person or by proxy, at the Court Meeting. The Scheme will be subject to the approval by the Independent Shareholders at the Court Meeting in the manner referred to in the paragraphs headed “4. Conditions of the Proposal and the Scheme” and “6. Additional Requirements as Imposed by Rule 2.10 of the Takeovers Code” in this Explanatory Memorandum.

For the avoidance of doubt, the Independent Shareholders who may vote at the Court Meeting include any member of the CICC group acting in its capacity as a Registered Owner of the Shares held on behalf of a Beneficial Owner where the Beneficial Owner (i) controls the voting rights attaching to those Shares; (ii) if the Shares are voted, gives instructions as to how those Shares are to be voted; and (iii) is not a Joint Offeror or a Joint Offeror Concert Party. Any member of the CICC Group (other than exempt principal traders), who holds Shares for its own account or on a discretionary basis, should be excluded from the Independent Shareholders. As at the Latest Practicable Date, there is no such member in the CICC Group that holds Shares for its own account or on a discretionary basis.

The EGM will be held after the Court Meeting for the purpose of considering and if thought fit passing (i) the special resolution by the Shareholders to approve the reduction of the issued share capital of the Company by cancelling the Scheme Shares; (ii) the ordinary resolution by the Shareholders to immediately restore the issued share capital of the Company to its former amount by the issue of the same number of the Shares as the number of Scheme Shares cancelled, credited as fully paid, for issuance to the Joint Offerors; and (iii) the ordinary resolution by the Independent Shareholders to approve the Rollover Arrangement.

An announcement will be made by the Company and the Joint Offerors in relation to the results of the Court Meeting and EGM in accordance with Rule 19.1 of the Takeovers Code to the extent applicable. Information on the number of votes cast in favour of the Scheme and the number of CCASS Participants on whose instructions they are cast and the number of votes cast against the Scheme and the number of CCASS Participants on whose instructions they are cast will be included in such announcement.

Court Meeting

Scheme Shareholders whose names appear on the register of members of the Company as at the Meeting Record Date shall be entitled to attend and vote, in person or by proxy, at the Court Meeting. At the Court Meeting, the Scheme Shareholders, present and voting either in person or by proxy, will be entitled to vote all of their respective the Shares in favour of the Scheme or against it.

In accordance with the direction from the Grand Court, HKSCC Nominees Limited shall be permitted to vote both for and against the Scheme in accordance with instructions received by it from the Investor Participants and other CCASS Participants. For the purpose of calculating the “majority in number”, HKSCC Nominees Limited shall be counted as a multi-headed

PART VII — EXPLANATORY MEMORANDUM

Shareholder voting once “for” and once “against” the Scheme. The number of votes cast in favour of the Scheme and the number of CCASS Participants on whose instructions they are cast and the number of votes cast against the Scheme and the number of CCASS Participants on whose instructions they are cast will be disclosed to the Grand Court and may be taken into account in deciding whether or not the Grand Court should exercise its discretion to sanction the Scheme.

The Scheme is conditional upon, among other things, (A) approval by a majority in number of the Scheme Shareholders representing not less than 75% in value of the Shares present and voting in person or by proxy at the Court Meeting, and (B) approval by Independent Shareholders holding at least 75% of the votes attaching to the Scheme Shares held by Independent Shareholders that are voted either in person or by proxy at the Court Meeting provided that (i) the Scheme is approved (by way of poll) by the Independent Shareholders holding at least 75% of the votes attaching to the Shares held by the Independent Shareholders that are voted either in person or by proxy at the Court Meeting; and (ii) the number of votes cast (by way of poll) by the Independent Shareholders present and voting either in person or by proxy at Court Meeting against the resolution to approve the Scheme at the Court Meeting is not more than 10% of the votes attaching to all the Shares held by all the Independent Shareholders.

In accordance with the Companies Law, the “75% in value” requirement, as described above, will be met if the total value of the Shares being voted in favour of the Scheme is at least 75% of the total value of the Shares voted at the Court Meeting. In accordance with the Companies Law, the “majority in number” requirement, as described above, will be met if the number of Scheme Shareholders voting in favour of the Scheme exceeds the number of Scheme Shareholders voting against the Scheme. For the purpose of calculating the “majority in number” requirement, the number of Scheme Shareholders, present and voting in person or by proxy, will be counted.

Notice of the Court Meeting is set out in Appendix V to this Scheme Document. The Court Meeting will be held at 3:00 p.m. (Hong Kong time) on Friday, 10 June 2016 at Imperial Room III, Mezzanine Floor — Towers Wing, The Royal Pacific Hotel & Towers, 33 Canton Road, China Hong Kong City, Tsim Sha Tsui, Hong Kong.

Extraordinary General Meeting

All the Shareholders whose names appear on the register of members of the Company as at the Meeting Record Date shall be entitled to attend and vote, in person or by proxy, at the EGM with respect to (i) the special resolution by Shareholders to approve the reduction of the share capital of the Company by cancelling and extinguishing the Scheme Shares; and (ii) the ordinary resolution by Shareholders to immediately thereafter increase restore the issued share capital of the Company to the amount prior to the cancellation of the Scheme Shares and apply the reserve created as a result of the aforesaid cancellation of the Scheme Shares to pay up in full at par such number of new Shares as is equal to the number of Scheme Shares cancelled as a result of Scheme, credited as fully paid, for issuance to the Joint Offerors. The ordinary resolution to approve the Rollover Arrangement will be voted on at the EGM by the Independent Shareholders.

PART VII — EXPLANATORY MEMORANDUM

The special resolution described under (i) in the paragraph above will be passed if not less than three-fourths of the votes cast by the Shareholders, present and voting in person or by proxy at the EGM, are in favour of the special resolution. The ordinary resolution described under (ii) in the paragraph above will be passed if more votes are cast in favour of the ordinary resolution than against it by the Shareholders, present and voting either in person or by proxy, at the EGM. The ordinary resolution described under (iii) in the paragraph above will be passed if more votes are cast in favour of the ordinary resolution than against it by the Independent Shareholders, present and voting either in person or by proxy, at the EGM.

At the EGM, a poll will be taken and each Shareholder present and voting, either in person or by proxy, will be entitled to vote all of his/her/its Shares in favour of (or against) the special resolution and/or the ordinary resolutions. Alternatively, such Shareholder may vote some of their Shares in favour of the special resolution and/or the ordinary resolutions and any or all of the balance of their Shares against the special resolution and/or the ordinary resolutions (and vice versa).

Each of the Joint Offerors and the Joint Offeror Concert Parties has indicated that the Shares legally and beneficially held by each of them will be voted in favour of the special and the ordinary resolutions to be proposed at the EGM and approved by Shareholders.

At the EGM, the special and the ordinary resolutions will be put to the vote by way of poll as required under Rule 13.39(4) of the Listing Rules.

Notice of EGM is set out in Appendix VI to this Scheme Document. The Extraordinary General Meeting will be held at 3:30 p.m. (Hong Kong time) (or immediately after the conclusion or adjournment of the Court Meeting convened on the same day and place) on Friday, 10 June 2016 at Imperial Room III, Mezzanine Floor — Towers Wing, The Royal Pacific Hotel & Towers, 33 Canton Road, China Hong Kong City, Tsim Sha Tsui, Hong Kong.

Assuming that the Conditions are fulfilled (or, as applicable, waived in whole or in part), it is expected that the Scheme will become effective on or before Monday, 20 June 2016 (Cayman Islands time). Further announcements will be made including, in particular, in relation to (i) the results of the Court Meeting and the EGM and, whether all the resolutions are passed at those meetings; (ii) the result of the hearing of the petition for the sanction of the Scheme by the Grand Court; (iii) the Scheme Record Date; (iv) the Effective Date; and (v) the date of withdrawal of the listing of the Shares on the Stock Exchange as further set out in “Part III — Expected Timetable” of this Scheme Document.

25. BENEFICIAL OWNERS

Beneficial Owners are urged to have their names entered in the register of members of the Company as soon as possible for, among other things, the following reasons:

- (a) to enable the Beneficial Owners to become Shareholders so that they can attend the Court Meeting in the capacity as members of the Company or be represented by proxies to be appointed by them and to be included for the purpose of calculating the majority in number of Shareholders as required under Section 86 of the Companies Law in their capacity as members of the Company;

PART VII — EXPLANATORY MEMORANDUM

- (b) to enable the Company to properly classify members of the Company as Scheme Shareholders for the purposes of Section 86 of the Companies Law; and
- (c) to enable the Company and the Joint Offerors to make arrangements to effect payments by way of the delivery of cheques to the most appropriate person when the Scheme becomes effective.

No person shall be recognised by the Company as holding any Shares upon any trust. In the case of any Beneficial Owner whose Shares are held upon trust by, and registered in the name of, a Registered Owner (other than HKSCC Nominees Limited), such Beneficial Owner should contact the Registered Owner and provide him, her or it with instructions or make arrangements with the Registered Owner in relation to the manner in which the Shares of the Beneficial Owner should be voted at the Court Meeting and/or the EGM. Such instructions and/or arrangements should be given or made in advance of the relevant latest time for the lodgement of forms of proxy in respect of the Court Meeting and the EGM in order to provide the Registered Owner with sufficient time to accurately complete his, her or its proxy and to submit it by the deadline. To the extent that any Registered Owner requires instructions from or arrangements to be made with any Beneficial Owner at a particular date or time in advance of the relevant latest time for the lodgement of forms of proxy in respect of the Court Meeting and the EGM, then any such Beneficial Owner should comply with the requirements of such Registered Owner.

Any Beneficial Owner whose Shares are deposited in CCASS and registered under the name of HKSCC Nominees Limited must, unless such Beneficial Owner is a person admitted to participate in CCASS as an Investor Participant, contact their broker, custodian, nominee or other relevant person who is, or has in turn deposited such Shares with, another CCASS Participant regarding voting instructions to be given to such persons if they wish to vote in respect of the Scheme. Beneficial Owners should contact their broker, custodian, nominee or other relevant person in advance of the deadline in respect of the Court Meeting and the EGM set by them, in order to provide such broker, custodian, nominee or other relevant person with sufficient time to provide HKSCC with instructions or make arrangements with HKSCC in relation to the manner in which Shares of the Beneficial Owner should be voted at the Court Meeting and/or the EGM. The procedure for voting in respect of the Scheme by HKSCC Nominees Limited with respect to the Shares registered under the name of HKSCC Nominees Limited shall be in accordance with the “General Rules of CCASS” and the “CCASS Operational Procedures” in effect from time to time.

26. GENERAL

CICC has been appointed as the financial adviser to the Joint Offerors in connection with the Scheme and the Proposal.

The directors of the Company (other than those on the Independent Board Committee whose views are set out in the letter from the Independent Board Committee in Part V of this Scheme Document) all believe that the terms of the Scheme, the Proposal and the Rollover Arrangement are fair and reasonable and in the interests of the Shareholders as a whole. The independent non-executive directors of the Company forming the Independent Board Committee, namely Mr. YIN Hong, Ms. HSIEH H., Lily and Mr. WU Haibing, have provided their recommendation in the letter from the Independent Board Committee in Part V of this Scheme Document.

PART VII — EXPLANATORY MEMORANDUM

Mr. HE Xinming, Mr. CHEN Kunlie, Mr. BAO Jianyong, Mr. SU Sen, Mr. SUN Qian and Ms. SUN Limei, being directors of the Company and who are interested in the Scheme and the Proposal have abstained from voting in respect of the board resolutions of the Company in relation to the Scheme and the Proposal.

In light of the recommendation of the Independent Board Committee as set out in Part V of this Scheme Document and the recommendation of the Independent Financial Adviser as set out in Part VI of this Scheme Document, Rule 2.3 of the Takeovers Code is not applicable.

As at the Latest Practicable Date, save as disclosed in “14. Rollover Arrangement” and “17. Undertaking Letters” in this Explanatory Memorandum, no person who owned or controlled Shares, Share Options or convertible securities, warrants, options or derivatives in respect of Shares had irrevocably committed themselves to the Joint Offerors to vote their Shares in favour of or against the resolutions in respect of the Scheme at the Court Meeting or the EGM. The Joint Offerors have indicated that those Shares held by them will be voted in favour of the resolutions to be proposed at the EGM.

Associates of the Joint Offerors or the Company (as defined in the Takeovers Code, including shareholders holding 5% or more of the relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Joint Offerors or the Company) are hereby reminded to disclose their dealings in any securities of the Company under Rule 22 of the Takeovers Code.

27. SUMMARY OF ACTIONS TO BE TAKEN

Independent Shareholders

A **pink** form of proxy for use at the Court Meeting and a **white** form of proxy for use at the EGM are enclosed with copies of this Scheme Document sent to Registered Owners of the Company. Subsequent purchasers of Scheme Shares will need to obtain a proxy from the transferor.

Whether or not you are able to attend the Court Meeting and/or the EGM, if you are a Scheme Shareholder, you are strongly urged to complete and sign the enclosed **pink** form of proxy in respect of the Court Meeting, and the Shareholders are strongly urged to complete and sign the enclosed **white** form of proxy in respect of the EGM, in accordance with the instructions printed thereon, and to lodge them at the office of the Hong Kong branch share registrar of the Company, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong. In order to be valid, the **pink** form of proxy for use at the Court Meeting should be lodged not later than 3:00 p.m. (Hong Kong time) on Wednesday, 8 June 2016, and the **white** form of proxy for use at the Extraordinary General Meeting should be lodged not later than 3:30 p.m. (Hong Kong time) on Wednesday, 8 June 2016. The completion and return of a form of proxy for the Court Meeting or the EGM will not preclude the Independent Shareholders and the Shareholders from attending and voting in person at the relevant meeting. In such event, the returned form of proxy will be deemed to have been revoked.

PART VII — EXPLANATORY MEMORANDUM

If you do not appoint a proxy and you do not attend and vote at the Court Meeting and the EGM, you will still be bound by the outcome of such Court Meeting and the EGM, if, among other things, the resolutions are passed by the requisite majorities of Independent Shareholders or Shareholders (as the case may be). You are therefore strongly urged to attend and vote at the Court Meeting and the EGM in person or by proxy.

For the purpose of determining the entitlements of the Scheme Shareholders to attend and vote at the Court Meeting and the Shareholders to attend and vote at the EGM, the register of members of the Company will be closed from Tuesday, 7 June 2016 to Friday, 10 June 2016 (both days inclusive) and during such period, no transfer of the Shares will be effected. In order to qualify to vote at the Court Meeting and the EGM, all transfers accompanied by the relevant share certificates must be lodged with Computershare Hong Kong Investor Services Limited, the Hong Kong branch share registrar of the Company at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. on Monday, 6 June 2016.

An announcement will be made by the Company and the Joint Offerors in relation to the results of the Court Meeting and the EGM. If all the resolutions are passed at those meetings, further announcement(s) will be made of the results of the Grand Court hearing of the petition to sanction the Scheme and, if the Scheme is sanctioned, the Scheme Record Date, the Effective Date and the date of withdrawal of the listing of the Shares on the Stock Exchange.

Actions to be Taken by Holders through Trust or CCASS

The Company will not recognise any person as holding any Shares upon any trust. If you are a Beneficial Owner whose Shares are held upon trust by, and registered in the name of, a Registered Owner (other than HKSCC Nominees Limited), you should contact the Registered Owner and provide him, her or it with instructions or make arrangements with the Registered Owner in relation to the manner in which your Shares should be voted at the Court Meeting and/or the EGM. Such instructions and/or arrangements should be given or made in advance of the deadline in respect of the Court Meeting and the EGM set by them in order to provide the Registered Owner with sufficient time to accurately complete his, her or its proxy and to submit it by the deadline stated above. To the extent that any Registered Owner requires instructions from or arrangements to be made with any Beneficial Owner at a particular date or time in advance of the aforementioned latest time for the lodgment of forms of proxy in respect of the Court Meeting and the EGM, any such Beneficial Owner should comply with the requirements of the Registered Owner.

If you are a Beneficial Owner whose Shares are deposited in CCASS and registered under the name of HKSCC Nominees Limited, you must, unless you are an Investor Participant, contact your broker, custodian, nominee, or other relevant person who is, or has, in turn, deposited such Shares with, another CCASS Participant regarding voting instructions to be given to such persons if you wish to vote at the Court Meeting and/or at the EGM. You should contact your broker, custodian, nominee or other relevant person in advance of the latest time for the lodgment of forms of proxy in respect of the Court Meeting and the EGM, in order to provide such broker, custodian, nominee or other relevant person with sufficient time to provide HKSCC with instructions or make arrangements with HKSCC in relation to the manner in which the Shares of the Beneficial Owner should be voted at the Court Meeting and/or the EGM.

PART VII — EXPLANATORY MEMORANDUM

HKSCC may also vote for and against the Scheme in accordance with instructions received from CCASS Participants (as defined under the General Rules of CCASS). The number of votes cast in favour of the Scheme and the number of CCASS Participants on whose instructions they are cast and the number of votes cast against the Scheme and the number of CCASS Participants on whose instructions they are cast will be disclosed to the Grand Court and may be taken into account in deciding whether or not the Grand Court should exercise its discretion to sanction the Scheme.

Petition hearing in the Grand Court

Prior to the dispatch of this Scheme Document, the Company obtained directions from the Grand Court for the convening of the Court Meeting to consider the Scheme and other procedural matters regarding the Scheme.

In accordance with sections 14, 15 and 86 of the Companies Law, if the resolutions are approved at the Court Meeting and the EGM, the Company must then make a further application to the Grand Court to confirm the resolution reducing the share capital of the Company and to sanction the Scheme. The Company and the Joint Offerors cannot complete the Scheme and the Proposal without obtaining these approvals. In this regard, the Company has filed a petition with the Grand Court seeking these approvals which will be heard on Friday, 17 June 2016 (Cayman Islands time).

In determining whether to exercise its discretion and sanction the Scheme, the Grand Court will determine, among other things, whether the votes cast at the Court Meeting fairly represented the decision of the Scheme Shareholders.

If the Grand Court sanctions the Scheme and if all of the other conditions to the Scheme are satisfied or (to the extent allowed by law) waived, the Company intends to file the court order sanctioning the Scheme with the Registrar of Companies in the Cayman Islands on Monday, 20 June 2016 or as otherwise directed by the Grand Court, at which time the order sanctioning the Scheme will become effective.

SHAREHOLDERS (INCLUDING ANY BENEFICIAL OWNERS OF SUCH SHARES THAT GIVE VOTING INSTRUCTIONS TO A CUSTODIAN OR CLEARING HOUSE THAT SUBSEQUENTLY VOTES AT THE COURT MEETING) SHOULD NOTE THAT THEY WILL BE ENTITLED TO APPEAR AT THE GRAND COURT HEARING EXPECTED TO BE ON 17 JUNE 2016 AT WHICH THE COMPANY WILL SEEK, AMONG OTHER THINGS, THE SANCTION OF THE SCHEME.

28. RECOMMENDATIONS

Your attention is drawn to the following:

- (a) the letter from the Board set out in Part IV of this Scheme Document;

PART VII — EXPLANATORY MEMORANDUM

- (b) the letter from the Independent Board Committee set out in Part V of this Scheme Document; and
- (c) the letter from the Independent Financial Adviser set out in Part VI of this Scheme Document.

29. FURTHER INFORMATION

Further information is set out in the Appendices to, and elsewhere in, this Scheme Document, all of which form part of this Explanatory Memorandum.

Shareholders should rely only on the information contained in this Scheme Document. None of the Company, the Joint Offerors, CICC or any of their respective affiliates has authorised anyone to provide you with information that is different from what is contained in this Scheme Document.

1 FINANCIAL SUMMARY

The following summary financial information for each of the three years ended 31 December 2013, 2014 and 2015 is extracted from the audited consolidated financial statements of the Group as set forth in the annual reports of the Company for the years ended 31 December 2013, 2014 and 2015. The auditor's reports issued by Deloitte Touche Tohmatsu in respect of the Group's audited consolidated financial statements for each of the three years ended 31 December 2013, 2014 and 2015 did not contain any qualifications.

Consolidated Income Statement

	Year ended 31 December		
	2013	2014	2015
	(Audited)	(Audited)	(Audited)
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	3,368,219	3,893,101	4,111,088
Profit before tax	502,183	722,559	831,949
Income tax expense	157,007	158,072	213,503
Profit for the year	345,176	564,487	618,446
Attributable to:			
Owners of the Company	339,498	563,711	626,268
Non-controlling interests	5,678	776	(7,822)
Earnings per Share attributable to ordinary equity holders of the Company (RMB)			
Basic	0.36	0.45	0.50
Diluted	0.36	0.44	0.49
Dividends			
Interim dividend	—	—	—
Final dividend	69,979	169,428	—
Special dividend	—	—	—
Dividends per Share	HK\$0.07	HK\$0.17	—

There are no exceptional items because of size, nature or incidence that are required to be disclosed in the financial statements of the Group for each of the three years ended 31 December 2013, 2014 and 2015.

2 AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

The following financial information has been derived from the audited consolidated accounts of the Company for the year ended 31 December 2015 as set out in the annual report of the Company for the year ended 31 December 2015.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2015

	NOTES	2015 RMB'000	2014 RMB'000
Revenue	7	4,111,088	3,893,101
Cost of sales		<u>(2,504,539)</u>	<u>(2,395,301)</u>
Gross profit		1,606,549	1,497,800
Other income	8	230,970	195,015
Other gains and losses	9	2,249	(24,718)
Distribution and selling expenses		(620,173)	(505,723)
Administrative expenses		(279,958)	(281,224)
Share-based payment expenses		(5,017)	(40,323)
Other expenses		(76,484)	(82,344)
Share of loss of associates	20	(3,846)	—
Finance costs	10	<u>(22,341)</u>	<u>(35,924)</u>
Profit before tax		831,949	722,559
Income tax expense	11	<u>(213,503)</u>	<u>(158,072)</u>
Profit and total comprehensive income for the year		<u>618,446</u>	<u>564,487</u>
Attributable to:			
Owners of the Company		626,268	563,711
Non-controlling interests		<u>(7,822)</u>	<u>776</u>
		<u>618,446</u>	<u>564,487</u>
Earnings per share (RMB)			
— Basic	16	<u>0.50</u>	<u>0.45</u>
— Diluted	16	<u>0.49</u>	<u>0.44</u>

APPENDIX I**FINANCIAL INFORMATION ON THE COMPANY****Consolidated Statement of Financial Position***At 31 December 2015*

	<i>NOTES</i>	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Non-current Assets			
Property, plant and equipment	17	1,475,684	1,345,124
Prepaid lease payments	18	416,197	374,310
Interests in associates	20	16,154	—
Deferred tax assets	31	39,009	56,731
Deposits for leasehold land		—	10,290
Deposits for acquisition of property, plant and equipment		25,468	3,783
Goodwill	21	3,850	3,850
Other intangible assets	22	603	670
		<u>1,976,965</u>	<u>1,794,758</u>
Current Assets			
Inventories	23	1,019,084	983,971
Trade and other receivables	24	791,634	648,078
Tax recoverable		2,207	9,748
Amounts due from related parties	29	45,623	78
Amounts due from shareholders	29	—	11
Prepaid lease payments	18	10,757	8,708
Short-term investments	25	304,930	125,993
Pledged bank deposits	26	307,136	37,085
Restricted bank deposits		—	205,720
Bank balances and cash	26	649,630	387,676
		<u>3,131,001</u>	<u>2,407,068</u>
Current Liabilities			
Trade and other payables	27	1,657,384	1,356,508
Amounts due to related parties	29	26,907	12,122
Amounts due to non-controlling shareholders of a subsidiary	29	1,650	1,650
Obligation under a finance lease	28	5,561	4,896
Bank borrowings	30	309,020	157,588
Tax liabilities		43,324	48,459
		<u>2,043,846</u>	<u>1,581,223</u>
Net Current Assets		<u>1,087,155</u>	<u>825,845</u>
Total Assets Less Current Liabilities		<u><u>3,064,120</u></u>	<u><u>2,620,603</u></u>

APPENDIX I**FINANCIAL INFORMATION ON THE COMPANY**

	<i>NOTES</i>	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Non-current Liabilities			
Obligation under a finance lease	28	19,709	25,270
Bank borrowings	30	—	50,000
Deferred taxation liabilities	31	<u>101,167</u>	<u>56,738</u>
		<u>120,876</u>	<u>132,008</u>
Net Assets		<u>2,943,244</u>	<u>2,488,595</u>
Capital and Reserves			
Share capital	32	15	15
Reserves		<u>2,836,079</u>	<u>2,380,639</u>
Equity attributable to owners of the Company		2,836,094	2,380,654
Non-controlling interests		<u>107,150</u>	<u>107,941</u>
Total Equity		<u><u>2,943,244</u></u>	<u><u>2,488,595</u></u>

APPENDIX I
FINANCIAL INFORMATION ON THE COMPANY
Consolidated Statement of Changes in Equity
For the year ended 31 December 2015

	Attributable to owners of the Company									
	Share capital	Share premium	Share options reserve	Statutory surplus reserve	Foreign currency translation reverse	Other reserve	Retained profits	Total	Non-controlling interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2014	15	682,803	16,971	125,927	—	715,043	305,745	1,846,504	100,878	1,947,382
Profit and total comprehensive income for the year	—	—	—	—	—	—	563,711	563,711	776	564,487
Transfer to statutory surplus reserve	—	—	—	58,507	—	—	(58,507)	—	—	—
Acquisition of a subsidiary	—	—	—	—	—	—	—	—	6,287	6,287
Dividend	—	(69,979)	—	—	—	—	—	(69,979)	—	(69,979)
Issue of shares under share option scheme	—	26,804	(26,709)	—	—	—	—	95	—	95
Recognition of equity-settled share-based payments	—	—	40,323	—	—	—	—	40,323	—	40,323
At 31 December 2014	15	639,628	30,585	184,434	—	715,043	810,949	2,380,654	107,941	2,488,595
Profit and total comprehensive income for the year	—	—	—	—	—	—	626,268	626,268	(7,822)	618,446
Transfer to statutory surplus reserve	—	—	—	67,157	—	—	(67,157)	—	—	—
Other comprehensive income (expense) for the year	—	—	—	—	(12)	—	—	(12)	—	(12)
Dividend (note 15)	—	(169,428)	—	—	—	—	—	(169,428)	—	(169,428)
Issue of shares under share option scheme	—	10,439	(10,402)	—	—	—	—	37	—	37
Capital injection from non-controlling shareholders	—	—	—	—	—	—	—	—	589	589
Acquisition Non-controlling interests	—	—	—	—	—	—	(6,442)	(6,442)	6,442	—
Recognition of equity-settled share-based payments	—	—	5,017	—	—	—	—	5,017	—	5,017
At 31 December 2015	15	480,639	25,200	251,591	(12)	715,043	1,363,618	2,836,094	107,150	2,943,244

Notes:

- (i) In accordance with the relevant PRC laws and regulations and the Articles of Association of the relevant companies, the People's Republic of China ("PRC") subsidiaries are required to appropriate 10% of their profit after taxation as reported in their statutory financial statements prepared under the PRC generally accepted accounting principles to the statutory surplus reserve. The appropriation to the statutory surplus reserve may cease if the balance of the statutory surplus reserve has reached 50% of the registered capital of the relevant companies.

The statutory surplus reserve can be used to make up prior year losses, if any, and can be applied in conversion into capital by means of a capitalisation issue. However, when converting the statutory surplus reserve of PRC subsidiaries into capital, the remaining balance of such reserve must not be less than 25% of the registered capital of the relevant companies.

Under the Companies Law of the Cayman Islands (2009 Revision), the share premium of the Company may be applied for redemption or purchase of any shares of the Company, payment of distributions or dividends to shareholders provided that immediately following the date on which the distribution or dividend is proposed to be paid, payment of its debts as they fall due in the ordinary course of business. During 2015 and 2014, dividend were funded out of its share premium.

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

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
OPERATING ACTIVITIES		
Profit before tax	831,949	722,559
Adjustments for:		
Interest income	(34,197)	(38,168)
Finance costs	22,341	35,924
Share of loss of associates	3,846	—
Depreciation of property, plant and equipment	163,493	145,161
Allowance for doubtful receivables	5,461	17,720
Allowance for obsolete inventories	(12,511)	4,027
Share-based payment expenses	5,017	40,323
Amortisation of prepaid lease payments	9,119	8,481
Amortisation of other intangible assets	67	—
Net loss on disposal of property, plant and equipment	558	714
Effect of foreign exchange rate changes	(232)	(799)
Operating cash flows before movements in working capital	994,911	935,942
Increase in inventories	(22,602)	(114,318)
Increase in trade and other receivables	(199,567)	(176,658)
(Increase) decrease in amounts due from related parties	(5,378)	8
Increase in trade and other payables	270,253	7,247
Increase (decrease) in amounts due to related parties	7,028	(16,466)
Net cash generated from operations	1,044,645	635,755
Income tax paid	(148,946)	(172,475)
Interest paid	(18,107)	(35,924)
NET CASH FROM OPERATING ACTIVITIES	<u>877,592</u>	<u>427,356</u>

APPENDIX I**FINANCIAL INFORMATION ON THE COMPANY**

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
INVESTING ACTIVITIES		
Interest received	29,434	38,168
Proceeds from disposal of property, plant and equipment	5,806	5,218
Payments for property, plant and equipment	(295,713)	(294,903)
Payments for prepaid lease payments	(42,765)	(8,590)
Purchase of short-term investments	(12,887,012)	(13,477,722)
Advances to related parties	(40,000)	—
Advances to shareholder of associates	(40,000)	—
Disposal of short term investments	12,708,075	13,364,729
Repayments from related parties	—	(242)
Acquisition of investment in associates	(20,000)	—
Withdrawal of pledged bank deposits	96,998	436,024
Withdrawal of Restricted bank deposits	619,050	1,180,890
Placement of pledged bank deposits	(367,049)	(460,781)
Placement of Restricted bank deposits	(413,330)	(1,386,610)
Net cash inflow on acquisition of subsidiaries (note 39)	<u>—</u>	<u>643</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(646,506)</u>	<u>(603,176)</u>
FINANCING ACTIVITIES		
New bank borrowings raised	678,578	737,027
Repayments of bank borrowings	(482,000)	(895,501)
Repayments of obligations under a finance lease	(4,896)	(4,595)
Capital injection from non-controlling shareholders	589	—
Proceeds from shareholders	11	—
Advances from related parties	7,757	9,910
Dividend paid	(169,428)	(87,633)
Proceeds from issuance of shares under share option scheme	<u>37</u>	<u>95</u>
NET CASH FROM (USED) FINANCING ACTIVITIES	<u>30,648</u>	<u>(240,697)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	261,734	(416,517)
Effect of foreign exchange rate changes	<u>220</u>	<u>799</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	<u>387,676</u>	<u>803,394</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	<u><u>649,630</u></u>	<u><u>387,676</u></u>

Notes to the Consolidated Financial Statements*For the year ended 31 December 2015***1. GENERAL**

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 12 March 2012 under the Companies Law, CAP 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands and its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 9 December 2013. Its parent and ultimate holding company is Profit Strong Investments Limited, a company incorporated in the British Virgin Islands (“BVI”). The addresses of the registered office of the Company is Floor 4, Willow House, Cricket Square, P.O. Box 2804, Grand Cayman KY1-1112, Cayman Islands, the address of the Company is 20/F, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong, and the principal place of business and head office is located in No. 8 Jiangwan Third Road, Chancheng district, Foshan, Guangdong, the People’s Republic of China (“PRC”).

The principal activity of the Company is investment holding company. Details of the principal activities of its subsidiaries are set out in note 42.

The consolidated financial statements are presented in Renminbi (“RMB”), which is the same as the functional currency of the Company and its subsidiaries.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSS”)

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) for the first time in the current year:

Amendments to HKAS 19	Defined benefit plans: Employee contributions
Amendments to HKFRSs	Annual improvements to HKFRSs 2010 - 2012 cycle
Amendments to HKFRSs	Annual improvements to HKFRSs 2011 - 2013 cycle

In the opinion of the Company’s directors, the application of the amendments to HKFRSs in the current year has had no material impact on the Group’s financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

New and revised HKFRSs in issue but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKFRS 9	Financial Instruments ¹
HKFRS 14	Regulatory Deferral Accounts ²
HKFRS 15	Revenue from Contracts with Customers ¹
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations ³
Amendments to HKAS 1	Disclosure Initiative ³

Amendments to HKAS 16, HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation ³
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle ³
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants ³
Amendments to HKAS 27	Equity Method in Separate Financial Statements ³
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception ³

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

² Effective for first annual HKFRS financial statements beginning on or after 1 January 2016.

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

⁴ Effective for annual periods beginning on or after a date to be determined.

HKFRS 9 Financial Instruments

HKFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of HKFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of HKFRS 9:

- All recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss;

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss;
- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.
- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in HKAS 39. Under HKFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.
- Except for the potential early recognition of credit losses based on the expected loss model in relation to the Group's financial assets measured at amortised costs, the directors of the Company anticipate that the application of HKFRS 9 in the future may not have other material impact on amounts reported in respect of the Group's financial assets and financial liabilities based on an analysis of the Group's financial instruments at 31 December 2015.

HKFRS 15 Revenue from Contracts with Customers

In May 2014, HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer.

- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when ‘control’ of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15. The directors of the Company anticipate that the application of HKFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Group’s consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review.

The directors of the Company anticipate that the application of HKFRS 15 in the future may have a material impact on the amounts reported and disclosures. However, it is not practicable to provide a reasonable estimate of the financial effect until the Group performs a detailed review.

Except as described above, the directors of the Company consider that the application of the other new HKFRSs and amendments is unlikely to have a material impact on the Group’s financial position and performance as well as disclosure.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited Listing Rules and by the Hong Kong Companies Ordinance (“CO”).

The provisions of the new Hong Kong Companies Ordinance (Cap 622) regarding preparation of accounts and directors’ reports and audits became effective for the Company for the financial year ended 31 December 2015. Further, the disclosure requirements set out in the Listing Rules regarding annual accounts have been amended with reference to the new CO and to streamline with HKFRSs. Accordingly the presentation and disclosure of information in the consolidated financial statements for the financial year ended 31 December 2015 have been changed to comply with these new requirements. Comparative information in respect of the financial year ended 31 December 2014 are presented or disclosed in the consolidated financial statements based on the new requirements. Information previously required to be disclosed under the predecessor CO or Listing Rules but not under the new CO or amended Listing Rules are not disclosed in these consolidated financial statements.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 "Share-based Payment", leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 Income Taxes and HKAS 19 Employee Benefit respectively
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 Share-based Payment at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another HKFRS.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets

of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods. On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The Group's policy for goodwill arising on the acquisition of an associate is described below.

Investments in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Sales of goods that result in award credits for distributors are accounted for as multiple element revenue transactions and the fair value of the consideration received or receivable is allocated between the goods supplied and the award credits granted. The consideration allocated to the award credits is measured by reference to the fair value of the awards for which they could be redeemed and accounted for as deferred income. Such consideration is not recognised as revenue at the time of the initial sale transaction — but is deferred and recognised as revenue when the award credits are redeemed and the Group's obligations have been fulfilled.

Service income is recognised when services are provided.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress as described below) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Construction in progress for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such construction in progress are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of property, plant and equipment (other than construction in progress) less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Prepaid lease payments

Payments for obtaining land use rights are accounted for as prepaid lease payments and are charged to profit or loss on a straight-line basis over the lease terms as stated in the relevant land use rights certificates granted for usage by the Group in the PRC. Prepaid lease payments which are to be charged to profit or loss in the next twelve months are classified as current assets.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Internally-generated intangible assets - research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Leasing

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

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see the accounting policy below).

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately in profit or loss.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transaction are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of foreign currency translation reserve (attributed to non-controlling interests as appropriate).

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefit costs

Payments to state-managed retirement benefit schemes which are defined contribution plans are recognised as an expense when employees have rendered service entitling them to the contributions.

Share-based payment arrangements***Equity-settled share-based payment transactions******Share options granted to employees***

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 33.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share option reserve).

For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

When share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained profits.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from the “profit before tax” as reported in the consolidated statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated statement of financial position and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Transaction costs that are directly attributable to acquisition or issue of financial assets and financial liabilities measured at fair value through profit or loss are recognised immediately in profit or loss. All regular way purchases or sales of financial assets are recognised or derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets

The Group's financial assets are all classified into one of the two categories, including financial assets at fair value through profit or loss ("FVTPL") and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the year. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Financial assets at fair value through profit or loss

Financial assets classified as financial assets at FVTPL include short term investments.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets and is included in the “other gains” line item in the consolidated statement of profit or loss and other comprehensive income. The dividend or interest earned on the financial assets is included in the “other income” line item in the consolidated statement of profit or loss and other comprehensive income. Fair value is determined in the manner described in note 6.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from related parties, amounts due from shareholders, pledged bank deposits, and bank balances and cash) are measured at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Impairment of loans and receivables

Loans and receivables are assessed for indicators of impairment at the end of each reporting period. Loans and receivables are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the loans and receivables, the estimated future cash flows of the loans and receivables have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For loans and receivables that are assessed not to be impaired individually, such as trade receivables, are in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group’s past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period as well as observable changes in national or local economic conditions that correlate with default on receivables.

An impairment loss is recognised in profit or loss where there is objective evidence that the asset is impaired, and is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the loans and receivables’ original effective interest rate.

The carrying amount of the loans and receivables is reduced by the impairment loss directly for all loans and receivables with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For loans and receivables measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Financial liabilities (including trade and other payables, amounts due to related parties, amounts due to shareholders, amounts due to non-controlling shareholders of a subsidiary and bank borrowings) are subsequently measured at amortised cost, using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the year. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis other than those financial liabilities classified as at fair value through profit or loss, of which the interest expense is included in net gains or losses.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies, which are described in note 3, the directors of the Company are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on past experience, expectations of the future and other information that are considered to be relevant. Actual results may differ from these estimates.

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

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Useful lives of property, plant and equipment

In applying the accounting policy on property, plant and equipment with respect to depreciation and residual values, directors of the Company estimates the useful lives of various categories of property, plant and equipment according to the Group's experiences over the usage of property, plant and equipment and also by reference to the relevant industrial norm. If the actual useful lives of property, plant and equipment is less than the original estimated useful lives due to changes in commercial and technological environment, such difference will impact the depreciation charge for the remaining useful lives.

As at 31 December 2015, the carrying amount of property, plant and equipment is RMB1,475,684,000 (2014: RMB1,345,124,000).

Deferred tax asset

Deferred tax assets relating to certain temporary differences and tax losses are recognised when the directors of the Company considers to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. The outcome of their actual utilisation may be different.

The realisability of the deferred tax assets mainly depends on whether sufficient future profits will be available in the future. The directors of the Company determines the deferred tax assets based on the enacted or substantially enacted tax rates and the best estimate of profit projections of the Group for coming years during which the deferred tax assets are expected to be utilised. The directors of the Company reviews the assumptions and profit projections on a regular basis. In cases where the actual future profits generated are more or less than expected, an additional recognition or a reversal of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a recognition or reversal takes place.

As at 31 December 2015, the carrying amount of deferred tax assets is RMB39,009,000 (2014: RMB56,731,000).

Valuation of inventories

The directors estimate the net realisable value of inventories based primarily on the latest market prices and current market conditions. The Group carries out an inventory review at the end of each reporting period and makes allowance on obsolete and slow moving items to write off or write down inventories to their net realisable values. Where the expectation on the net realisable value is lower than the cost, an additional write-off or write-down may arise.

As at 31 December 2015, the allowance for obsolete inventories is RMB84,673,000 (2014: RMB97,409,000).

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires management to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate present value.

The carrying amount of goodwill as at 31 December 2015 was RMB3.9 million (31 December 2014: RMB3.9 million). No impairment loss recognised during the reporting period.

Impairment of trade and other receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2015, the allowance for trade receivables is RMB42,483,000 (2014: RMB39,875,000) and for other receivable is RMB4,301,000 (2014: RMB8,057,000).

As at 31 December 2015, the carrying amount of other receivables is RMB56,496,000 (2014: RMB10,131,000).

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure the entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balances. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debts, which includes bank borrowings as disclosed in note 30, net of cash and cash equivalents, short term investment and pledged bank deposits, and equity attributable to owners of the Company, comprising paid-in/share capital and reserves.

The directors of the Company review the capital structure periodically. The Group considers the cost of capital and risks associated with the capital, and will balance its overall capital structure through payment of dividends, issuance of new shares as well as the raising of new debts.

6. FINANCIAL INSTRUMENTS**a. Categories of financial instruments**

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Financial liabilities		
Amortised cost	1,672,401	1,310,201
Obligation under a finance lease	<u>25,270</u>	<u>30,166</u>
Financial assets		
Loans and receivables (including cash and cash equivalents)	1,633,463	956,857
Financial assets at fair value through profit or loss	<u>304,930</u>	<u>125,993</u>

b. Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, short-term investment, amounts due from related parties, amounts due from shareholders, pledged bank deposits, restricted bank deposits, bank balances and cash, trade and other payables, amounts due to related parties, amounts due to shareholders, amounts due to non-controlling shareholders of a subsidiary, obligation under a finance lease and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (interest rate risk and currency risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The directors of the Company manage and monitor these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Save as the short-term investment disclosed in note 25, which is invested for the purpose of better utilisation of temporary idle cash, the Group does not enter into any trade financial instruments, including derivative financial instruments, for hedging or speculative purpose. There has been no significant change to the Group's exposure to financial risks or the manner in which it manages and measures the Group's financial risks.

Market risk***Interest rate risk***

The Group is exposed to cash flow interest rate risk through the impact of rate changes on interest bearing financial assets and financial liabilities, mainly interest bearing bank balances and bank borrowings at variable interest rates. Fixed rate bank borrowings, finance lease obligations and pledged bank deposits expose the Group to fair value interest rate risk. The Group currently does not have an interest rate hedging policy. However, the management will consider hedging significant interest rate risk should the need arise. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of the interest rates offered by the People's Bank of China ("PBOC") from its RMB denominated borrowings.

The sensitivity analysis below has been determined based on the exposure to interest rates for variable rate bank borrowings at the end of the reporting period and assumed that the amount of liabilities outstanding at the end of the reporting period was outstanding for the whole year.

The sensitivity analysis does not include the effect of variable rate bank balances as, in the opinion of the directors, the effect of a reasonable possible change in the interest rate of bank balances is insignificant.

If interest rates had been 50 basis points (2014: 50 basis points) higher/lower and all other variables were held constant, the Group's profit for the year would be decreased by RMB1,213,000 (2014: RMB645,000).

In the opinion of the directors of the Company, the sensitivity analysis is unrepresentative of the inherent interest rate risk as the exposure at the end of the reporting period does not reflect the exposure during the year.

Currency risk

The Group collects most of its revenue in RMB and incurs most of the expenditures in RMB.

The Group undertakes certain sale and purchase transactions denominated in foreign currencies, which expose the Group to foreign currency risk. The Group is mainly exposed to currency risk of United States dollar (“USD”), EURO and Hong Kong dollar (“HKD”) against RMB. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The carrying amount of the Group’s foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	2015	2014
	<i>RMB’000</i>	<i>RMB’000</i>
Assets		
USD	48,726	42,228
HKD	320	1,454
EURO	<u>209,876</u>	<u>2,622</u>
	2015	2014
	<i>RMB’000</i>	<i>RMB’000</i>
Liabilities		
USD	<u>—</u>	<u>16,272</u>

The Group’s foreign currency denominated monetary assets include bank balances amounting to RMB4,464,000 (2014: RMB9,518,000) and pledged bank deposits (ST) amounting to RMB209,775,000 (2014: Nil), amounts due from shareholders of Nil (2014: RMB11,000), trade receivables amounting to RMB44,457,000 (2014: RMB36,562,000), other receivables amounting to RMB226,206 (2014: Nil) and the monetary liabilities include trade payables amounting to Nil (2014: RMB16,272,000).

The following table details the Group’s sensitivity to a 5% (2014: 5%) increase and decrease in RMB against relevant foreign currencies. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% (2014: 5%) change in foreign currency rates. 5% (2014: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management’s

assessment of the reasonably possible change in foreign exchange rates. A positive (negative) number below indicates an increase (decrease) in profit for the year where RMB strengthens 5% against the relevant currencies. For a 5% weakening of RMB against the relevant currency, there would be an equal and opposite impact on the profit for the year.

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
USD		
Decrease in profit for the year	<u>(2,029)</u>	<u>(2,194)</u>
HKD		
Decrease in profit for the year	<u>(16)</u>	<u>(73)</u>
EURO		
Decrease in profit for the year	<u>(7,871)</u>	<u>(98)</u>

Credit risk

As at 31 December 2015, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amounts of the respective recognised financial assets as stated in the consolidated statement of financial position.

The directors of the Company consider that the credit risk exposure of the Group is low as the Group normally requires advance or immediate payment when goods are delivered except for (i) sales to certain property developers which are allowed a credit period of 90 days to 180 days or some may be allowed to pay in full upon completion of construction projects or some may have 5% to 10% retention money due at the end of warranty period of one to two years and (ii) sale to certain distributors with a maximum credit period of 90 days and interest bearing. The directors of the Company nonetheless review the recoverable amount of each individual debt regularly, to ensure that adequate impairment losses are recognised for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on bills receivables are insignificant because all bills receivables are bank acceptance bills issued by state-owned banks and aged within 180 days at the end of the reporting period.

The credit risk on amounts due from related parties and amounts due from related parties is insignificant after considering the financial strength of these related entities.

The Group has concentration of credit risk on trade receivables from property developers. As at 31 December 2015, approximately 68% (2014: 66%) of the total trade receivables are due from property developers. In order to minimise the credit risk, the directors of the Company have delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up actions are taken to recover overdue debts. In addition, the management nonetheless reviews the recoverable amount of each individual debt regularly. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on the Group's liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

As at 31 December 2015, the Group had available unutilised banking facilities of approximately RMB497,523,000 (2014: RMB686,797,000).

The following table details the Group's remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

	Weighted average interest rate	Repayable on demand	1 month or less	1 month to 3 months	3 months to 1 year	1-5 years	Over 5 years	Total undiscounted cash flows	Total carrying amount
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2015									
Non-derivative financial liabilities									
Trade and other payables	N/A	38,438	441,287	342,840	512,259	—	—	1,334,824	1,334,824
Obligation under a finance lease	6.55%	—	601	1,804	4,811	22,370	—	29,586	25,270
Amounts due to related parties	N/A	26,907	—	—	—	—	—	26,907	26,907
Amounts due non-controlling shareholders of a subsidiary	N/A	1,650	—	—	—	—	—	1,650	1,650
Bank borrowings-variable rate	4.31%	—	145	290	20,365	—	—	20,800	20,000
Bank borrowings-fixed rate	4.35%	—	56,636	40,774	195,957	—	—	293,367	289,020
		<u>66,995</u>	<u>498,669</u>	<u>385,708</u>	<u>733,392</u>	<u>22,370</u>	<u>—</u>	<u>1,707,134</u>	<u>1,697,671</u>

APPENDIX I
FINANCIAL INFORMATION ON THE COMPANY

	Weighted average interest rate	Repayable on demand	1 month or less	1 month to 3 months	3 months to 1 year	1-5 years	Over 5 years	Total undiscounted cash flows	Total carrying amount
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2014									
Non-derivative financial liabilities									
Trade and other payables	N/A	37,040	373,882	328,757	349,162	—	—	1,088,841	1,088,841
Obligation under a finance lease	6.55%	—	573	1,718	4,581	29,585	—	36,457	30,166
Amounts due to related parties	N/A	12,122	—	—	—	—	—	12,122	12,122
Amounts due non-controlling									
shareholders of a subsidiary	N/A	1,650	—	—	—	—	—	1,650	1,650
Bank borrowings-variable rate	7.21%	—	600	1,201	1,801	60,907	—	64,509	50,000
Bank borrowings-fixed rate	5.95%	—	88,611	40,314	840	30,019	—	159,784	157,588
At 31 December 2014									
		<u>50,812</u>	<u>463,666</u>	<u>371,990</u>	<u>356,384</u>	<u>120,511</u>	<u>—</u>	<u>1,363,363</u>	<u>1,340,367</u>

The amounts included above for variable interest rate instruments for non-derivative financial liabilities are subject to change if variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

c. Fair value

The short-term investments (note 25) is measured at fair value at the end of each reporting period. The fair value of short-investment was RMB304,930,000 as at 31 December 2015 which is determined with reference to discounted cash flow model, which is based on the expected return of the investment by reference to similar products in the market. The fair value measurement is classified under Level 2 of the fair value hierarchy.

The fair values of financial assets and financial liabilities not measured at fair value on a recurring basis are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

7. REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in manufacturing and sales of ceramics tile and bathroom products.

The Group determines its operating segments based on internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (i.e. the chief executive) in order to allocate resources to the segment and to assess its performance.

The Group is organised into business units based on their products, based on which information is prepared and reported to the Group's chief operating decision maker for the purposes of resource allocation and assessment of performance. The Group's operating and reportable segments under HKFRS 8 are identified as two main operations:

- Ceramic tile products: this segment produces and sells ceramic tile and related products.
- Bathroom products: this segment produces and sells bathroom and related products.

(a) **Segment results**

The following is an analysis of the Group's revenue and results by operating and reportable segments.

For the year ended 31 December 2015

	Ceramic tile products	Bathroom products	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
SEGMENT REVENUE			
External sales	3,506,509	604,579	4,111,088
Inter-segment sales	<u>3,004</u>	<u>50,011</u>	<u>53,015</u>
Segment revenue	3,509,513	654,590	4,164,103
Eliminations			<u>(53,015)</u>
Group revenue			<u>4,111,088</u>
SEGMENT RESULT	<u>1,467,757</u>	<u>138,792</u>	<u>1,606,549</u>
Eliminations			<u>—</u>
Unallocated income			1,606,549
Unallocated expenses			230,970
Other gains and losses			2,249
Distribution and selling expenses			(620,173)
Administrative expenses			(279,958)
Share-based payment expenses			(5,017)
Other expenses			(76,484)
Share of loss of associates			(3,846)
Finance costs			<u>(22,341)</u>
Profit before tax			<u><u>831,949</u></u>

Other segment information included in the measurement of segment results:

	Ceramic tile products <i>RMB'000</i>	Bathroom products <i>RMB'000</i>	Total <i>RMB'000</i>
Depreciation	102,900	12,572	115,472
Allowance for obsolete inventories	<u>(14,816)</u>	<u>2,305</u>	<u>(12,511)</u>

For the year ended 31 December 2014

	Ceramic tile products <i>RMB'000</i>	Bathroom products <i>RMB'000</i>	Total <i>RMB'000</i>
SEGMENT REVENUE			
External sales	3,347,282	545,819	3,893,101
Inter-segment sales	<u>—</u>	<u>36,431</u>	<u>36,431</u>
Segment revenue	3,347,282	582,250	3,929,532
Eliminations			<u>(36,431)</u>
Group revenue			<u>3,893,101</u>
SEGMENT RESULT			
	<u>1,352,799</u>	<u>145,001</u>	1,497,800
Eliminations			<u>—</u>
			1,497,800
Unallocated income			195,015
Unallocated expenses			
Other gains and losses			(24,718)
Distribution and selling expenses			(505,723)
Administrative expenses			(281,224)
Share-based payment expenses			(40,323)
Other expenses			(82,344)
Finance costs			<u>(35,924)</u>
Profit before tax			<u>722,559</u>

Other segment information included in the measurement of segment results:

	Ceramic tile products	Bathroom products	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Depreciation	89,945	12,534	102,479
Allowance for obsolete inventories	<u>4,752</u>	<u>(725)</u>	<u>4,027</u>

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Segment result represents the gross profit earned by each reportable segment. This is the measure reported to the chief operating decision makers for the purposes of resource allocation and performance assessment.

(b) **Revenue from major products and services**

The following is an analysis of the Group's revenue from its major products:

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Unglazed tiles	1,439,078	1,518,532
Glazed tiles	2,067,431	1,828,750
Bathroom products	<u>604,579</u>	<u>545,819</u>
	<u>4,111,088</u>	<u>3,893,101</u>

(c) **Geographic information**

The Group's operations and non-current assets are all derived and located in the PRC.

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue from external customers based on the location of customers:		
PRC	3,865,874	3,603,868
The United States of America	119,633	126,973
Mexico	41,796	33,944
Other countries	<u>83,785</u>	<u>128,316</u>
	<u>4,111,088</u>	<u>3,893,101</u>

(d) Information about major customers

No major customer contributed over 10% of the total revenue of the Group for the year ended 31 December 2014 and 2015.

(e) Segment assets and liabilities

Information of the operating and reportable segments of the Group reported to the chief operating decision maker for the purposes of resource allocation and performance assessment does not include any assets and liabilities. Accordingly, no segment assets and liabilities are presented.

8. OTHER INCOME

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Bank interest income	29,684	30,476
Interest income on credit sales (note i)	4,513	7,692
Processing income	13,187	15,019
Sales of advertising brochures	4,882	6,838
Conference charge	3,412	3,225
Government grants (note ii)	162,680	112,802
Sales of scrap materials	5,469	136
Penalty income from distributor	2,882	13,390
Sundry income	4,261	5,437
	<u>230,970</u>	<u>195,015</u>
Total	<u>230,970</u>	<u>195,015</u>

Notes:

- (i) The Group normally requires advance or immediate payment when goods are delivered. Credit sales were granted to distributors on request basis and interests at 10% (2014: from 8% to 10%) per annum were charged.
- (ii) The government grants mainly represent incentive subsidies received from PRC government for business development. There are no specific conditions attached to the grants.

9. OTHER GAINS AND LOSSES

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Net loss on disposal of property, plant and equipment	558	714
Allowance for doubtful receivables	5,461	17,720
Net foreign exchange loss	<u>(8,268)</u>	<u>6,284</u>
Total	<u><u>(2,249)</u></u>	<u><u>24,718</u></u>

10. FINANCE COSTS

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Interest on:		
Bank borrowings wholly repayable within five years	20,366	33,647
Finance lease	<u>1,975</u>	<u>2,277</u>
	<u><u>22,341</u></u>	<u><u>35,924</u></u>

11. INCOME TAX EXPENSE

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Current tax		
PRC Enterprise Income Tax ("EIT")	147,967	132,856
Under (over) provision in respect of prior years	<u>3,385</u>	<u>(515)</u>
	151,352	132,341
Deferred tax (note 31)	<u>62,151</u>	<u>25,731</u>
	<u><u>213,503</u></u>	<u><u>158,072</u></u>

The PRC EIT is calculated at the applicable rates in accordance with the relevant laws and regulations in the PRC.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

In accordance with PRC tax (Guoshuihan [2008] 112) effective from 1 January 2008, PRC withholding income tax rate of 10% is applicable to dividends to "non-resident" investors who do not have an establishment or place of business in the PRC.

Seven subsidiaries of the Group, Linzhi Yuhe Commerce and Trading Co., Ltd. ("Linzhi Yuhe"), Duilong Green Home Technology Co., Ltd. ("Deqing Green Home"), Duilong Deqing Heying Commerce and Trading Co., Ltd. ("Deqing Heying"), Duilong Deqing Yuwei Commerce and Trading Co., Ltd. ("Deqing Yuwei"), Foshan Dongpeng Sanitary Ware Co., Ltd. ("Dongpeng Sanitary Ware"), Lixian Xinpeng Ceramics Co., Ltd. ("Lixian Xinpeng") and Fengcheng Dongpeng Ceramics Co., Ltd. ("Fengcheng Dongpeng") enjoyed preferential enterprise income tax rates which are lower than the standard tax rate as approved by the relevant tax authorities in the PRC as set out below.

Pursuant to Zang Zheng Fa No. 51 (2014) Notice in relation to Taxation Policies in support of enterprises located in Tibet (《西藏自治区企业所得税政策实施方法》) promulgated by the People's Government of Tibet autonomous region, Linzhi Yuhe, Deqing Heying, Deqing Yuwei and Deqing Yuwei, which are registered and located in Tibet, can enjoy a preferential enterprise income tax rate of 9% from 2015 to 2017.

Dongpeng Sanitary Ware was accredited as a "High and New Technology Enterprise" by relevant authorities in 2012 for a term of three years, and was registered with the local tax authority to be eligible to the reduced 15% preferential enterprise income tax rate from 2012 to 2014. Dongpeng Sanitary Ware intends to become a list of high-tech enterprises through the review in 2015.

Fengcheng Dongpeng was accredited as a "High and New Technology Enterprise" by relevant authorities in 2014 for a term of three years, and was registered with the local tax authority to be eligible to the reduced 15% preferential enterprise income tax rate from 2013 to 2015.

Lixian Xinpeng was accredited as a "High and New Technology Enterprise" by relevant authorities in 2014 for a term of three years, and was registered with the local tax authority to be eligible to the reduced 15% preferential enterprise income tax rate from 2013 to 2015.

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from, Hong Kong.

APPENDIX I**FINANCIAL INFORMATION ON THE COMPANY**

The income tax expense for the period can be reconciled to the profit before tax per the condensed consolidated statement of profit and loss and other comprehensive income as follows:

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Profit before tax	<u>831,949</u>	<u>722,559</u>
Tax at the applicable income tax rate of 25%	207,987	180,640
Effect of preferential tax rates granted to certain subsidiaries	(56,229)	(57,259)
Tax effect of expenses not deductible for tax purpose (Note i)	188	10,916
Under (over) provision in respect of prior years	3,385	(515)
Tax effect of tax losses not recognised	16,062	9,956
Tax effect of deductible temporary differences not recognised	5,132	1,258
Deferred withholding tax on undistributed profits of PRC subsidiaries (note 31)	44,624	20,737
Utilisation of deductible temporary differences previously not recognised	(6,381)	(851)
Tax effect of income tax credit granted to subsidiaries for research and development costs	<u>(1,265)</u>	<u>(6,810)</u>
Income tax expense for the year	<u><u>213,503</u></u>	<u><u>158,072</u></u>

Note:

- i. The tax effect of expenses not deductible for the year is mainly attributable to the non-deductible staff welfare expenses, share-base payment expenses and non-deductible cost of damaged products.

12. PROFIT FOR THE YEAR

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Profit for the year has been arrived at after charging:		
Depreciation for property, plant and equipment	163,493	145,161
Amortisation for prepaid lease payments	9,119	8,481
Auditors' remuneration	2,507	2,507
Research and development costs (included in other expenses)	51,993	53,446
Cost of inventories recognised as expenses	2,504,539	2,395,301
Allowance for obsolete inventories (included in cost of inventories)	(12,511)	4,027
Staff costs:		
Directors' remuneration (note 13)	5,535	15,015
Employees' salaries	516,471	461,772
Employees' welfare benefits	28,830	28,265
Share-based payments to employees	2,386	28,172
Employees' retirement benefit schemes contributions	41,506	30,857
	<u>594,728</u>	<u>564,081</u>
Operating lease payments in respect of		
— land and buildings	71,443	66,385
— plant and machinery	14,940	21,998
	<u>86,383</u>	<u>88,383</u>

13. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

Details of emoluments paid or payable by the Group to the directors of the Company are as follows:

	Directors' fee <i>RMB'000</i>	Salaries and other benefits <i>RMB'000</i>	Bonus <i>RMB'000</i>	Retirement benefits scheme contributions <i>RMB'000</i>	Share- based payments <i>RMB'000</i>	Total <i>RMB'000</i>
For the year ended						
31 December 2015						
Executive directors:						
He Xinming	163	600	170	5	1,461	2,399
Chen Kunlie	122	420	54	15	585	1,196
Bao Jianyong	122	360	54	15	585	1,136
Non-executive directors:						
Sun Qian	122	—	—	—	—	122
Su Sen	122	—	—	—	—	122
Sun Limei	122	—	—	—	—	122
Independent non-executive directors:						
Yin Hong	146	—	—	—	—	146
Hsieh H., Lily	146	—	—	—	—	146
Wu Haibing	146	—	—	—	—	146
	<u>1,211</u>	<u>1,380</u>	<u>278</u>	<u>35</u>	<u>2,631</u>	<u>5,535</u>
Chief executive:						
Cai Chuyang	<u>—</u>	<u>480</u>	<u>120</u>	<u>15</u>	<u>1,218</u>	<u>1,833</u>

APPENDIX I
FINANCIAL INFORMATION ON THE COMPANY

	Directors' fee	Salaries and other benefits	Bonus	Retirement benefits scheme contributions	Share-based payments	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
For the year ended						
31 December 2014						
Executive directors:						
He Xinming	158	600	170	10	6,751	7,689
Chen Kunlie	118	417	54	15	2,700	3,304
Bao Jianyong	118	360	54	10	2,700	3,242
Non-executive directors:						
Sun Qian	118	—	—	—	—	118
Su Sen	118	—	—	—	—	118
Sun Limei	118	—	—	—	—	118
Independent non-executive directors:						
Yin Hong	142	—	—	—	—	142
Hsieh H., Lily	142	—	—	—	—	142
Wu Haibing	142	—	—	—	—	142
	<u>1,174</u>	<u>1,377</u>	<u>278</u>	<u>35</u>	<u>12,151</u>	<u>15,015</u>
Chief executive:						
Cai Chuyang	<u>—</u>	<u>480</u>	<u>120</u>	<u>15</u>	<u>5,626</u>	<u>6,241</u>

No emoluments were paid by the Company to the directors and chief executive of the Company as an inducement to join or upon joining the Group or as compensation for loss of office. Neither any of the directors nor chief executive of the Company has waived any emoluments during both years.

14. EMPLOYEES' EMOLUMENTS

The five highest paid individuals included three (2014: three) directors, details of whose emoluments are included in note 13. The emoluments of the remaining two (2014: two) highest paid individuals are as follows:

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Salaries and other benefits	960	960
Bonus	174	174
Retirement benefits scheme contribution	31	31
Share-based payments	<u>2,241</u>	<u>10,351</u>
	<u>3,406</u>	<u>11,516</u>

Their emoluments were within the following bands:

	2015	2014
	<i>No. of</i>	<i>No. of</i>
	<i>employees</i>	<i>employees</i>
HK\$1,500,001 to HK\$2,000,000	1	—
HK\$2,000,001 to HK\$2,500,000	1	—
HK\$6,500,001 to HK\$7,000,000	—	1
HK\$7,500,001 to HK\$8,000,000	<u>—</u>	<u>1</u>

No emoluments were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office during both years.

15. DIVIDENDS

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Dividend recognised as distributions during the year:		
2014 final, paid-HK\$0.17 per share	169,428	—
2013 final, paid-HK\$0.07 per share	<u>—</u>	<u>69,979</u>
	<u>169,428</u>	<u>69,979</u>

During the year, a final dividend of HK\$0.17 per share in respect of the year ended 31 December 2014 was declared and paid to the shareholders of the Company. The aggregate amount of the final dividend in respect of the year ended 31 December 2014 was RMB169,428,000.

No dividends were paid, declared or proposed in respect of the year ended of 31 December 2015.

16. EARNINGS PER SHARE

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Profit for the year attributable to owners of the Company	<u>626,268</u>	<u>563,711</u>
Earnings for the purpose of basic earnings per share and diluted earnings per share	<u>626,268</u>	<u>563,711</u>
Number of shares:	<i>'000</i>	<i>'000</i>
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,261,172	1,253,102
Dilutive potential ordinary shares relating to share options	<u>14,272</u>	<u>19,676</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>1,275,444</u>	<u>1,272,778</u>

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Furniture and fixtures	Motor vehicles	Equipment and machinery	Leasehold im- provement	Construction in progress	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
COST							
At 31 December 2013	426,941	23,605	18,789	894,971	56,351	174,998	1,595,655
Additions	66,741	9,312	10,459	111,439	11,416	190,913	400,280
Disposals	(178)	(610)	(1,496)	(33,532)	—	—	(35,816)
Acquisition of subsidiaries (note 39)	—	142	180	101	565	—	988
Transfer from construction in progress	127,638	94	—	169,309	—	(297,041)	—
At 31 December 2014	621,142	32,543	27,932	1,142,288	68,332	68,870	1,961,107
Additions	35,001	8,875	2,853	79,097	19,948	154,643	300,417
Disposals	(420)	(1,088)	(1,461)	(47,760)	(50,000)	—	(100,729)
Transfer from construction in progress	15,257	91	73	9,485	—	(24,906)	—
At 31 December 2015	670,980	40,421	29,397	1,183,110	38,280	198,607	2,160,795
DEPRECIATION							
At 31 December 2013	(55,639)	(9,917)	(8,616)	(383,182)	(43,352)	—	(500,706)
Provided for the year	(28,005)	(7,527)	(3,584)	(93,526)	(12,519)	—	(145,161)
Eliminated on disposals	15	355	925	28,589	—	—	29,884
At 31 December 2014	(83,629)	(17,089)	(11,275)	(448,119)	(55,871)	—	(615,983)
Provided for the year	(32,083)	(8,733)	(5,230)	(101,350)	(16,097)	—	(163,493)
Eliminated on disposals	15	870	681	42,799	50,000	—	94,365
At 31 December 2015	(115,697)	(24,952)	(15,824)	(506,670)	(21,968)	—	(685,111)
CARRYING AMOUNTS							
At 31 December 2015	<u>555,283</u>	<u>15,469</u>	<u>13,573</u>	<u>676,440</u>	<u>16,312</u>	<u>198,607</u>	<u>1,475,684</u>
At 31 December 2014	<u>537,513</u>	<u>15,454</u>	<u>16,657</u>	<u>694,169</u>	<u>12,461</u>	<u>68,870</u>	<u>1,345,124</u>

The buildings are situated on land held under medium term leases in the PRC.

The above items of property, plant and equipment, except for construction in progress, are depreciated on a straight-line basis, taking into account their estimated residual value, over their estimated useful lives as follows:

Buildings	10 ~ 20 years
Furniture and fixtures	3 ~ 5 years
Motor vehicles	4 ~ 5 years
Equipment and machinery	10 years
Leasehold improvement	over the shorter of the term of the lease, or 5 years

The Group has pledged certain buildings, equipment and machinery with a carrying value of RMB70,252,000 (2014: RMB119,521,000) to secure general banking facilities granted to the Group.

Details of property, plant and equipment being pledged are set out in note 34.

Buildings with carrying amount of RMB289,105,000 as at 31 December 2015 (2014: RMB289,319,000), are without property certificates. The Group is in the process of obtaining the property certificates.

The carrying amount of plant and machinery included amounts of RMB18,024,000 (2014: RMB22,939,000) in respect of assets held under a finance lease.

18. PREPAID LEASE PAYMENTS

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Leasehold land in the PRC under medium-term lease	<u>426,954</u>	<u>383,018</u>
Analysed for reporting purposes as:		
Non-current asset	416,197	374,310
Current asset	<u>10,757</u>	<u>8,708</u>
	<u>426,954</u>	<u>383,018</u>

The Group has pledged certain prepaid lease payments with a carrying amount of RMB141,172,000 (2014: RMB143,182,000), to secure general banking facilities granted to the Group.

Details of prepaid lease payments being pledged are set out in note 34.

As at 31 December 2015, parcels of land with carrying amount of Nil (2014: RMB576,000) is still in the process of obtaining the land use right certificate.

19. DETAILS OF NON-WHOLLY OWNED SUBSIDIARIES THAT HAVE MATERIAL NON-CONTROLLING INTERESTS

The table below shows details of non-wholly owned subsidiaries of the Group that have material non-controlling interests at 31 December 2014 and 2015.

Name of subsidiary	Proportion of ownership interests and voting rights held by non-controlling interests		Profit allocated to non-controlling interests		Accumulated non-controlling interests	
	2015	2014	2015	2014	2015	2014
			RMB'000	RMB'000	RMB'000	RMB'000
Qingyuan Nafuna	9.65%	9.65%	2,918	2,050	82,010	79,092
Individually immaterial subsidiaries					<u>25,140</u>	<u>28,849</u>
Total non-controlling interests					<u>107,150</u>	<u>107,941</u>

Summarised financial information in respect of each of the Group's subsidiaries that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

Qingyuan Nafuna

	31/12/2015	31/12/2014
	RMB'000	RMB'000
Current assets	<u>498,867</u>	<u>382,162</u>
Non-current assets	<u>740,580</u>	<u>786,362</u>
Current liabilities	<u>(389,791)</u>	<u>(349,104)</u>
Non-current liabilities	<u>—</u>	<u>—</u>
Total equity	<u>849,656</u>	<u>819,420</u>

Qingyuan Nafuna

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	<u>968,226</u>	<u>884,379</u>
Expenses	<u>(937,990)</u>	<u>(863,143)</u>
Profit and total comprehensive income for the year	<u>30,236</u>	<u>21,236</u>
Net cash inflow from operating activities	<u>81,890</u>	<u>119,288</u>
Net cash outflow from investing activities	<u>(44,007)</u>	<u>(146,157)</u>
Net cash outflow from financing activities	<u>(70,000)</u>	<u>11,147</u>
Net cash outflow	<u><u>(32,117)</u></u>	<u><u>(15,722)</u></u>

During the year ended 31 December 2015, no dividend (2014: Nil) was declared but remained unpaid.

Change in ownership interests in a subsidiary

During the year, the Group acquired additional interests in Dongpeng Furnishing, increasing its equity interests to 100% with nil consideration from non-controlling interest. An amount of RMB6,442,000 being the proportionate share of net liabilities from non-controlling interest has been debited to retained profits.

20. INTERESTS IN ASSOCIATES

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Cost of investment in associate	20,000	—
Share of post-acquisition loss	<u>(3,846)</u>	<u>—</u>
	<u><u>16,154</u></u>	<u><u>—</u></u>

APPENDIX I**FINANCIAL INFORMATION ON THE COMPANY**

The Group's associate accounted for using the equity method and their details are as follow:

Name of associate	Place of establishment	Registered capital	Effective equity interest attributable to the Group		Principal activities
			2015	2014	
愛蜂巢(蘇州) 電子商務有限公司 Aifengchao (Suzhou) e-Commerce Co., Ltd. ("Aifengchao")	PRC	RMB10,000,000	20.0%	—	O2O business

- (a) The financial information in respect of the group's associate is set out below. The financial information below represents amounts shown in the associate's financial statements.

The associate is accounted for using the equity method in these consolidated financial statements.

	31/12/2015 <i>RMB'000</i>
Current assets	<u>78,011</u>
Non-current assets	<u>95,191</u>
Current liabilities	<u>(161,297)</u>
Non-current liabilities	<u>—</u>
	Period from acquisition date (1 October 2015) to 31 December 2015 <i>RMB'000</i>
Revenue	<u>63,976</u>
Loss from continuing operations	<u>(25,233)</u>
Loss for the period	<u>(19,232)</u>
Dividends received from the associate during the period	<u>—</u>

- (b) Reconciliation of the above financial information to the carrying amount of the interest in the associate recognized in the consolidated financial statements.

	2015 <i>RMB'000</i>
Net assets at December 31 2015	11,905
Proportion of the Group's ownership interests	2,381
Goodwill	<u>13,773</u>
Carrying amount of the Group's interests	<u><u>16,154</u></u>

21. GOODWILL

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Goodwill	<u>3,850</u>	<u>3,850</u>

Goodwill arose on acquisition of Guangzhou Innoci Sanitary Products Co., Ltd (Guangzhou Innoci).

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

For the purposes of impairment testing, goodwill has been allocated to Guangzhou Innoci as one cash generating unit ("CGU") which represents the lowest level with the Group at which goodwill is monitored for internal management purposes and is not larger than the operating segment of bathroom product. As at 31 December, 2015, the management of the Group determined that there is no impairment of goodwill.

The recoverable amounts of the CGU is determined from value in use calculations. The key assumptions of the value in use are those regarding the discount rates, growth rates and expected changes to selling price and direct costs during the projection period. The directors estimate discount rates using the pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGU. The growth rates are based on the industry growth forecasts. Changes in selling price and direct costs are based on past practices and expectations of future changes in the market.

For the purpose of impairment testing, the Group prepares cash flow projection covering a five-year period. The calculation uses cash flow projections based on financial budgets approved by management covering a five-year period. The cash flows beyond the five-year period are extrapolated using an estimated growth pattern at growth rates between 5% to 10%, and discount rate of 27%. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the past performance and management's expectation for the market development. The directors believe that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the assets of the CGU to exceed the aggregate recoverable amount of the assets of the CGU.

22. OTHER INTANGIBLE ASSETS

	<i>RMB'000</i>
COST	
At date of acquisition and 31 December 2014	670
Additions	<u>—</u>
At 31 December 2015	670
AMORTIZATION	
At date of acquisition and 31 December 2014	—
Amortization	<u>(67)</u>
At 31 December 2015	(67)
CARRYING AMOUNTS	
At 31 December 2015	603
At 31 December 2014	<u><u>670</u></u>

Other Intangible assets represented fair value of trademark on acquisition, 10 years useful live is used in calculation of amortisation.

23. INVENTORIES

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	203,604	219,887
Work in progress	74,290	56,837
Finished goods	<u>741,190</u>	<u>707,247</u>
	<u>1,019,084</u>	<u>983,971</u>

As at 31 December 2015, the allowance for obsolete inventories is RMB84,673,000 (2014: RMB97,409,000).

24. TRADE AND OTHER RECEIVABLES

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	434,418	332,438
Less: allowance for doubtful debts	<u>(42,483)</u>	<u>(39,875)</u>
	391,935	292,563
Advances to suppliers	37,189	28,498
Deposits to suppliers	16,870	16,285
Bills receivables	160,488	206,150
Other receivables (note 1)	60,797	18,188
Less: allowance for doubtful debts	(4,301)	(8,057)
Other tax recoverable	6,770	6,737
Prepaid rentals	3,878	9,300
Other receivables from property developers	5,285	6,878
Value-added tax recoverable	<u>112,723</u>	<u>71,536</u>
	791,634	648,078
Total trade and other receivables	<u>791,634</u>	<u>648,078</u>

note 1:

Included in other receivables is an amount of RMB40,000,000 due from Mr. Fang, the shareholder of Aifengcao, bear interest at 5% per annum and is repayable on 28 March 2016. This amount is secured by 20% equity interest held by Mr. Fang in Aifengcao to the Group. On 17 March 2016, Mr. Fang and the Group entered into a supplementary agreement which agreed to repaid this outstanding amount into the following installments with an interest rate 12% per annum starting from 28 March 2016:

	<i>RMB'000</i>
Repayment on or before	
31 March 2016	10,000
30 April 2016	20,000
31 May 2016	<u>10,000</u>
	<u>40,000</u>

The Group normally requires advance or immediate payment when goods are delivered except for (i) sales to certain property developers which are allowed a credit period of 90 days to 180 days or some may be allowed to repay in full upon completion of construction projects or some may have 5% to 10% retention money due at the end of warranty period of one to two years and (ii) sale to certain distributors with a maximum credit period of 90 days and interest bearing. As at 31 December 2015, the retention money held by the property developers amounted to RMB17,750,000 (2014: RMB19,816,000). The following is an aged analysis of trade receivables presented based on the invoice date, which approximated the respective revenue recognition date:

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
0 - 30 days	141,037	124,380
31 - 90 days	128,266	75,197
91 - 180 days	52,512	37,610
181 - 365 days	37,372	23,261
Over 1 year	<u>32,748</u>	<u>32,115</u>
	<u>391,935</u>	<u>292,563</u>

The bills receivables are aged within 180 days and have not yet matured at the year end of December 2015 and 2014 respectively.

Except for the amount due from Mr. Fang as stated in above, the remaining other receivables are unsecured, non-interest bearing and repayable on demand or within one year.

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits for each customer.

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of RMB103,339,000 (2014: RMB83,033,000) which are past due as at 31 December 2015 for which the Group has not provided for impairment loss as the management does not expect any losses from these customers with good reputation. The Group does not hold any collateral over these balances.

Aging of trade receivables which are past due but not impaired based on payment due dates

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Overdue by:		
0 - 90 days	46,184	51,775
91 - 275 days	33,046	15,465
Over 275 days	<u>24,109</u>	<u>15,793</u>
Total	<u>103,339</u>	<u>83,033</u>

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period.

Movement in the allowance for doubtful debts

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
At beginning of the year	47,932	30,760
Impairment losses recognised	5,461	17,720
Amounts written off as uncollectible	<u>(6,609)</u>	<u>(548)</u>
At end of the year	<u>46,784</u>	<u>47,932</u>

The Group first assesses whether objective evidence of impairment exists for trade and other receivables that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed trade and other receivables, whether significant or not, it includes the trade and other receivables in a group with similar credit risk characteristics including industry, geographical location, past-due status and other relevant factors and collectively assesses them for impairment. Trade and other receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of RMB42,483,000 (2014: RMB39,875,000) as at 31 December 2015, which are either overdue for a long period of time or the customers are in severe financial difficulties in repaying the outstanding balances. The Group does not hold any collateral over these balances.

The following were the Group's bills receivables at the end of each reporting period that have been endorsed to the Group's creditors for settlement of payables of the same amount or discounted to banks on a full recourse basis. As the Group has not transferred the significant risks and rewards relating to these bills receivables, it continues to recognise the carrying amount of the bills receivables and the related trade payables and has recognised the cash received from banks on the transfer as a secured borrowing (note 30).

These bills receivable are carried at amortised cost in the Group's consolidated statements of financial position.

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Carrying amount of bills receivables		
— external customers	65,214	83,644
— intra-group customers	—	16,800
Carrying amount of trade payables	(54,064)	(64,856)
Carrying amount of bank borrowings	<u>(11,150)</u>	<u>(35,588)</u>

25. SHORT-TERM INVESTMENTS

As at 31 December 2015, the Group's short-term investments mainly represent financial products issued by banks in the PRC, with an expected but not guaranteed return of 2.0-3.1% per annum, depending on the market prices of its underlying financial instruments, mainly comprised of bonds and debentures. The financial products are measured at fair value at the end of the reporting period. The directors of the Company consider the fair value of the financial products approximate to their principal amount as at 31 December 2015. No fair value change is recognised during the year ended 31 December 2015. The short-term investments amounting to RMB304,830,000 were redeemed in January and February 2016 at the principal amount together with return which approximated the expected return and the remaining RMB100,000 has not been redeemed yet.

26. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

Bank balances carry interest at market rates ranging from 0.3% to 0.38% (31 December 2014: 0.35%) per annum. The pledged bank deposits carry interest rates ranging from 0.35% to 5.53% (31 December 2014: 0.35%) per annum.

Pledged bank deposits amounting to RMB296,559,000 (2014: RMB20,560,000) have been pledged to secure bills payable. Pledged bank deposits amounting to RMB10,577,000 (2014: RMB16,525,000) as at 31 December 2015 have been pledged to secure deposits for purchase of goods and services.

27. TRADE AND OTHER PAYABLES

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	740,648	644,404
Bills payable	124,660	16,980
Other payables	48,347	37,052
Other tax payables	76,177	61,389
Payroll and welfare payables	66,232	56,763
Advances from distributors	142,877	119,476
Deposits from distributors	97,526	85,814
Deferred income	37,273	30,039
Payables for acquisition for property, plant and equipment	225,310	198,921
Accrued expenses	<u>98,334</u>	<u>105,670</u>
	<u><u>1,657,384</u></u>	<u><u>1,356,508</u></u>

The following is an aging analysis of trade payables presented based on the invoice date at the end of the reporting period:

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
0 - 30 days	342,735	377,742
31 - 90 days	289,493	216,216
91 - 180 days	83,366	41,890
181 - 365 days	14,534	1,857
Over 1 year	<u>10,520</u>	<u>6,699</u>
	<u><u>740,648</u></u>	<u><u>644,404</u></u>

The normal credit period on purchases of materials is 90 days to 180 days. The Group has financial risk management policies in place to monitor the settlement of payables.

Bills payable at 31 December 2015 and 2014 were aged within 180 days.

28. OBLIGATION UNDER A FINANCE LEASE

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Analysed for reporting purposes as:		
Current liabilities	5,561	4,896
Non-current liabilities	<u>19,709</u>	<u>25,270</u>
	<u>25,270</u>	<u>30,166</u>

It is the Group's policy to lease certain of its equipment and machinery under a finance lease. The lease term is 10 years. Interest rate underlying the obligation under finance lease is fixed at 6.55% per annum at the contract date. The lease is on a fixed repayment basis and no arrangement is entered into for contingent rental payments.

	Minimum lease payments		Present value of minimum lease payments	
	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Amounts payable under finance lease:				
Within one year	7,216	6,872	5,561	4,896
In more than one year but not exceeding two years	7,216	7,216	5,925	5,561
In more than two years but not exceeding five years	15,154	22,369	13,784	19,709
More than five years	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
	29,586	36,457	25,270	30,166
Less: future finance charges	<u>(4,316)</u>	<u>(6,291)</u>	<u>N/A</u>	<u>N/A</u>
Present value of lease obligation	<u>25,270</u>	<u>30,166</u>	25,270	30,166
Less: amounts due for settlement within 12 months (shown under current liabilities)			<u>(5,561)</u>	<u>(4,896)</u>
Amounts due for settlement after 12 months			<u>19,709</u>	<u>25,270</u>

The Group's obligation under a finance lease is secured by the lessor's charge over the leased assets.

29. AMOUNTS DUE FROM/TO RELATED PARTIES AND SHAREHOLDERS

Name of related party	Relationship	Amounts due from related companies	
		2015 RMB'000	2014 RMB'000
佛山華盛昌陶藝文化傳播有限公司 Foshan Huashengchang Cultural Transmission Co., Ltd.	Controlled by certain members of Controlling Shareholders	376	78
愛蜂巢 (蘇州) 電子商務有限公司 Aifengchao	Associates	<u>45,247</u>	<u>—</u>
		<u>45,623</u>	<u>78</u>

The amount due from Aifengcao included the trade portion of RMB5,080,000, the principal of RMB40,000,000 and accrued interest of RMB167,000. The principal bears interest at 5% per annum and is repayable on 28 March 2016. The amount is secured by 20% equity interest held by Mr. Fang in Aifengcao to the Group. On 17 March 2016, Aifengcao and the Group entered into a supplementary agreement which agreed to extend the repayment period to 31 December 2016 with an interest rate 12% per annum starting from 28 March 2016.

At 31 December 2015, the trade portion of amounts due from related parties amounting to RMB5,436,000 (2014: RMB78,000).

The normal credit period on trade with related parties is 180 days. The following is an aged analysis of the trade portion of amounts due from related parties presented based on the invoice date, which approximated the respective revenue recognition date at the end of the reporting period:

	2015 RMB'000	2014 RMB'000
0 - 30 days	<u>5,436</u>	<u>78</u>

Aging of trade portion of amounts due from related parties are all within credit term.

The Group has not provided for impairment loss on the amounts due from related parties which are past due after considering the financial strength of these related entities.

APPENDIX I**FINANCIAL INFORMATION ON THE COMPANY**

The following are the maximum amounts outstanding on the amounts due from related parties during the year:

Name of related party	Relationship	Maximum amounts outstanding due from related companies	
		For the year ended 2015	2014
		RMB'000	RMB'000
愛蜂巢 (蘇州) 電子商務有限公司 Aifengchao	Associates	45,247	—
佛山華盛昌陶藝文化傳播有限公司 Foshan Huashengchang Cultural Transmission Co., Ltd.	Controlled by certain members of shareholders	<u>1,046</u>	<u>86</u>
		Amounts due to related companies	
		At 31 December	
Name of related party	Relationship	2015	2014
		RMB'000	RMB'000
廣東東鵬陶瓷股份有限公司 Guangdong Dongpeng Ceramics	Controlled by shareholders	1,190	114
東鵬陶瓷(清遠)有限公司 Qingyuan Dongpeng	Controlled by certain members of shareholders	17,667	9,910
香港佛來盈發展有限公司 Hong Kong Flying Development Ltd. ("HK Flying")	Controlled by shareholders	4	4
佛山華盛昌陶藝文化傳播有限公司 Foshan Huashengchang Cultural Transmission Co., Ltd.	Controlled by certain members of shareholders	547	176
山東嘉麗雅陶瓷股份有限公司 Shandong Jialiya Ceramics Co., Ltd.	Controlled by certain members of shareholders	<u>7,499</u>	<u>1,918</u>
		<u>26,907</u>	<u>12,122</u>

APPENDIX I**FINANCIAL INFORMATION ON THE COMPANY**

As at 31 December 2015, the trade portion of amounts due to related parties amounting to RMB9,240,000 (2014: RMB2,212,000). There is no specific credit term granted by the related parties. The non-trade balances are unsecured, interest-free and repayable on demand.

The following is an aged analysis of trade portion of amounts due to related parties presented based on the invoice date at the end of the reporting period:

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
0 - 30 days	8,689	1,290
31 - 90 days	547	918
91 - 180 days	—	—
181 - 365 days	—	—
1 - 2 years	<u>4</u>	<u>4</u>
	<u>9,240</u>	<u>2,212</u>
	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Amounts due to non-controlling shareholders of subsidiaries	<u>1,650</u>	<u>1,650</u>
Amounts due from shareholders	<u>—</u>	<u>11</u>

Except for the amounts due from Aifengcao, the remaining balances are non-trade, unsecured, interest-free and repayable on demand.

30. BANK BORROWINGS

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Bank borrowings, secured	<u>309,020</u>	<u>207,588</u>
Carrying amount repayable:		
Within one year	309,020	157,588
More than one year, but not exceeding two years	—	—
More than two years but not more than five years	<u>—</u>	<u>50,000</u>
	309,020	207,588
Less: Amount due within one year shown under current liabilities	<u>(309,020)</u>	<u>(157,588)</u>
	<u>—</u>	<u>50,000</u>

The range of the effective interest rates on the Group's borrowings is as follows:

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Fixed-rate borrowings	3.65% - 5.6%	5.6% - 6.9%
Variable-rate borrowings	4.35%	7.21%

At 31 December 2015, variable-rate borrowings amounted to RMB20,000,000 (2014: RMB50,000,000). The borrowings bear interest rates based on benchmark interest rate from the People's Bank of China ("Benchmark Rate") plus, if applicable, a premium and expose the Group to cash flow interest rate risk. At 31 December 2015, fixed-rate borrowings amounted to RMB289,020,000 (2014: RMB157,588,000).

As at 31 December 2015, secured bank borrowings include the discounting of bills receivables from external trade customers amounted to RMB11,150,000 (2014: RMB35,588,000) to banks with recourse.

All bank borrowings are denominated in RMB.

Bank borrowings at the end of each reporting period were secured by the pledge of assets and guarantees as set out in notes 34.

31. DEFERRED TAXATION

The following are the major deferred tax liabilities and assets recognised and movements thereon during the year:

Deferred tax assets	Impairment on inventories and receivables <i>RMB'000</i>	Tax losses <i>RMB'000</i>	Deferred income <i>RMB'000</i>	Options expense <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2014	31,524	26,436	5,091	—	63,051
Credit (charge) to profit or loss	<u>2,156</u>	<u>(10,383)</u>	<u>1,907</u>	<u>—</u>	<u>(6,320)</u>
At 31 December 2014	33,680	16,053	6,998	—	56,731
Credit (charge) to profit or loss	<u>(3,020)</u>	<u>(15,354)</u>	<u>(1,616)</u>	<u>2,268</u>	<u>(17,722)</u>
At 31 December 2015	<u>30,660</u>	<u>699</u>	<u>5,382</u>	<u>2,268</u>	<u>39,009</u>
Deferred tax liabilities	Fair value acquisition of subsidiaries <i>RMB'000</i>	Accelerated tax depreciation <i>RMB'000</i>	Undistributed profits of subsidiaries <i>RMB'000</i>	Total <i>RMB'000</i>	
At 1 January 2014	(5,046)	(2,141)	(30,140)	(37,327)	
Credit (charge) to profit or loss	<u>128</u>	<u>1,198</u>	<u>(20,737)</u>	<u>(19,411)</u>	
At 31 December 2014	(4,918)	(943)	(50,877)	(56,738)	
Credit (charge) to profit or loss	<u>(101)</u>	<u>296</u>	<u>(44,624)</u>	<u>(44,429)</u>	
At 31 December 2015	<u>(5,019)</u>	<u>(647)</u>	<u>(95,501)</u>	<u>(101,167)</u>	

The Group is not subject to PRC dividend withholding tax on the dividends paid prior to the completion of the Corporate Reorganization. Upon the completion of the Corporate Reorganisation, Dongpeng HK (as defined in note 42) became a group entity and the immediate holding company of Foshan Hua Sheng Chang (as defined in note 42). Under the EIT Law of PRC, withholding tax of 10% is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary difference attributable to accumulated profits of the PRC subsidiaries amounting to RMB638,985,000 (2014: RMB483,093,000) at 31 December 2015 as the Group is able to control the timing of the reversal of the temporary difference and the directors of the Company have resolved that such profits are retained for business development purposes and shall not be subject to declaration of dividend. Accordingly, it is probable that the temporary differences will not reverse in the foreseeable future. Deferred taxation has been provided for in respect of temporary differences of accumulated profits of the PRC subsidiaries in full other than described above.

At the end of each reporting period, the Group has the following unrecognised unused tax losses:

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Unused tax losses	<u>136,451</u>	<u>63,235</u>

No deferred tax asset has been recognised on these tax losses due to the unpredictability of future profit streams. The expiry dates of the above unrecognised tax losses are as follows:

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Expiry date		
31 December 2016	2,171	2,171
31 December 2017	5,504	5,504
31 December 2018	15,734	15,734
31 December 2019	39,826	39,826
31 December 2020	<u>73,216</u>	<u>—</u>
Total	<u>136,451</u>	<u>63,235</u>

Other than the above amounts, other unrecognised deductible temporary differences amounting to approximately RMB22,157,000 (2014: RMB27,150,000) as at 31 December 2015 mainly represent certain accrued rental expenses, accrued employees' and directors' emoluments. Due to the uncertainty on the availability of future profits, deferred tax assets are not recognised on these temporary differences. The Group had no other significant unrecognised deferred taxation.

32. SHARE CAPITAL

	Number of shares	Amount in US\$
Ordinary shares		
Authorised:		
At 31 December 2014 and 31 December 2015 at US\$0.000002 each	<u>24,850,000,000</u>	<u>49,700</u>
Issued:		
31 December 2013 at US\$0.000002 each	<u>1,246,952,800</u>	<u>2,494</u>
Issue of new shares on 25 June 2014 pursuant to the exercise of share options under Pre-IPO Share Option Scheme adopted on 31 October 2013 by directors	3,375,000	7
Issue of new shares on 25 June 2014 pursuant to the exercise of share options under Pre-IPO Share Option Scheme adopted on 31 October 2013 by employees	<u>8,500,000</u>	<u>17</u>
At 31 December 2014 at US\$0.000002 each	<u>1,258,827,800</u>	<u>2,518</u>
	<u>Equivalent to</u>	<u>RMB15,000</u>
Issue of new shares on 29 June 2015 pursuant to the exercise of share options under Pre-IPO Share Option Scheme adopted on 31 October 2013 by directors	1,687,500	3
Issue of new shares on 29 June 2015 pursuant to the exercise of share options under Pre-IPO Share Option Scheme adopted on 31 October 2013 by employees	<u>2,937,500</u>	<u>6</u>
31 December 2015 at US\$0.000002 each	<u>1,263,452,800</u>	<u>2,527</u>
	<u>Equivalent to</u>	<u>RMB15,000</u>

33. SHARE OPTION SCHEMES

(a) Pre-IPO share option scheme

Pursuant to a resolution passed on 31 October 2013, the Company offered to grant the Options which entitle the holders thereof to subscribe for a total of 47,500,000 Shares of the Company to the Directors and Employees of the Group subject to acceptance of the grantees (the “Grantees”), under the Scheme, the Options would expire on 31 October 2023.

Details of specific categories of options as follows:

Category	Date of grant	Exercisable period	Vesting period	Exercise price
Directors	31/10/2013	1/4/2015 to 30/10/2023	31/10/2013 to 1/4/2015	HK\$0.01
	31/10/2013	1/4/2016 to 30/10/2023	31/10/2013 to 1/4/2016	HK\$0.01
	31/10/2013	1/4/2017 to 30/10/2023	31/10/2013 to 1/4/2017	HK\$0.01
Senior management	31/10/2013	1/4/2015 to 30/10/2023	31/10/2013 to 1/4/2015	HK\$0.01
	31/10/2013	1/4/2016 to 30/10/2023	31/10/2013 to 1/4/2016	HK\$0.01
	31/10/2013	1/4/2017 to 30/10/2023	31/10/2013 to 1/4/2017	HK\$0.01
Employees	31/10/2013	1/4/2015 to 30/10/2023	31/10/2013 to 1/4/2015	HK\$0.01
	31/10/2013	1/4/2016 to 30/10/2023	31/10/2013 to 1/4/2016	HK\$0.01
	31/10/2013	1/4/2017 to 30/10/2023	31/10/2013 to 1/4/2017	HK\$0.01

The share options shall be vested in tranches on various vesting dates, provided that for each tranche, the options shall be vested only in the event that the Company meet both the Revenue and Profit for the stipulated financial year stated under the vesting conditions of the Pre-IPO share option scheme, that is in the event that the Company failed to fulfill any of the vesting conditions for vesting any proportion of a option granted under the Pre-IPO share option scheme, such proportion of relevant option due to be vested on the relevant Vesting Date had the conditions been fulfilled, shall neither be vested nor be exercisable on such Vesting Date and shall lapse on automatically on the relevant Vesting Date.

The table below discloses movement of the Company's share options held by the Group's directors and employees:

	Number of share options
Outstanding as at 1 January 2015	28,375,000
Exercised during the period	4,625,000
Lapsed during the period	<u>8,000,000</u>
Outstanding as at 31 December 2015	<u><u>15,750,000</u></u>

The fair value was calculated using the Binomial model. The inputs into the model were as follows:

Share price at grant date (before share consolidation)	HK\$1.4358
Exercise price	HK\$0.005
Expected volatility	52.1%
Expected life	10 years
Risk-free rate	2.54%
Expected dividend yield	0%
Sub-optimal exercise factor	2.8

Expected volatility was determined by using the annualised standard deviation of historical share price daily movements of selected comparable companies in the same industry. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The Group recognised the share-based payments of RMB5,017,000 and RMB40,323,000 for the year ended 31 December 2015 and 2014 respectively in relation to share options granted by the Company.

The Binomial model has been used to estimate the fair value of the options. The variables and assumptions used in the computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

(b) Share option scheme

The principal terms of the share option scheme, approved by the shareholders' resolution passed on 5 November 2013, are substantially the same as the terms of the Pre-IPO Share Option Scheme and key items are set out below:

- (i) The exercise price of the share options shall be such price as determined by the Board in its absolute discretion at the time of the grant of the relevant option (and shall be stated in the letter containing the offer of the grant of the option), but in any case the exercise price shall not be less than the higher of (a) the closing price of the Shares as stated in the daily quotation sheet of the Stock Exchange on the date of grant, which must be a Business Day ("Offer Date"), (b) the average closing price of the Shares as stated in the daily quotation sheets of the Stock Exchange for the five (5) Business Days immediately preceding the date of grant, and (c) the nominal value of a Share; and
- (ii) the maximum number of shares in respect of which options may be granted shall not exceed 10% of the total number of shares in issue at the date of listing of the shares of the Company on the Main Board of the Stock Exchange; and

(iii) the maximum entitlement of each eligible participant in any 12-month period up to the date of offer to grant shall not exceed 1% of the shares in issue as at the date of offer to grant.

As at 31 December 2015, no options have been granted or agreed to be granted pursuant to the share option scheme. The share option scheme will expire on 5 November 2023.

34. PLEDGE OF ASSETS

The following assets were pledged to secure bank borrowings and banking facilities granted to the Group and related parties at the end of the reporting period:

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Buildings	70,252	119,521
Prepaid lease payments	141,172	143,182
Notes receivables	—	14,920
Pledged bank deposits	<u>307,136</u>	<u>37,085</u>
	<u>518,560</u>	<u>314,708</u>

As at 31 December 2015, secured bank borrowings include the discounting of bills receivable from external trade customers amounted to RMB11,150,000 (2014: RMB35,588,000) to banks with recourse.

35. OPERATING LEASES

At 31 December 2015, the Group had future minimum lease payments under non-cancellable operating leases in respect of leased properties and plant and equipment as follows:

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	65,335	77,094
In the second to fifth years inclusive	145,156	189,909
After five years	<u>48,286</u>	<u>36,708</u>
	<u>258,777</u>	<u>303,711</u>

Operating lease payments represent rentals payable by the Group for certain of its office and warehouse premises and plant and equipment. Leases are negotiated for terms ranging from one to eighteen years. Rentals are fixed at the date of signing of lease agreements.

36. CAPITAL COMMITMENTS

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided	<u>176,277</u>	<u>192,426</u>

37. RETIREMENT BENEFIT SCHEMES

The employees of the Group's subsidiaries established in the PRC are members of state-managed retirement benefit schemes operated by the PRC government. The subsidiaries are required to contribute certain percentage of payroll costs to the retirement benefits schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the specific contributions.

The Group made contributions to the retirement benefits schemes of RMB41,541,000 (2014: RMB30,892,000) during the year.

38. RELATED PARTY TRANSACTIONS

During the year, other than those disclosed in other notes to the consolidated financial statements, the Group entered into the following transactions with related parties:

Name of related party	Relationship	2015	2014
		<i>RMB'000</i>	<i>RMB'000</i>
Purchases			
佛山華盛昌陶藝文化傳播有限公司 Foshan Huashengchang Cultural Transmission Co., Ltd.	Controlled by certain members of shareholders	1,576	1,381
Sales			
佛山華盛昌陶藝文化傳播有限公司 Foshan Huashengchang Cultural Transmission Co., Ltd.	Controlled by certain members of shareholders	653	626
愛蜂巢(蘇州)電子商務有限公司 Aifengchao	Associates	4,415	—
Rental expenses			
廣東東鵬陶瓷股份有限公司 Guangdong Dongpeng Ceramics	Controlled by shareholders	4,650	4,650

APPENDIX I**FINANCIAL INFORMATION ON THE COMPANY**

Name of related party	Relationship	2015	2014
		RMB'000	RMB'000
山東嘉麗雅陶瓷股份有限公司 Shandong Jialiya Ceramics Co.,Ltd.	Controlled by certain members of shareholders	12,000	12,000
湖南金鵬新型建材有限公司 Hunan Jinpeng New Building Materials Co., Ltd.	Controlled by certain members of shareholders	11,576	11,576
佛山中國陶瓷城集團有限公司 Foshan China Ceramic City Co., Ltd	Controlled by certain members of shareholders	1,524	—

Interest income

愛蜂巢(蘇州)電子商務有限公司 Aifengchao	Associates	167	—
-------------------------------	------------	-----	---

(a) Details of the balances with related parties at the end of the reporting periods are disclosed in the consolidated statement of financial position and the respective notes.

(b) The remuneration paid and payable to key management of the Company which include the directors of the Company and other members of other key management was as follows:

	2015	2014
	RMB'000	RMB'000
Directors' fee	407	394
Salaries and other benefits	5,955	4,536
Bonus	722	668
Retirement benefits scheme contribution	211	168
Share-based payments	<u>5,017</u>	<u>40,323</u>
	<u>12,312</u>	<u>46,089</u>

(c) The Group had used some relevant trademarks owned by Guangdong Dongpeng Ceramics for free during the years ended 31 December 2015 and 2014.

- (d) At 31 December, 2015, future maximum lease payments to related parties whereby the Group acts as a lessee is as follows:

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Shandong Jialiya Ceramics Co., Ltd.		
Within one year	10,440	10,440
In the second to fifth years inclusive	<u>20,880</u>	<u>—</u>
	<u>31,320</u>	<u>10,440</u>

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Hunan Jinpeng New Building Materials Co., Ltd.		
Within one year	12,155	11,576
In the second to fifth years inclusive	37,681	49,836
After five years	<u>—</u>	<u>—</u>
	<u>49,836</u>	<u>61,412</u>

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Guangdong Dongpeng Ceramics		
Within one year	4,650	4,650
In the second to fifth years inclusive	<u>9,300</u>	<u>4,650</u>
	<u>13,950</u>	<u>9,300</u>

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Foshan China Ceramic City Co., Ltd.		
Within one year	693	—
In the second to fifth years inclusive	<u>—</u>	<u>—</u>
	<u>693</u>	<u>—</u>

39. ACQUISITION OF SUBSIDIARIES

On 11 September 2014, the Group acquired 61.75% equity interest in Guangzhou Innoci from a non-related party for a cash consideration of RMB14,000,000. This acquisition has been accounted for using the acquisition method. Guangzhou Innoci is engaged in the design, customization and sale of mid to high-end bathroom products.

Assets acquired and liabilities recognised at the date of acquisition are as follows:

	Fair value
	<i>RMB'000</i>
Property, plant and equipment	988
Other intangible assets	670
Inventories	3,673
Trade and other receivables	2,258
Bank balances and cash	14,643
Trade and other payables	<u>(5,795)</u>
	<u>16,437</u>

The fair value of trade and other receivables at the date of acquisition amounted to RMB2,258,000. The gross contractual amounts of those trade and other receivables acquired amounted to RMB2,258,000 at the date of acquisition. The best estimate at acquisition date of the contractual cash flows not expected to be collected amounted to Nil. Non-controlling interest are measured at their proportionate share of net assets acquired.

	<i>RMB'000</i>
Goodwill arising on acquisition:	
Consideration transferred	14,000
Add: non-controlling interest	6,287
Less: net assets acquired	<u>(16,437)</u>
	<u>3,850</u>

RMB'000

Cash inflow arising on the acquisition:	
Cash consideration	(14,000)
Add: bank balances and cash acquired	<u>14,643</u>
	<u>643</u>

Acquisition-related costs amounting to RMB60,000 have been excluded from the consideration transferred and have been recognised as an expense for the year ended 31 December 2014.

Goodwill arose on the acquisition of Guangzhou Innoci is attributable to its anticipated profitability and the anticipated future operating synergies from the combination.

None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

Included in the profit for the year is a loss of RMB3,011,000, attributable to the additional business generated by Guangzhou Innoci. Revenue for the year includes RMB2,636,000, generated from by Guangzhou Yinai.

Had the acquisition of Guangzhou Yinai been completed on 1 January 2014, total group revenue for the year would have been RMB3,902,840,000, and profit for the year would have been RMB572,112,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2014, nor is it intended to be a projection of future results.

In determining the ‘pro-forma’ revenue and profit of the Group had Guangzhou Yinai been acquired at 1 January 2014, the directors have calculated depreciation of plant and equipment acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the pre-acquisition financial statements.

40. MAJOR NON-CASH TRANSACTIONS

At 31 December 2013, bills receivables of RMB47,967,000 had been discounted with recourse to banks. During the year ended 31 December 2014, the banks directly received the contractually entitled cash flows of RMB47,967,000 upon maturity of the discounted bills receivable from the Group’s debtors as settlement of the related bank borrowings granted to the Group.

At 31 December 2014, bills receivables of RMB35,588,000 had been discounted with recourse to banks. During the year ended 31 December 2015, the banks directly received the contractually entitled cash flows of RMB35,588,000 upon maturity of the discounted bills receivable from the Group’s debtors as settlement of the related bank borrowings granted to the Group.

41. EVENTS AFTER THE END OF THE REPORTING PERIOD

The respective directors of Profit Strong Investments Limited and Max Glory Ltd. (Collectively Known as “the Joint Offerors”), and the Company jointly announce that on 30 January 2016, the Joint Offerors requested the Board of directors of the Company to put forward a proposal to the Scheme Shareholders for the privatisation of the Company by way of a scheme of arrangement under Section 86 of the Companies Law, subject to satisfaction of the Pre-Condition (“the Scheme”). The Scheme will provide that the Scheme Shares will be cancelled in exchange for HK\$4.48 in cash for each Scheme Share. Under the Scheme, the total consideration payable for cancellation of the Scheme Shares will be payable by the Joint Offerors.

42. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid share/ registered capital	Proportion of ownership and voting right held by the Company At 31 December		Principal activity
			2014	2015	
China Home Investment Co., Ltd. (note 1) ("China Home")	British Virgin Islands	US\$1	100%	100%	Investment holding
Dongpeng International (Hong Kong) Holdings Co., Ltd. ("Dongpeng HK")	Hong Kong	HK\$1	100%	100%	Investment holding
佛山華盛昌陶瓷有限公司 Foshan Huashengchang Ceramics Co., Ltd. ("Foshan Hua Sheng Chang")	PRC	US\$28,100,000	100%	100%	Producing and sales of tiles, decorative wall tiles and bathroom products
清遠納福娜陶瓷有限公司 Qingyuan Nafuna Ceramics Co., Ltd. ("Qingyuan Nafuna")	PRC	RMB23,000,000	90.35%	90.35%	Producing and sales of ceramic tiles, construction ceramic, and bathroom products
豐城市東鵬陶瓷有限公司 Fengcheng Dongpeng Ceramics Co., Ltd. ("Fengcheng Dongpeng")	PRC	RMB65,000,000	100%	100%	Producing and sales of ceramic tile products
澧縣新鵬陶瓷有限公司 Lixian Xinpeng Ceramics Co., Ltd. ("Lixian Xinpeng")	PRC	RMB10,000,000	100%	100%	Producing and sales of ceramic products; process of ceramic materials
淄博卡普爾陶瓷有限公司 Zibo Kapuer Ceramics Co., Ltd. ("Zibo Kapuer")	PRC	RMB20,000,000	100%	100%	Producing and sales of ceramic tile products
廣州市東鵬陶瓷有限責任公司 Guangzhou Dongpeng Ceramics Co., Ltd. ("Guangzhou Dongpeng")	PRC	RMB3,010,000	100%	100%	Sales of ceramic tile and bathroom products

APPENDIX I
FINANCIAL INFORMATION ON THE COMPANY

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid share/ registered capital	Proportion of ownership and voting right held by the Company At 31 December		Principal activity
			2014	2015	
深圳東鵬陶瓷有限公司 Shenzhen Dongpeng Ceramics Co., Ltd. ("Shenzhen Dongpeng")	PRC	RMB500,000	100%	100%	Sales of ceramic tile and bathroom products
上海東鵬陶瓷有限公司 Shanghai Dongpeng Ceramics Co., Ltd. ("Shanghai Dongpeng")	PRC	RMB500,000	100%	100%	Sales of ceramic tile and bathroom products
陝西東鵬建材有限公司 Shanxi Dongpeng Construction Materials Co., Ltd. ("Shanxi Dongpeng")	PRC	RMB5,000,000	100%	100%	Sales of ceramic tile products, decoration and construction materials and bathroom products
佛山市東鵬陶瓷發展有限公司 Foshan Dongpeng Ceramics Development Co., Ltd. ("Foshan Dongpeng Development")	PRC	RMB13,000,000	92.31%	92.31%	Sales of ceramic tile products
湖南東鵬建材貿易有限公司 Hunan Dongpeng Construction Materials Trading Co., Ltd. ("Hunan Dongpeng")	PRC	RMB2,000,000	100%	100%	Sales of ceramic tile and bathroom products
林芝裕和商貿有限公司 Linzhi Yuhe Commerce and Trading Co., Ltd. ("Linzhi Yuhe")	PRC	RMB2,000,000	100%	100%	Sales of ceramics tile and bathroom products
堆龍德慶裕威商貿有限公司 Duilong Deqing Yuwei Commerce and Trading Co., Ltd. ("Deqing Yuwei")	PRC	RMB1,000,000	100%	100%	Sales of ceramics tile and bathroom products

APPENDIX I
FINANCIAL INFORMATION ON THE COMPANY

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid share/ registered capital	Proportion of ownership and voting right held by the Company At 31 December		Principal activity
			2014	2015	
佛山東鵬潔具股份有限公司 Foshan Dongpeng Sanitary Ware Co., Ltd. (“Dongpeng Sanitary Ware”)	PRC	RMB58,300,000	100%	100%	Producing and sales of bathroom products
堆龍德慶和盈商貿有限公司 Duilong Deqing Heying Commerce and Trading Co., Ltd. (“Deqing Heying”)	PRC	RMB2,000,000	100%	100%	Sales of ceramics tile and bathroom products
江西東鵬衛浴有限公司 Jiangxi Dongpeng Bathroom Products Co., Ltd. (“Jiangxi Bathroom Products”)	PRC	RMB40,000,000	100%	100%	Producing and sales of bathroom products
佛山市順德區東鵬陶瓷 銷售有限公司 Foshan Shunde Dongpeng Ceramics Trading Co., Ltd. (“Shunde Dongpeng”)	PRC	RMB100,000	100%	100%	Sales of ceramic tile and bathroom products
佛山市高明穩暢家具有限公司 Foshan Gaoming Wenchang Furniture Co., Ltd. (“Gaoming Furniture”)	PRC	RMB500,000	70%	70%	Producing and sales of bathroom products
廣西粵鵬建材有限公司 Guangxi Yuepeng Construction Materials Co., Ltd. (“Guangxi Yuepeng”)	PRC	RMB2,000,000	100%	100%	Sales of construction and decoration materials, ceramic tile and bathroom products
廣東東鵬控股股份有限公司 Guangdong Dongpeng Holding Co., Ltd. (“Guangdong Dongpeng Holdings”)	PRC	RMB180,000,000	100%	100%	Sales of ceramic tile and bathroom products; Import and export

APPENDIX I
FINANCIAL INFORMATION ON THE COMPANY

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid share/ registered capital	Proportion of ownership and voting right held by the Company At 31 December		Principal activity
			2014	2015	
佛山市東鵬陶瓷有限公司 Foshan Dongpeng Ceramics Co., Ltd. ("Foshan Dongpeng")	PRC	RMB15,000,000	100%	100%	Sales of ceramic tile and bathroom products; Import and export
雲南軒鵬建材有限公司 Yunnan Xuanpeng Construction Materials Co., Ltd. ("Yunnan Xuanpeng")	PRC	RMB2,000,000	100%	100%	Sales of construction and decoration materials, ceramic tile and bathroom products
青島瑞鵬建材有限公司 Qingdao Ruipeng Construction Materials Co., Ltd. ("Qingdao Ruipeng")	PRC	RMB2,000,000	100%	100%	Sales of construction and decoration materials, ceramic tile and bathroom products
廣東裕和商貿有限公司 Guangdong Yuhe Commerce and Trading Co., Ltd. ("Guangdong Yuhe")	PRC	RMB20,000,000	100%	100%	Trading of ceramic tile and bathroom products
江西豐裕商貿有限公司 Jiangxi Fengyu Commerce and Trading Co., Ltd. ("Jiangxi Fengyu")	PRC	RMB5,000,000	100%	100%	Sales of ceramic tile and bathroom products, ceramic materials
重慶石灣東鵬陶瓷有限公司 Chongqing Shiwan Dongpeng Ceramics Co., Ltd. ("Chongqing Dongpeng")	PRC	RMB2,000,000	100%	100%	Sales of ceramic tile and bathroom products, ceramic materials
廣東藝耐衛浴用品有限公司 Guangdong Innoci Sanitary Products Co., Ltd. ("Gunagdong Innoci") (note 2)	PRC	RMB2,000,000	61.75%	61.75%	Design, customization and sale of mid to high-end bathroom products

APPENDIX I
FINANCIAL INFORMATION ON THE COMPANY

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid share/ registered capital	Proportion of ownership and voting right held by the Company At 31 December		Principal activity
			2014	2015	
廣東東鵬家居有限公司 Guangdong Dongpeng Furnishing Co., Ltd (“Dongpeng Furnishing”)	PRC	RMB3,000,000	62%	100%	Sales of ceramic tile and bathroom products, ceramic materials, decoration design
江門東鵬智能家居有限公司 Jiangmen Dongpeng Intelligent Furnishing Co., Ltd (“Jiangmen Dongpeng Furnishing”)	PRC	RMB12,000,000	100%	100%	Producing and sales of bathroom products
佛山藝耐衛浴用品有限公司 Foshan Innoci Sanitary Products Co., Ltd. (“Foshan Innoci”)	PRC	RMB1,000,000	N/A	100%	Design, customization and sale of mid to high-end bathroom products
德國藝耐衛浴用品有限公司 Germany Innoci Sanitary Products Co., Ltd. (“Germany Innoci”)	PRC	RMB253,426.61	62%	62%	Design, customization and sale of mid to high-end bathroom products
佛山市樂淘陶科技有限公司 Foshan Lok Tao Tao Technology Co., Ltd. (“Foshan Lok Tao Tao”)	PRC	RMB3,500,000	N/A	100%	Sales of ceramic tile and bathroom products, ceramic materials, decoration design
堆龍綠家科技有限公司 Duilong Green Home Technology Co., Ltd. (“Deqing Green Home”)	PRC	RMB500,000	N/A	60%	Sales of ceramic tile and bathroom products, ceramic materials, decoration design

All subsidiaries’ places of operation are located in PRC except for China Home, Dongpeng HK and Germany Innoci which operate in Hong Kong and Germany.

None of the subsidiaries had issued any debt securities at 31 December 2015 and 2014.

Note 1: This subsidiary is directly held by the Company, all other subsidiaries are indirectly held by the Company.

Note 2: Guangdong Innoci formerly named as Guangzhou Innoci.

43. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Non-current Assets		
Unlisted investment in a subsidiary	<u>104,123</u>	<u>142,786</u>
Amount due from a subsidiary	<u>385,332</u>	<u>410,633</u>
	<u>489,455</u>	<u>553,419</u>
Current Assets		
Amounts due from shareholders	—	11
Trade and other receivables	165	1,528
Restricted Bank Deposits	—	85,720
Bank balances and cash	<u>1,029</u>	<u>10,367</u>
	<u>1,194</u>	<u>97,626</u>
Current Liabilities		
Amounts due to subsidiaries	17,508	17,508
Other payables	1,170	1,371
Tax payable	<u>1,071</u>	<u>1,071</u>
	<u>19,749</u>	<u>19,950</u>
Net Current Assets	<u>(18,555)</u>	<u>77,676</u>
Total Assets less Current Liabilities	<u>470,900</u>	<u>631,095</u>
Net Assets	<u>470,900</u>	<u>631,095</u>
Capital and Reserves		
Share capital	15	15
Reserves	<u>470,885</u>	<u>631,080</u>
Total Equity	<u>470,900</u>	<u>631,095</u>

Amount due from a subsidiary is unsecured and interest free. In the opinion of the directors of the Company, the amount due from a subsidiary will not be recovered within twelve months from the end of the reporting period and is therefore classified as non-current. The amount due from a subsidiary is measured at fair value at initial recognition using an effective interest rate of 4.90% (2014: 6.15%) per annum. The difference between the estimated fair value and the amounts advanced to the subsidiary is recognised as investment in the subsidiary.

44. RESERVES

The Company

	Share premium <i>RMB'000</i>	Profit <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2014	<u>682,803</u>	<u>17,677</u>	<u>700,480</u>
Issue of shares under share option scheme	95	—	95
Profit for the year	—	484	484
Dividend	<u>(69,979)</u>	<u>—</u>	<u>(69,979)</u>
At 31 December 2014	<u><u>612,919</u></u>	<u><u>18,161</u></u>	<u><u>631,080</u></u>
Issue of shares under share option scheme	37	—	37
Profit for the year	—	9,196	9,196
Dividend	<u>(169,428)</u>	<u>—</u>	<u>(169,428)</u>
At 31 December 2015	<u><u>443,528</u></u>	<u><u>27,357</u></u>	<u><u>470,885</u></u>

3 INDEBTEDNESS STATEMENT

As at 29 February 2016, the Group had total outstanding indebtedness of RMB2,215.9 million, including short-term borrowings of RMB50.9 million and long-term borrowings of RMB2,165.0 million.

Save as disclosed above, the Group had no other material contingent liabilities or outstanding mortgages, charges, loan capital issued and outstanding or agreed to be issued, bank loans and overdrafts or other similar indebtedness as at the close of business on 29 February 2016.

4 MATERIAL CHANGES

The Directors confirm that, there had been no material change in the financial or trading position or outlook of the Group since 31 December 2015, the date to which the latest audited consolidated financial statements of the Company were made up, and up to and including the Latest Practicable Date.

5 ADJUSTED NAV

Based on the audited financial statement as at 31 December 2015 and the adjustment of revaluation surplus arising from the valuation of property interests attributable to the owner of the Company as at 29 February 2016, the calculation of the adjusted net assets value per Share as at 31 December 2015 is set out in the table below.

	<i>HK\$ million</i>
Audited consolidated NAV of the Group attributable to owners of the Company as at 31 December 2015 (<i>Note 1</i>)	3,374.9
<i>Adjustments:</i>	
- Revaluation surplus arising from the valuation of property interests attributable to the owner of the Company as at 29 February 2016 (<i>Note 2</i>)	<u>167.6</u>
Adjusted NAV	3,542.5
Adjusted NAV per Share (<i>Note 3</i>)	HK\$2.79

Notes:

1. The exchange rate of RMB1:HK\$1.19 as at the Latest Practicable Date was extracted from Bloomberg and used in the above calculation.

2. *This represents revaluation surplus arising from the excess of market value of the property interests held by the Group as valued by Jones Lang LaSalle Corporate Appraisal and Advisory Limited (the “Valuer”) as at 29 February 2016 over their corresponding book values as at 31 December 2015, after adjusting for relevant interest not attributable to the owners of the Company, but without taking into account the relevant tax impact.*

Part of the revaluation surplus are attributed to certain properties without any of the State-owned Land Use Rights Certificate, the Real Estate Title Certificates or the Building Ownership Certificates including (i) nine buildings and structures with assessed value as at 29 February 2016 amounted to approximately RMB246 million (adjusted for properties interest attributable to the owners of the Company) located at Taiqian Village Committee, Yuantan Town, Qingyuan City; (ii) two building and structures with assessed value of approximately RMB22.6 million as at 29 February 2016 (adjusted for properties interest attributable to the owners of the Company) located at Peng Shan Village, Zhangongmiao Town, Changde City; (iii) 12 buildings with assessed value of approximately RMB47.9 million as at 29 February 2016 (adjusted for properties interest attributable to the owners of the Company) located at No.6 Chuangxin Avenue, Meilin Town, Yichun City; and (iv) 12 buildings with assessed value of approximately RMB108.5 million as at 29 February 2016 (adjusted for properties interest attributable to the owners of the Company) located at No.15 Chuangxin Avenue, Fengcheng Industrial Park, Yichun City. The stated assessed values by the Valuer are based on assumption that the relevant certificates of titles had been fully obtained and the buildings could be freely transferred.

3. *Based on 1,268,077,800 Shares in issue of the Company as at the Latest Practicable Date.*

1 RESPONSIBILITY STATEMENTS

The information contained in this Scheme Document relating to the Group has been supplied by the Company. The issue of this Scheme Document has been approved by the directors of the Company, who jointly and severally accept full responsibility for the accuracy of the information contained in this Scheme Document (other than that relating to the Profit Strong Group and the Sequoia Group) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Scheme Document (other than those expressed by the Profit Strong Group and the Sequoia Group) have been arrived at after due and careful consideration and there are no other facts not contained in this Scheme Document, the omission of which would make any statement in this Scheme Document misleading.

The information contained in this Scheme Document relating to Profit Strong Group has been supplied by Profit Strong. The issue of this Scheme Document has been approved by the sole director of Profit Strong, who accepts full responsibility for the accuracy of the information contained in this Scheme Document (other than that relating to the Group and the Sequoia Group) and confirms, having made all reasonable enquiries, that to the best of his knowledge, opinions expressed in this Scheme Document (other than those expressed by the Group and the Sequoia Group) have been arrived at after due and careful consideration and there are no other facts not contained in this Scheme Document, the omission of which would make any statement in this Scheme Document misleading.

The information contained in this Scheme Document relating to Sequoia Group has been supplied by Max Glory. The issue of this Scheme Document has been approved by the sole director of Max Glory, who accepts full responsibility for the accuracy of the information contained in this Scheme Document (other than that relating to the Group and the Profit Strong Group) and confirms, having made all reasonable enquiries, that to the best of her knowledge, opinions expressed in this Scheme Document (other than those expressed by the Group and the Profit Strong Group) have been arrived at after due and careful consideration and there are no other facts not contained in this Scheme Document, the omission of which would make any statement in this Scheme Document misleading. The issue of this Scheme Document has been approved by the sole director of 上海桓遠投資管理有限公司, which is the general partner of 北京紅杉坤德投資管理中心 (有限合夥). The sole director of 上海桓遠投資管理有限公司 accepts full responsibility for the accuracy of the information contained in this Scheme Document (other than that relating to the Group and the Profit Strong Group) and confirms, having made all reasonable enquiries, that to the best of its knowledge, opinions expressed in this Scheme Document (other than those expressed by the Group and the Profit Strong Group) have been arrived at after due and careful consideration and there are no other facts not contained in this Scheme Document, the omission of which would make any statement in this Scheme Document misleading.

2 SHARE CAPITAL

As at the Latest Practicable Date:

- (a) the authorised share capital of the Company is US\$50,000 divided into 25,000,000,000 Shares, and the Company has 1,268,077,800 Shares in issue;

- (b) the Company has issued 4,625,000 new Shares pursuant to the exercise of outstanding Share Options since 31 December 2015, being the end of the last financial year of the Company, up to the Latest Practicable Date;
- (c) all of the Shares rank *pari passu* in all respects as regards rights to capital, dividends and voting;
- (d) as at the Latest Practicable Date, there are 11,125,000 outstanding Share Options granted under the Pre-IPO Share Option Scheme each relating to one Share, of which 1,875,000 Share Options are held by Mr. HE Xinming, 6,625,000 Share Options are held by certain Participating Shareholders (including Mr. CHEN Kunlie and the Senior Management Shareholders), and the remaining 2,625,000 Share Options are held by other employees of the Group. The exercise price of each of these outstanding Share Options is HK\$0.01 per Share, all of which will only vest on 1 April 2017 subject to the fulfilment of certain conditions set out in the Pre-IPO Share Option Scheme; and
- (e) other than the outstanding Share Options, there are no outstanding warrants, derivatives or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) issued by the Company that carry a right to subscribe for or which are convertible into Shares.

3 MARKET PRICE

The table below sets out the closing price of the Shares on the Stock Exchange on (i) the Latest Practicable Date; (ii) the Last Trading Day; (iii) the last Business Day immediately preceding the date of the announcement jointly issued by the Joint Offerors and the Company on 18 February 2016 (being 17 February 2016) and (iv) the last Business Day of each of the calendar months during the period commencing six months preceding the Offer Period Commencement Date and ending on the Latest Practicable Date:

	Closing price for each Share (HK\$)
31 August 2015	3.18
30 September 2015	2.60
30 October 2015	2.90
30 November 2015	2.89
31 December 2015	3.02
29 January 2016 (Last Trading Day)	3.40
17 February 2016	4.01
29 February 2016	4.06
31 March 2016	4.23
29 April 2016	4.20
16 May 2016 (Latest Practicable Date)	4.15

The lowest and highest closing prices of Shares as quoted on the Stock Exchange during the period commencing six months preceding the Offer Period Commencement Date and ending on the Latest Practicable Date were HK\$2.56 per Share on 24 September 2015, and HK\$4.24 per Share on 7 April 2016 and 22 April 2016, respectively.

The Cancellation Price of HK\$4.48 per Scheme Share represents a premium of approximately 31.76% over the closing price of HK\$3.40 per Share as quoted on the Stock Exchange on 29 January 2016 (being the Last Trading Day).

4 DISCLOSURE OF INTERESTS

For the purpose of this paragraph, “interested” and “interests” have the same meanings as given to them in the appropriate part of the SFO.

(a) Interests and dealings in Shares

- (i) As at the Latest Practicable Date, the Joint Offerors and Joint Offerors Concert Parties had the following interests in Shares:

Shareholders	As at the Latest Practicable Date	
	Number of Shares	%
Joint Offerors		
Profit Strong ¹	392,518,463	30.95
Max Glory	—	—
Joint Offerors Concert Parties		
Sequoia Existing Shareholders ²	97,552,800	7.69
Mr. HE Xinming ³	3,750,000	0.30
Superb Idea ⁴	160,763,325	12.68
Mr. CHEN Kunlie	1,500,000	0.12
Cosmo Ray ⁵	33,074,966	2.61
High Ride ⁶	188,617,978	14.87
Rich Blossom ⁷	45,025,268	3.55
Senior Management Shareholders ⁸	13,106,000	1.03

Shareholders	As at the	
	Latest Practicable Date	
	Number of	%
	Shares	
Aggregate number of Shares of the Joint Offerors and the Joint Offerors Concert Parties	935,908,800	73.81
Other public Shareholders	<u>332,169,000</u>	<u>26.19</u>
Total number of Independent Shareholders	<u>332,169,000</u>	<u>26.19</u>
Total	<u><u>1,268,077,800</u></u>	<u><u>100.00</u></u>

Notes:

- (1) Profit Strong is wholly owned by Mr. HE Xinming, the controlling shareholder of the Company.
- (2) Sequoia Growth, Sequoia Partners and Sequoia Principals hold 6.71%, 0.16% and 0.83% of the issued share capital of the Company, respectively.
- (3) Mr. HE Xinming holds 1,875,000 Share Options as at the Latest Practicable Date, which will only vest on 1 April 2017 subject to the fulfilment of certain conditions set out in the Pre-IPO Share Option Scheme.
- (4) Superb Idea is wholly owned by Mr. CHEN Kunlie, an executive director of the Company. Mr. CHEN Kunlie also holds 750,000 Share Options as at the Latest Practicable Date, which will only vest on 1 April 2017 subject to the fulfilment of certain conditions set out in the Pre-IPO Share Option Scheme.
- (5) Cosmo Ray is wholly owned by Mr. SU Sen, a non-executive director of the Company.
- (6) High Ride's shareholders comprise HE Xinzhong (23.15%), CHEN Yezhi (20.68%), OU Haoquan (20.45%), LUO Siwei (15.29%), ZHONG Baomin (9.33%), JIANG Anning (6.68%), and KUANG Zhijun (4.42%), which are either current or former employees of the Group.
- (7) Rich Blossom's shareholders comprise BAO Jianyong (an executive director of the Company, 31.82%), FENG Zhihua (11.74%), ZHAO Haobiao (10.17%), CHEN Haihong (10.07%), LIN Zhihua (10.06%), CHEN Susong (7.69%), ZHONG Guoxiong (6.15%), LONG Xiang (6.15%) and LI Weixuan (6.15%), who are either current or former employees of the Group.
- (8) The Shares held by Senior Management Shareholders comprise 1,392,000 Shares, 1,250,000 Share, 4,478,000 Share, 2,775,000 Shares, 1,500,000 Shares and 1,711,000 Share held by CAI Chuyang, JIN Guoting, LIN Hong, SHAO Yu, SHI Yufeng and BAO Jianyong, respectively, who are members of the senior management of the Company. The Senior Management Shareholders also hold 5,875,000 Share Options in aggregate as at the Latest Practicable Date, which will only vest on 1 April 2017 subject to the fulfilment of certain conditions set out in the Pre-IPO Share Option Scheme.
- (9) All percentages in the above table are approximations.

- (ii) The following are the dealings in the Shares for value during the Disclosure Period by the Joint Offerors and the Joint Offerors Concert Parties (excluding the exempt principal traders in CICC group):

Directors	Dealing	Trade Date	Number of Shares	Dealing Price Per Share (HK\$)
BAO Jianyong	Buy	28 October 2015	50,000	2.77
	Buy	28 October 2015	11,000	2.75
CAI Chuyang	Sell	28 August 2015	11,000	3.40
	Sell	31 August 2015	2,000	3.40
	Sell	1 September 2015	9,000	3.40
	Sell	13 January 2016	70,000	3.31
SHI Yufeng	Sell	29 January 2016	600,000	3.33
	Buy	13 October 2015	100,000	2.96
	Sell	23 December 2015	50,000	2.99
	Sell	29 December 2015	6,000	3.05
	Sell	30 December 2015	11,000	3.06
	Sell	31 December 2015	33,000	3.06
	Buy	22 January 2016	50,000	2.85
	Buy	22 January 2016	50,000	2.85
	Sell	29 January 2016	50,000	3.24
	Sell	29 January 2016	48,000	3.22
Sell	29 January 2016	2,000	3.23	

- (iii) As at the Latest Practicable Date, there are 11,125,000 outstanding Share Options granted under the Pre-IPO Share Option Scheme each relating to one Share, all of which will only vest on 1 April 2017 subject to the fulfilment of certain conditions set out in the Pre-IPO Share Option Scheme. As at the Latest Practicable Date, the Optionholders had the following interests in Share Options:

Optionholders	Number of Share Options	Exercise Price (HK\$)	Exercise Period
HE Xinming	1,875,000	0.01	10 years after grant of relevant Share Options subject to vesting conditions
CHEN Kunlie	750,000	0.01	10 years after grant of relevant Share Options subject to vesting conditions

Optionholders	Number of Share Options	Exercise Price (HK\$)	Exercise Period
Senior Management Shareholders			
BAO Jianyong	750,000	0.01	10 years after grant of relevant Share Options subject to vesting conditions
CAI Chuyang	1,562,500	0.01	10 years after grant of relevant Share Options subject to vesting conditions
SHAO Yu	1,312,500	0.01	10 years after grant of relevant Share Options subject to vesting conditions
LIN Hong	750,000	0.01	10 years after grant of relevant Share Options subject to vesting conditions
SHI Yufeng	750,000	0.01	10 years after grant of relevant Share Options subject to vesting conditions
JIN Guoting	750,000	0.01	10 years after grant of relevant Share Options subject to vesting conditions
Remaining Optionholders			
YANG Lixin	750,000	0.01	10 years after grant of relevant Share Options subject to vesting conditions
LIANG Huicai	750,000	0.01	10 years after grant of relevant Share Options subject to vesting conditions
CHEN Junfeng	375,000	0.01	10 years after grant of relevant Share Options subject to vesting conditions
LIN Chifeng	375,000	0.01	10 years after grant of relevant Share Options subject to vesting conditions
FENG Chu	375,000	0.01	10 years after grant of relevant Share Options subject to vesting conditions
Total	11,125,000	0.01	10 years after grant of relevant Share Options subject to vesting conditions

- (iv) The following are the dealings in the Options during the Disclosure Period by all Optionholders:

Optionholders	Date of Exercise/Lapse	Exercise Price (HK\$)	Number of Share Options Lapsed	Number of Share Options Exercised	Option Money Received by the Company (HK\$)
HE Xinming	1 April 2016	—	937,500	—	—
	6 April 2016	0.01	—	937,500	9,375
CHEN Kunlie	1 April 2016	—	375,000	—	—
	6 April 2016	0.01	—	375,000	3,750
BAO Jianyong	1 April 2016	—	375,000	—	—
	6 April 2016	0.01	—	375,000	3,750
CAI Chuyang	1 April 2016	—	781,250	—	—
	6 April 2016	0.01	—	781,250	7,812.5
SHAO Yu	1 April 2016	—	656,250	—	—
	6 April 2016	0.01	—	656,250	6,562.5
LIANG Huicai	1 April 2016	—	375,000	—	—
	6 April 2016	0.01	—	375,000	3,750
LIN Hong	1 April 2016	—	375,000	—	—
	6 April 2016	0.01	—	375,000	3,750
SHI Yufeng	1 April 2016	—	375,000	—	—
	6 April 2016	0.01	—	375,000	3,750
JIN Guoting	1 April 2016	—	375,000	—	—
	6 April 2016	0.01	—	375,000	3,750
YANG Lixin	1 April 2016	—	750,000	—	—
CHEN Junfeng	1 April 2016	—	375,000	—	—
LIN Chifeng	1 April 2016	—	375,000	—	—
FENG Chu	1 April 2016	—	375,000	—	—

- (v) During the Disclosure Period, no dealing in Shares for value has been conducted by CICC Group (other than exempt principal traders), for its own account or on a discretionary basis.
- (vi) Save as disclosed in paragraphs 4(a)(ii) and (iv) of this section, none of the Joint Offerors, Joint Offerors Concert Parties and any person who prior to the posting of this Scheme Document has irrevocably committed itself to accept or reject the offer, had dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares during the Disclosure Period.

- (vii) As at the Latest Practicable Date, no subsidiary of the Company, pension fund of the Company or of any subsidiary of the Company or adviser of the Company as specified in class (2) of the definition of associate under the Takeovers Code (other than exempt principal traders) owned or controlled any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares. During the period commencing on the Offer Period Commencement Date and up to the Latest Practicable Date, no such person had dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares.
- (viii) As at the Latest Practicable Date, save as disclosed in “13. Information on the Joint Offerors”, “14. Rollover Arrangement”, “16. Consortium Agreement” and “17. Undertaking Letters” in the Explanatory Memorandum, no person had any arrangements of the kind referred to in Note 8 to Rule 22 of the Takeovers Code in relation to the Shares with the Joint Offerors (or with Joint Offerors Concert Parties) and save as disclosed in paragraphs 4(a)(i), (ii), (iii) and (iv) of this section, no such person owned or controlled any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares or had dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares during the Disclosure Period.
- (ix) As at the Latest Practicable Date, save as disclosed in “13. Information on the Joint Offerors”, “14. Rollover Arrangement”, “16. Consortium Agreement” and “17. Undertaking Letters” in the Explanatory Memorandum, no person had any arrangements of the kind referred to in Note 8 to Rule 22 of the Takeovers Code in relation to the Shares with the Company (or with any person who is an associate of the Company by virtue of class (1) to (4) of the definition of “associate” under the Takeovers Code). During the Disclosure Period, save as disclosed in paragraphs 4(a)(i), (ii), (iii) and (iv) of this section, no such person owned or controlled any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares or had dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares.
- (x) As at the Latest Practicable Date, save as disclosed in paragraph 4(a)(i) and (iii) of this section and the table below, none of the Directors had any interest in the Shares or any convertible securities, warrants, options or derivatives in respect of the Shares:

Director	Number of Shares held	Approximate percentage of total issued share capital of the Company (%)
HE Xinming	396,268,463 ⁽¹⁾	31.25
CHEN Kunlie	162,263,325 ⁽²⁾	12.80
BAO Jianyong	46,736,268 ⁽³⁾	3.69
SU Sen	33,074,966 ⁽⁴⁾	2.61

Notes:

- (1) Shares owned by Mr. HE Xinming consist of (i) 392,518,463 Shares held by Profit Strong, a company wholly owned by Mr. HE Xinming, and (ii) 3,750,000 Shares beneficially owned by Mr. HE Xinming.
 - (2) Shares owned by Mr. CHEN Kunlie consist of (i) 160,763,325 Shares held by Superb Idea, a company wholly owned by Mr. CHEN Kunlie, and (ii) 1,500,000 Shares beneficially owned by Mr. CHEN Kunlie.
 - (3) Shares owned by Mr. BAO Jianyong consist of (i) 45,025,268 Shares held by Rich Blossom in which Mr. BAO Jianyong is deemed to be interested since he holds approximately 31.82% of the equity interest of Rich Blossom and (ii) 1,711,000 Shares beneficially owned by Mr. BAO Jianyong.
 - (4) Shares owned by Mr. SU Sen consist of 33,074,966 Shares held by Cosmo Ray, a company wholly owned by Mr. SU Sen.
 - (5) None of the Shares held by Mr. HE Xinming, Mr. CHEN Kunlie, Mr. BAO Jianyong and Mr. SU Sen will constitute Scheme Shares or be voted on the Scheme at the Court Meeting.
- (xi) Save as disclosed in paragraph 4(a)(i) and (iii) of this section, none of the Joint Offerors and their respective directors owned or controlled any Shares or convertible securities, warrants, options or derivatives in respect of the Shares as at the Latest Practicable Date. During the Disclosure Period, save as disclosed in 4(a)(ii) and (iv) of this section, none of the Joint Offerors and their respective directors had dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares.
- (xii) As at the Latest Practicable Date, none of the Joint Offerors, the Joint Offerors Concert Parties, the Company or the Directors had borrowed or lent any Shares.
- (xiii) As at the Latest Practicable Date, no fund managers (other than exempt fund managers) connected with the Company who managed funds on a discretionary basis had owned or controlled any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares. During the Disclosure Period, no fund managers (other than exempt fund managers) connected with the Company who managed funds on a discretionary basis had dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares.
- (xiv) As Mr. HE Xinming, Mr. CHEN Kunlie, Mr. BAO Jianyong and Mr. SU Sen are the Joint Offeror Concert Parties, they will abstain from voting on the Scheme at the Court Meeting. The remaining Directors did not own any beneficial shareholding in Shares as at the Latest Practicable Date.

(b) Interests and dealings in the Joint Offerors' shares

Save as disclosed in "13. Information on the Joint Offerors" in the Explanatory Memorandum, the Company and the Directors had no interest in the Joint Offerors' shares or convertible securities,

warranties, options or derivatives in respect of the Offeror's shares as at the Latest Practicable Date. During the Disclosure Period, neither of the Company nor the Directors had dealt for value in any such shares or any convertible securities, warranties, options or derivatives in respect of the Joint Offerors' shares.

(c) Arrangements with the Joint Offerors and Joint Offerors Concert Parties in respect of the Proposal

As at the Latest Practicable Date:

- (i) save as disclosed in "13. Information on the Joint Offerors", "14. Rollover Arrangement", "16. Consortium Agreement" and "17. Undertaking Letters" in the Explanatory Memorandum, there were no arrangements of the kind referred to in Note 8 to Rule 22 of the Takeovers Code exist between the Joint Offerors or Joint Offerors Concert Parties and any other person;
- (ii) there was no agreement or arrangement to which any Joint Offeror is a party which relates to the circumstances in which it may or may not invoke or seek to invoke a condition to the Scheme; and
- (iii) save as disclosed in "13. Information on the Joint Offerors" and "14. Rollover Arrangement" in the Explanatory Memorandum, there was no agreement, arrangement or understanding between the Joint Offerors and any other person in relation to the transfer, charge or pledge of the Shares to be issued to the Joint Offerors upon completion of the Scheme and the Joint Offerors have no intention to transfer, charge or pledge any Shares in the Company acquired pursuant to the Scheme to any other person.

(d) Other interests

As at the Latest Practicable Date:

- (i) no benefit is or will be paid/given to any director of the Company as compensation for loss of office or otherwise in connection with the Scheme;
- (ii) save as disclosed in "14. Rollover Arrangement", "15. Dividend Payment and Loan Agreement" and "16. Consortium Agreement" in the Explanatory Memorandum, there was no agreement, arrangement or understanding (including any compensation arrangement) between any of the Joint Offerors or Joint Offerors Concert Parties and any of the directors of the Company, recent directors of the Company, Shareholders or recent shareholders of the Company having any connection with or dependence upon the Scheme;
- (iii) save as disclosed in "14. Rollover Arrangement", "15. Dividend Payment and Loan Agreement" and "16. Consortium Agreement" in the Explanatory Memorandum, there was no agreement or arrangement between any director of the Company and any other person which is conditional on or dependent upon the outcome of the offer or otherwise connected with the Scheme;

- (iv) save as disclosed in “14. Rollover Arrangement”, “15. Dividend Payment and Loan Agreement” and “16. Consortium Agreement” in the Explanatory Memorandum, no material contract has been entered into by any Joint Offerors in which any director of the Company has a material personal interest; and
- (v) save for the service contracts set out below, no other directors of the Company has a service contract with any member of the Group or associated companies of the Company in force which (i) (including both continuous and fixed term contracts) has been entered into or amended within six months before the Offer Period Commencement Date; or (ii) is continuous contract with a notice period of 12 months or more; or (iii) is a fixed term contract that has more than 12 months to run irrespective of the notice period.

Name of director	Date of service contract	Expiry date of service contract	Remuneration
HE Xinming	5 November 2013	date of the annual general meeting to be held in 2016	Basic salary of RMB600,000, fixed director fee of HK\$200,000 and discretionary bonus and other welfare, subject to the adjustment by the remuneration committee of the Board
CHEN Kunlie	5 November 2013	date of the annual general meeting to be held in 2016	Basic salary of RMB420,000, fixed director fee of HK\$150,000 and discretionary bonus and other welfare, subject to the adjustment by the remuneration committee of the Board
BAO Jianyong	5 November 2013	date of the annual general meeting to be held in 2016	Basic salary of RMB360,000, fixed director fee of HK\$150,000 and discretionary bonus and other welfare, subject to the adjustment by the remuneration committee of the Board

Name of director	Date of service contract	Expiry date of service contract	Remuneration
SU Sen	No service contract is entered into with SU Sen	—	Fixed remuneration of HK\$150,000
SUN Qian	No service contract is entered into with SUN Qian	—	Fixed remuneration of HK\$150,000
SUN Limei	No service contract is entered into with SUN Limei	—	Fixed remuneration of HK\$150,000
YIN Hong	5 November 2013	4 November 2016	Fixed remuneration of HK\$180,000 per year, subject to adjustment by the Board's proposal and shareholders' approval
HSIEH H., Lily	5 November 2013	4 November 2016	Fixed remuneration of HK\$180,000 per year, subject to adjustment by the Board's proposal and shareholders' approval
WU Haibing	5 November 2013	4 November 2016	Fixed remuneration of HK\$180,000 per year, subject to adjustment by the Board's proposal and shareholders' approval

5 MATERIAL LITIGATION

As at the Latest Practicable Date, there was no material litigation or claim of material importance known to the directors of the Company to be pending or threatened against any member of the Group.

6 MATERIAL CONTRACTS

The following material contracts (not being contracts entered into in the ordinary course of business carried on or intended to be carried or by the Company or any of its subsidiaries) have been entered into by the Company or any of its subsidiaries after the date two years before the Offer Period Commencement Date up to and including the Latest Practicable Date:

- (a) A cooperative framework agreement dated 24 August 2015 entered into between Guangdong Dongpeng Holdings Co., Ltd. ("Guangdong Dongpeng"), an indirect

wholly-owned subsidiary of the Company, and Mr. FANG Yunfeng, pursuant to which Guangdong Dongpeng agreed to grant a loan of RMB50,000,000 to Mr. FANG Yunfeng for a term of 180 days at an interest rate of 5% per annum to facilitate Mr. FANG Yunfeng's acquisition of 51% equity interest in Aifengchao (Suzhou) e-Commerce Co., Ltd. ("Aifengchao").

- (b) A share transfer agreement dated 9 September 2015 entered into between Guangdong Dongpeng and Mr. FANG Yunfeng, pursuant to which Mr. FANG Yunfeng agreed to transfer to Guangdong Dongpeng 10% equity interest in Aifengchao for a consideration of RMB10,000,000.
- (c) A loan agreement dated 25 September 2015 entered into between Guangdong Dongpeng, Aifengchao and Mr. FANG Yunfeng, pursuant to which Guangdong Dongpeng agreed to grant a loan of RMB40,000,000 to Aifengchao for a term of six months at an interest rate of 5% per annum with the guarantee of Mr. Fang Yunfeng to support the development of Aifengchao.
- (d) A share transfer agreement dated 26 September 2015 entered into between Guangdong Dongpeng and Mr. FANG Yunfeng, pursuant to which Mr. FANG Yunfeng agreed to transfer to Guangdong Dongpeng a further 10% equity interest in Aifengchao for a consideration of RMB10,000,000.

7 EXPERT

The following are the qualifications of each of the experts who has given opinions or advice which are contained in this Scheme Document:

Name	Qualifications
CICC	a licensed corporation under the SFO, licensed to carry out Type 1 (dealing in securities), Type 2 (dealing in future contracts), Type 3 (leveraged foreign exchange trading), Type 4 (advising on securities), Type 5 (advising on futures contracts) and Type 6 (advising on corporate finance) regulated activities
Somerley Capital Limited	a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
Jones Lang LaSalle Corporate Appraisal and Advisory Limited	Chartered professional surveyors and valuers

8 CONSENTS

Each of the experts mentioned above has given and has not withdrawn its written consent to the issue of this Scheme Document with the inclusion therein of the opinions and/or letters and/or the references to its name and/or opinions and/or letters in the form and context in which they respectively appear.

9 MISCELLANEOUS

- (a) The directors of the Company are:

Executive directors:

Mr. He Xinming (Chairman of the Board)
Mr. Chen Kunlie
Mr. Bao Jianyong

Non-executive directors:

Mr. Su Sen
Mr. Sun Qian
Ms. Sun Limei

Independent non-executive directors:

Mr. Yin Hong
Ms. Hsieh H., Lily
Mr. Wu Haibing

- (b) The joint company secretaries of the Company are Mr. Bao Jianyong and Ms. Yuen Wing Yan, Winnie.
- (c) The registered office of the Company is situated at Floor 4, Willow House, Cricket Square, P.O. Box 2804, Grand Cayman KY1-1112, Cayman Islands.
- (d) The principal place of business of the Company in Hong Kong is at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (e) The head office of the Company is situated at No. 8 Jiangwan Third Road, Chancheng district, Foshan, Guangdong, PRC.
- (f) The principal share registrar of the Company is Appleby Trust (Cayman) Ltd., Clifton House, 75 Fort Street, P.O. Box 1350, Grand Cayman KY1-1108, Cayman Islands.
- (g) The Hong Kong branch share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

- (h) Profit Strong is a company incorporated in the British Virgin Islands on 5 September 2011 with limited liability. Its registered office is situated at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands.
- (i) Max Glory is an exempted company incorporated in the Cayman Islands on 18 June 2015 with limited liability. Its registered office is situated at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.
- (j) The directors of the Joint Offerors are:
 - i. Profit Strong: Mr. HE Xinming
 - ii. Max Glory: Ms. Kok Wai Yee
- (k) The address of Mr. HE Xinming is No. 8 Jiangwan Third Road, Chancheng district, Foshan, Guangdong, PRC.
- (l) The address of Ms. Kok Wai Yee is Suite 3613, 36/F, Two Pacific Place, 88 Queensway, Hong Kong.
- (m) The address of Mr. CHEN Kunlie is No. 8 Jiangwan Third Road, Chancheng district, Foshan, Guangdong, PRC.
- (n) The address of CAI Chuyang is No. 8 Jiangwan Third Road, Chancheng district, Foshan, Guangdong, PRC.
- (o) The address of JIN Guoting is No. 8 Jiangwan Third Road, Chancheng district, Foshan, Guangdong, PRC.
- (p) The address of LIN Hong is No. 8 Jiangwan Third Road, Chancheng district, Foshan, Guangdong, PRC.
- (q) The address of SHAO Yu is No. 8 Jiangwan Third Road, Chancheng district, Foshan, Guangdong, PRC.
- (r) The address of SHI Yufeng is No. 8 Jiangwan Third Road, Chancheng district, Foshan, Guangdong, PRC.
- (s) The address of BAO Jianyong is No. 8 Jiangwan Third Road, Chancheng district, Foshan, Guangdong, PRC.
- (t) The registered office of Sequoia Growth is Cricket Square, Hutchins Dr., P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

- (u) The registered office of Sequoia Principals is Cricket Square, Hutchins Dr., P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.
- (v) The registered office of Sequoia Partners is Cricket Square, Hutchins Dr., P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.
- (w) The registered office of Superb Idea is P.O. Box 957, Offshore Incorporation Centre, Road Town, Tortola, British Virgin Islands. The sole director of Superb Idea is Mr. CHEN Kunlie.
- (x) The registered office of Cosmo Ray is P.O. Box 957, Offshore Incorporation Centre, Road Town, Tortola, British Virgin Islands. The sole director of Cosmo Ray is Mr. SU Sen.
- (y) The registered office of High Ride is P.O. Box 957, Offshore Incorporation Centre, Road Town, Tortola, British Virgin Islands. The sole director of High Ride is ZHONG Baomin.
- (z) The registered office of Rich Blossom is P.O. Box 957, Offshore Incorporation Centre, Road Town, Tortola, British Virgin Islands. The sole director of Rich Blossom is BAO Jianyong.
- (aa) The principal place of business of CICC is at 29th Floor, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong.
- (bb) The principal place of business of Somerley Capital Limited is at 20th Floor, China Building, 29 Queen's Road Central, Hong Kong.
- (cc) The principal place of business of Jones Lang LaSalle Corporate Appraisal and Advisory Limited is at 6/F, Three Pacific Place, 1 Queen's Road East, Hong Kong.

10 DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of the Company, Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong from 9:30 a.m. to 5:30 p.m., Monday to Friday and on the website of the Company at www.dongpeng.net and the website of SFC at www.sfc.hk from the dispatch of this Scheme Document until the Effective Date or the date on which the Scheme lapses or is withdrawn, whichever is earlier:

- (a) the memorandum and articles of association of the Company;
- (b) the memorandum and articles of association of Profit Strong;
- (c) the memorandum and articles of association of Max Glory;
- (d) the annual report of the Company for the year ended 31 December 2015;
- (e) the annual report of the Company for the year ended 31 December 2014;

- (f) the letter from the Board, the text of which is set out in Part IV of this Scheme Document;
- (g) the letter from the Independent Board Committee, the text of which is set out in Part V of this Scheme Document;
- (h) the letter from the Independent Financial Adviser, the text of which is set out in Part VI of this Scheme Document;
- (i) the letter, summary of valuation and valuation certificate from Jones Lang LaSalle Corporate Appraisal and Advisory Limited, the text of which is set out in Appendix III to this Scheme Document;
- (j) written consents referred to in the section headed “8. Consents” in “Appendix II — General Information on the Company and the Joint Offerors” to this Scheme Document;
- (k) the material contracts referred to in the section headed “6. Material Contracts” in “Appendix II — General Information on the Company and the Joint Offerors” to this Scheme Document;
- (l) the Rollover Agreement referred to in the section headed “14. Rollover Arrangement” in the Explanatory Memorandum;
- (m) the undertaking letters given by the remaining Optionholders referred to in the section headed “Irrevocable Undertakings” of “Part IV — Letter From the Board” of this Scheme Document
- (n) the service contracts referred to in the section headed “4. Disclosure of Interests — (d) Other interests” in “Appendix II — General Information on the Company and the Joint Offerors” to this Scheme Document; and
- (o) this Scheme Document.

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this circular received from Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent valuer, in connection with its valuation as at 29 February 2016 of the property interests held by the Group.



仲量聯行

Jones Lang LaSalle Corporate Appraisal and Advisory Limited
6/F Three Pacific Place 1 Queen's Road East Hong Kong
tel +852 2846 5000 fax +852 2169 6001
Licence No: C-030171

19 May 2016

The Board of Directors

Dongpeng Holdings Company Limited (東鵬控股股份有限公司)

Dear Sirs,

In accordance with your instructions to value the property interests held by Dongpeng Holdings Company Limited (the "Company") and its subsidiaries (hereinafter together referred to as the "Group") in the People's Republic of China (the "PRC"), we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market values of the property interests as at 29 February 2016 (the "valuation date"). As confirmed by the Company, the Group has no property interests other than those held by the Group in the PRC.

Our valuation is carried out on a market value basis. Market value is defined as "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently, and without compulsion".

Due to the nature of the buildings and structures of portions of the properties which are owned and occupied by the Group and the particular location in which they are situated, there are unlikely to be relevant market comparable sales readily available. The property interests have therefore been valued by cost approach with reference to their depreciated replacement cost.

Depreciated replacement cost is defined as "the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimization." It is based on an estimate of the market value for the existing use of the land, plus the current cost of replacement (reproduction) of the improvements, less deductions for physical deterioration and all relevant forms of obsolescence and optimization. In arriving at the value of the land portion, reference has been made to the sales evidence as available in the locality. The depreciated replacement cost of the property interest is subject to adequate potential profitability of the concerned business. In our valuation, it applies to the whole of the complex or development as a unique interest, and no piecemeal transaction of the complex or development is assumed.

In valuing the remaining portions of the properties which were held under development as at the valuation date, we have assumed that they will be developed and completed in accordance with the latest development proposal provided to us by the Group. In arriving at our opinion of value, we have taken into account the construction cost and professional fees relevant to the stage of construction as of the date of valuation and the remainder of the cost and fees to be expended to complete the development.

Our valuation has been made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the value of the property interests.

No allowance has been made in our report for any charge, mortgage or amount owing on any of the property interests valued nor for any expense or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

In valuing the property interests, we have complied with all requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; Rule 11 of the Code on Takeovers and Mergers issued by Securities and Futures Commission; the RICS Valuation-Professional Standards published by the Royal Institution of Chartered Surveyors; the HKIS Valuation Standards published by the Hong Kong Institute of Surveyors and the International Valuation Standards published by the International Valuation Standards Council.

We have relied to a very considerable extent on the information given by the Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have been shown copies of various title documents including State-owned Land Use Rights Certificates, Real Estate Title Certificates, Building Ownership Certificates and official plans relating to the property interests and have made relevant enquiries. Where possible, we have examined the original documents to verify the existing title to the property interests in the PRC and any material encumbrance that might be attached to the property interests or any tenancy amendment. We have relied considerably on the advice given by the Company's PRC legal advisers — Guangdong T&Z Law Firm, concerning the validity of the property interests in the PRC.

We have not carried out detailed measurements to verify the correctness of the areas in respect of the properties but have assumed that the areas shown on the title documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the properties. However, we have not carried out investigation to determine the suitability of the ground conditions and services for any development thereon. Our valuation has been prepared on the assumption that these aspects are satisfactory and that no unexpected cost and delay will be incurred during construction. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious

defect. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defect. No tests were carried out on any of the services.

The site inspection was carried out in March 2016 by Ms. Jessica An, Ms. Viola Liu and Mr. Gary Shi. Ms. Jessica An and Ms. Viola Liu have more than 3 years' experience and Mr. Gary Shi has more than 2 years' experience in the valuation of properties in the PRC.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought confirmation from the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to arrive an informed view, and we have no reason to suspect that any material information has been withheld.

Our valuation is summarized below and the valuation certificates are attached.

As advised by the Company, the potential tax liabilities which would arise if the property interests of the Company specified in this report were to be sold at the amount of the valuation is estimated to be approximately RMB39,700,000. The taxes mainly include business tax (5% of the transaction amount), land appreciation tax (30% to 60% of appreciated amount) and stamp duty (0.05% of the transaction amount). As confirmed by the Company, they have no intention to sell the properties as those properties are mainly occupied for research and development, and production of ceramic tiles and bathroom products. Therefore, the possibility of incurrence of such tax liabilities is very remote.

Yours faithfully,
For and on behalf of

Jones Lang LaSalle Corporate Appraisal and Advisory Limited

Eddie T.W. Yiu
MRICS MHKIS RPS (GP)
Director

Notes: Eddie T.W. Yiu is a Chartered Surveyor who has 22 years' experience in the valuation of properties in Hong Kong and the PRC as well as relevant experience in the Asia-Pacific region.

SUMMARY OF VALUES

Property interests held by the Group in the PRC

No.	Property	Market value in existing state as at 29 February 2016 (RMB)	Interest attributable to the Group	Market value attributable to the Group as at 29 February 2016 (RMB)
1.	A parcel of land, 7 buildings and various structures located at Shabao Pit western side of Xiegang Village Zhang Qian Qing Ke Management District Chancheng District Foshan City Guangdong Province The PRC	37,200,000	100%	37,200,000
2.	A parcel of land and a building under construction located at the western side of Changang Road and the southern side of Keyang Road Nanzhuang Town Chancheng District Foshan City Guangdong Province The PRC	125,400,000	92.31%	115,800,000
3.	2 parcels of land, 6 buildings and various structures located at Haikou Village Zhangcha Street Chancheng District Foshan City Guangdong Province The PRC	47,900,000	100%	47,900,000

No.	Property	Market value in existing state as at 29 February 2016 (RMB)	Interest attributable to the Group	Market value attributable to the Group as at 29 February 2016 (RMB)
4.	6 parcels of land, 15 buildings and various structures located at Taiqian Village Committee Yuantan Town Qingcheng District Qingyuan City Guangdong Province The PRC	137,700,000	90.35%	124,400,000
5.	A parcel of land and 2 buildings under construction located at Zone C of Industrial Park Gonghe Town Heshan County Jiangmen City Guangdong Province The PRC	59,800,000	100%	59,800,000
6.	2 parcels of land, various buildings and structures under construction located at Peng Shan Village Zhanggongmiao Town Li County Changde City Hunan Province The PRC	109,300,000	100%	109,300,000
7.	5 parcels of land, 18 buildings and various structures No.6 Chuangxin Avenue Meilin Town Fengcheng County Yichun City Jiangxi Province The PRC	239,700,000	100%	239,700,000

No.	Property	Market value in existing state as at 29 February 2016 (RMB)	Interest attributable to the Group	Market value attributable to the Group as at 29 February 2016 (RMB)
8.	3 parcels of land, 10 buildings and various structures No. 15 Chuangxin Avenue Fengcheng Industrial Park Fengcheng County Yichun City Jiangxi Province The PRC	57,700,000	100%	57,700,000
	Total:	814,700,000		791,800,000

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 29 February 2016 (RMB)															
1.	A parcel of land, 7 buildings and various structures located at Shabao Pit western side of Xiegang Village Zhang Qian Qing Ke Management District Chancheng District Foshan City Guangdong Province The PRC	<p>The property comprises a parcel of land with a site area of approximately 37,058 sq.m. and 7 buildings and various structures erected thereon which were completed in various stages between 1993 and 2004.</p> <p>The buildings have a total gross floor area of approximately 26,740.95 sq.m. and the details of uses and their respective gross floor areas are set out as follows:</p> <table border="1"> <thead> <tr> <th>Use</th> <th>No. of Item</th> <th>Gross Floor Area (sq.m.)</th> </tr> </thead> <tbody> <tr> <td>Production</td> <td>4</td> <td>17,104.74</td> </tr> <tr> <td>Office</td> <td>1</td> <td>7,698.60</td> </tr> <tr> <td>Ancillary</td> <td>2</td> <td>1,937.61</td> </tr> <tr> <td>Total</td> <td>7</td> <td>26,740.95</td> </tr> </tbody> </table> <p>The structures mainly include plant area roads and landscaped facilities.</p> <p>The land use rights of the property have been granted for a term of 50 years expiring on 20 July 2051 for industrial use.</p>	Use	No. of Item	Gross Floor Area (sq.m.)	Production	4	17,104.74	Office	1	7,698.60	Ancillary	2	1,937.61	Total	7	26,740.95	The property is currently occupied by the Group for production, office and ancillary purposes.	37,200,000 100% interest attributable to the Group: RMB37,200,000
Use	No. of Item	Gross Floor Area (sq.m.)																	
Production	4	17,104.74																	
Office	1	7,698.60																	
Ancillary	2	1,937.61																	
Total	7	26,740.95																	

Notes:

- Pursuant to a State-owned Land Use Rights Certificate (“LURC”) — Fo Chan Guo Yong (2012) Di No. 1100500, the land use rights of a parcel of land with a site area of approximately 37,058 sq.m. have been granted to Foshan Hua Sheng Chang Ceramics Co., Ltd. (“Foshan Hua Sheng Chang”, a wholly-owned subsidiary of the Company), for a term of 50 years expiring on 20 July 2051 for industrial use.
- Pursuant to 7 Real Estate Title Certificates (“RETCs”), the property with a total gross floor area of approximately 26,740.95 sq.m. are owned by Foshan Hua Sheng Chang. The relevant land use rights of the property have been granted to Foshan Hua Sheng Chang for a term of 50 years expiring on 20 July 2051 for industrial use. The details are set out as follows:

No.	RETC No.	Unit No.	Gross Floor Area (sq.m.)	Usage
(1)	Yue Fang Di Quan Zheng Fo Zi Di No. 0100123739	200701	7,698.60	Industrial

No.	RETC No.	Unit No.	Gross Floor Area (sq.m.)	Usage
(2)	Yue Fang Di Quan Zheng Fo Zi Di No. 0100123740	581739	4,332.14	Industrial
(3)	Yue Fang Di Quan Zheng Fo Zi Di No. 0100123741	83311	9,475.56	Industrial
(4)	Yue Fang Di Quan Zheng Fo Zi Di No. 0100123742	581744	1,630.08	Industrial
(5)	Yue Fang Di Quan Zheng Fo Zi Di No. 0100123744	581743	631.40	Industrial
(6)	Yue Fang Di Quan Zheng Fo Zi Di No. 0100123746	581741	1,306.21	Industrial
(7)	Yue Fang Di Quan Zheng Fo Zi Di No. 0100123748	581740	1,666.96	Industrial
Total:			<u>26,740.95</u>	

3. Pursuant to a Mortgage Contract of Maximum Amount, the land use rights of a parcel of land and the 7 buildings of the property are subject to a mortgage in favour of Agricultural Bank of China Co., Ltd. Foshan Shiwan Sub-Branch.
4. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:
 - a. Foshan Hua Sheng Chang has obtained aforesaid State-owned Land Use Rights Certificate and Real Estate Title Certificates and legally holds the land use rights and building ownership rights of the land parcel and buildings mentioned in notes 1 and 2, respectively; and
 - b. As confirmed by Foshan Hua Sheng Chang, except for the mortgage restriction mentioned in note 3, the property is not subject to any third party's interests or any restrictions arising from judicial foreclosure and enforcement. Foshan Hua Sheng Chang is entitled to occupy, use, lease or otherwise dispose of the property.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 29 February 2016 (RMB)
2.	A parcel of land and a building under construction located at the western side of Changang Road and the southern side of Keyang Road Nanzhuang Town Chancheng District Foshan City Guangdong Province The PRC	<p>The property comprises a parcel of land with a site area of approximately 8,475.65 sq.m. and a building erected thereon which is currently under construction.</p> <p>The development of the property is scheduled to be completed in December 2016. Upon completion, the development will have a gross floor area of approximately 71,902.97 sq.m.</p> <p>The total construction cost of the development is estimated to be approximately RMB167,000,000, of which approximately RMB70,400,000 had been paid as at the valuation date.</p> <p>The land use rights of the property have been granted for a term of 40 years expiring on 9 March 2052 for commercial service use.</p>	The property is currently under construction.	<p>125,400,000</p> <p>92.31% interest attributable to the Group:</p> <p>RMB115,800,000</p>

Notes:

- Pursuant to a State-owned Land Use Rights Grant Contract dated 24 February 2012 entered into between the State-owned Land Resources Bureau of Foshan City and Foshan Dongpeng Ceramics Co., Ltd. ("Foshan Dongpeng Ceramics", a 92.31% interest owned subsidiary of the Company), the land use rights of a parcel of land were contracted to be granted to Foshan Dongpeng Ceramics with the particulars as follows:

Contract No.	:	440601-2012-100007
Site Area	:	8,475.65 sq.m.
Land Use	:	Commercial service
Land Term	:	40 years
Plot Ratio	:	≤6.0
Land Premium	:	RMB37,640,000
- Pursuant to a Construction Land Planning Permit — Di Zi Di No. 440604201300033, permission towards the planning of the aforesaid land parcel with a site area of approximately 8,475.65 sq.m. has been granted to Foshan Dongpeng Ceramics.
- Pursuant to a State-owned Land Use Rights Certificate ("LURC") — Fo Chan Guo Yong (2012) Di No. 0000698, the land use rights of a parcel of land with a site area of approximately 8,475.65 sq.m. have been granted to Foshan Dongpeng Ceramics for a term of 40 years expiring on 9 March 2052 for commercial service use.
- Pursuant to a Construction Work Planning Permit — Jian Zi Di No. 440604201300321 in favour of Foshan Dongpeng Ceramics, the property with a gross floor area of approximately 71,855.91 sq.m. have been approved for construction

5. Pursuant to a Construction Work Commencement Permit — No. 4406012014032702 in favour of Foshan Dongpeng Ceramics, permission by the relevant local authority was given to commence the construction of the property with a gross floor area of approximately 71,902.97 sq.m.
6. The replacement cost of the property (excluding the land) as if completed as at the valuation date according to the development proposal as described above and which can be freely transferred in the market, would be RMB190,500,000.
7. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:
 - a. Foshan Dongpeng Ceramics has obtained aforesaid State-owned Land Use Rights Certificate and legally holds the land use rights of the land parcel mentioned in note 3;
 - b. As confirmed by Foshan Dongpeng Ceramics, the property is not subject to any third party's interests or any restrictions arising from judicial foreclosure and enforcement. Foshan Dongpeng Ceramics is entitled to occupy, use, lease or otherwise dispose of the property; and
 - c. Foshan Dongpeng Ceramics has legally obtained the land use rights of the property and relevant construction work permits and approvals in accordance with the actual construction work development stage and there is no substantial legal obstacle for Foshan Dongpeng Ceramics to apply for the Real Estate Title Certificate after obtaining the Construction Work Completion and Inspection Certificate.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 29 February 2016 (RMB)
3.	2 parcels of land, 6 buildings and various structures located at Haikou Village Zhangcha Street Chancheng District Foshan City Guangdong Province The PRC	<p>The property comprises 2 parcels of land with a total site area of approximately 49,351 sq.m. and 6 buildings and various structures erected thereon which were completed in 2004.</p> <p>The buildings have a total gross floor area of approximately 47,876.25 sq.m.</p> <p>The structures mainly include plant area roads and landscaped facilities.</p> <p>The land use rights of the property have been granted for terms of various years expiring on 24 July 2044 and 21 November 2053 for industrial use.</p>	The property is currently occupied by the Group for production purpose.	47,900,000 100% interest attributable to the Group: RMB47,900,000

Notes:

- Pursuant to 2 State-owned Land Use Rights Certificates (“LURC”), the land use rights of 2 parcels of land with a total site area of approximately 49,351 sq.m. have been granted to Foshan Dongpeng Sanitary Ware Co., Ltd. (“Foshan Dongpeng Sanitary Ware”, a wholly-owned subsidiary of the Company), for terms expiring on 24 July 2044 and 21 November 2053 for industrial use.

No.	LURC No.	Location	Site Area (sq.m.)	Expire Date
(1)	Fo Fu Guo Yong (2008) Di No. 06000733064	Zhangcha Street Chancheng District Foshan City	16,455	24 July 2044
(2)	Fo Fu Guo Yong (2008) Di No. 06000733066	Zhangcha Street Chancheng District Foshan City	32,896	21 November 2053
Total:			<u>49,351</u>	

- Pursuant to 6 Real Estate Title Certificates (the “RETCs”), the property with a total gross floor area of approximately 47,876.25 sq.m. is owned by Foshan Dongpeng Sanitary Ware. The relevant land use rights of the property have been granted to Foshan Dongpeng Sanitary Ware for terms expiring on 24 July 2044 and 21 November 2053 for industrial use. The details are set out as follows:

No.	RETC No.	Unit No.	Gross Floor Area (sq.m.)	Usage
(1)	Yue Fang Di Quan Zheng Fo Zi Di No. 0100003282	393588	34,722.25	Industrial

No.	RETC No.	Unit No.	Gross Floor Area (sq.m.)	Usage
(2)	Yue Fang Di Quan Zheng Fo Zi Di No. 0100003279	392739	2,160.00	Industrial
(3)	Yue Fang Di Quan Zheng Fo Zi Di No. 0100003277	392729	2,700.00	Industrial
(4)	Yue Fang Di Quan Zheng Fo Zi Di No. 0100003281	392726	2,700.00	Industrial
(5)	Yue Fang Di Quan Zheng Fo Zi Di No. 0100003280	392732	2,894.00	Industrial
(6)	Yue Fang Di Quan Zheng Fo Zi Di No. 0100003278	392809	2,700.00	Industrial
Total:			<u>47,876.25</u>	

3. Pursuant to a Mortgage Contract of Maximum Amount, the land use rights of a parcel of land with a site area of approximately 32,896 sq.m. and 5 buildings with a total gross floor area of approximately 13,154 sq.m. (Yue Fang Di Quan Zheng Fo Zi Di Nos. 0100003277 to 0100003281) of the property are subject to a mortgage in favour of Bank of China Limited Foshan Sub-Branch.
4. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:
- a. Foshan Dongpeng Sanitary Ware has obtained aforesaid State-owned Land Use Rights Certificates and Real Estate Title Certificates and legally holds the land use rights and building ownership rights of the land parcels and buildings mentioned in notes 1 and 2, respectively; and
 - b. As confirmed by Foshan Dongpeng Sanitary Ware, except for the mortgage mentioned in note 3, the property is not subject to any third party's interests or any restrictions arising from judicial foreclosure and enforcement. Foshan Dongpeng Sanitary Ware is entitled to occupy, use, lease or otherwise dispose of the property.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 29 February 2016 (RMB)																		
4.	6 parcels of land, 15 buildings and various structures located at Taiqian Village Committee Yuantan Town Qingcheng District Qingyuan City Guangdong Province The PRC	<p>The property comprises 6 parcels of land with a total site area of approximately 628,571.771 sq.m., 15 buildings and various structures erected thereon which were completed in various stages between 2004 and 2014.</p> <p>The buildings have a total gross floor area of approximately 270,929.33 sq.m. and the details of uses and their respective gross floor areas are set out as follows:</p> <table border="1"> <thead> <tr> <th>Use</th> <th>No. of Item</th> <th>Gross Floor Area (sq.m.)</th> </tr> </thead> <tbody> <tr> <td>Production</td> <td>4</td> <td>75,902</td> </tr> <tr> <td>Office</td> <td>2</td> <td>25,500</td> </tr> <tr> <td>Warehouse</td> <td>5</td> <td>116,216</td> </tr> <tr> <td>Ancillary</td> <td>4</td> <td>53,311.33</td> </tr> <tr> <td>Total</td> <td>15</td> <td>270,929.33</td> </tr> </tbody> </table> <p>The structures mainly include plant area roads and landscaped facilities.</p> <p>The land use rights of the property have been granted for a term of 50 years expiring on 25 October 2063 for industrial use.</p>	Use	No. of Item	Gross Floor Area (sq.m.)	Production	4	75,902	Office	2	25,500	Warehouse	5	116,216	Ancillary	4	53,311.33	Total	15	270,929.33	<p>The property is currently occupied by the Group for production, office, warehouse and ancillary purposes.</p>	<p>137,700,000</p> <p>(The amount does not contain the valuation figure of RMB272,300,000 mentioned in note 6)</p> <p>90.35% interest attributable to the Group: RMB124,400,000</p>
Use	No. of Item	Gross Floor Area (sq.m.)																				
Production	4	75,902																				
Office	2	25,500																				
Warehouse	5	116,216																				
Ancillary	4	53,311.33																				
Total	15	270,929.33																				

Notes:

- Pursuant to 5 State-owned Land Use Rights Certificates ("LURCs"), the land use rights of 5 parcels of land with a total site area of approximately 274,591.82 sq.m. have been granted to Qingyuan Nafuna Ceramics Co., Ltd. ("Qingyuan Nafuna", a 90.35% interest owned subsidiary of the Company), for terms of 50 years expiring on 25 October 2063 for industrial use. The details are set out as follows:

No.	LURC No.	Location	Site Area (sq.m.)	Expire Date
(1)	Qing Yuan Shi Guo Yong (2013) Di No. 01629	Taiqian Village Committee Yuantan Town Qingcheng District Qingyuan City	52,874.27	25 October 2063

No.	LURC No.	Location	Site Area (sq.m.)	Expire Date
(2)	Qing Yuan Shi Guo Yong (2013) Di No. 01628	Taiqian Village Committee Yuantan Town Qingcheng District Qingyuan City	57,022.87	25 October 2063
(3)	Qing Yuan Shi Guo Yong (2013) Di No. 01627	Taiqian Village Committee Yuantan Town Qingcheng District Qingyuan City	49,027.411	25 October 2063
(4)	Qing Yuan Shi Guo Yong (2013) Di No. 01626	Taiqian Village Committee Yuantan Town Qingcheng District Qingyuan City	62,610.61	25 October 2063
(5)	Qing Yuan Shi Guo Yong (2013) Di No. 01630	Taiqian Village Committee Yuantan Town Qingcheng District Qingyuan City	53,056.66	25 October 2063
Total:			<u>274,591.821</u>	

2. For the remaining parcel of land with a site area of approximately 353,979.95 sq.m, we have not been provided with any State-owned Land Use Rights Certificate. According to an Approval of Notice (審核通知書) dated 11 November 2011 entered into between the Qingyuan Urban and Rural Planning Bureau and Qingyuan Nafuna, the planning of a parcel of land has been approved with the particulars as follows:

Notice No.	:	Gui Hua Tiao Jian No. 2011 — 0269
Site Area	:	353,979.951 sq.m.
Land Use	:	Industrial
Land Term	:	50 years for industrial use
Plot Ratio	:	≥0.7 and ≤1.0

3. Pursuant to 7 Real Estate Title Certificates (“RETCs”), the property with a total gross floor area of approximately 102,441.33 sq.m. are owned by Qingyuan Nafuna. The relevant land use rights of the property have been granted to Qingyuan Nafuna for a term of 50 years expiring on 25 October 2063 for industrial use. The details are set out as follows:

No.	RETC No.	Gross Floor Area (sq.m.)	Usage
(1)	Yue Fang Di Quan Zheng Qing Zi Di No. 0200117592	5,890	Industrial
(2)	Yue Fang Di Quan Zheng Qing Zi Di No. 0200117585	21,504	Industrial
(3)	Yue Fang Di Quan Zheng Qing Zi Di No. 0200117698	16,800	Industrial
(4)	Yue Fang Di Quan Zheng Qing Zi Di No. 0200117586	33,600	Industrial
(5)	Yue Fang Di Quan Zheng Qing Zi Di No. 0200117620	10,752	Industrial
(6)	Yue Fang Di Quan Zheng Qing Zi Di No. 0200117583	11,160	Industrial
(7)	Yue Fang Di Quan Zheng Qing Zi Di No. 0200117628	2,735.33	Industrial
Total:		<u>102,441.33</u>	

4. For the remaining 8 buildings with a total gross floor area of approximately 168,488 sq.m. and various structures located on the land parcel mentioned in note 2, we have not been provided with any Real Estate Title Certificates or any related construction work permits and approvals.
5. Pursuant to a Tenancy Agreement entered into between Qingyuan Nafuna and Foshan Institute of Shiwan Ceramic Industry Co., Ltd. (佛山市石灣陶瓷工業研究所有限公司) (the “Lessee”), an independent third party of the Company, an industrial building of the property with a lettable area of approximately 1,600 sq.m. is leased to the Lessee for a term of 5 years commencing from 1 September 2012 and expiring on 31 August 2017 at an annual rent of RMB153,600 exclusive of water and electric charges and other fees.
6. In the valuation of the property, we have attributed no commercial value to a parcel of land mentioned in note 2, 8 buildings and various structures mentioned in note 4 which have not obtained any State-owned Land Use Rights Certificate or Real Estate Title Certificates. However, for reference purpose, we are of the opinion that the market value of such land parcel, buildings and structures of the property as at the valuation date would be RMB272,300,000 assuming the relevant title certificates have been fully obtained and the property could be freely transferred.
7. Pursuant to a Mortgage Contract of Maximum Amount, the land use rights of 5 parcels of land mentioned in note 1 and the 7 buildings of the property mentioned in note 3 are subject to a mortgage in favour of Agricultural Bank of China Qingyuan Sub-Branch.
8. We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal advisers, which contains, inter alia, the following:
 - a. Qingyuan Nafuna has obtained aforesaid State-owned Land Use Rights Certificates and Real Estate Title Certificates and legally holds the land use rights and building ownership rights of the land parcels and buildings mentioned in notes 1 and 3, respectively;
 - b. As confirmed by Qingyuan Nafuna, except for the mortgage mentioned in note 7, the property is not subject to any third party’s interests or any restrictions arising from judicial foreclosure and enforcement. Qingyuan Nafuna is entitled to occupy, use, lease or otherwise dispose of the property;
 - c. Qingyuan Nafuna has not obtained the State-owned Land Use Rights Certificate of the land parcel mentioned in note 2, according to a Land Description Letter (用地說明) issued by Qingyuan State-owned Land Resources Bureau, the risk of Qingyuan Nafuna being administratively penalized by the land authorities is relatively low; and
 - d. Qingyuan Nafuna has neither applied to the relevant planning and construction authorities for permits or approvals for the construction work nor applied to housing administrative bureau for Building Ownership Certificates of the completed buildings mentioned in note 4. According to a Certification issued by Qingyuan Rural and Urban Construction Bureau and Qingyuan Rural and Urban Planning Bureau Qingcheng Branch, the risk of Qingyuan Nafuna being administratively penalized by the planning construction and building authorities is relatively low.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 29 February 2016 (RMB)												
5.	A parcel of land and 2 buildings under construction located at Zone C of Industrial Park Gonghe Town Heshan County Jiangmen City Guangdong Province The PRC	<p>The property comprises a parcel of land with a site area of approximately 190,400.33 sq.m. and 2 buildings erected thereon which are currently under construction.</p> <p>Upon completion, the 2 buildings will have a total gross floor area of approximately 10,844.17 sq.m. and the details are set out as follows:</p> <table border="1"> <thead> <tr> <th>Name</th> <th>No. of Item</th> <th>Gross Floor Area (sq.m.)</th> </tr> </thead> <tbody> <tr> <td>Staff Quarter No. 3</td> <td>1</td> <td>5,427.83</td> </tr> <tr> <td>Staff Quarter No. 4</td> <td>1</td> <td>5,416.34</td> </tr> <tr> <td>Total</td> <td>2</td> <td>10,844.17</td> </tr> </tbody> </table>	Name	No. of Item	Gross Floor Area (sq.m.)	Staff Quarter No. 3	1	5,427.83	Staff Quarter No. 4	1	5,416.34	Total	2	10,844.17	The property is currently under construction.	59,800,000 100% interest attributable to the Group: RMB59,800,000
Name	No. of Item	Gross Floor Area (sq.m.)														
Staff Quarter No. 3	1	5,427.83														
Staff Quarter No. 4	1	5,416.34														
Total	2	10,844.17														
		<p>The structures mainly include plant area roads and landscaped facilities.</p> <p>The total construction cost of the development of the property is estimated to be approximately RMB11,700,000, of which approximately RMB4,550,000 had been paid as at the valuation date.</p> <p>The land use rights of the property have been granted for a term of 50 years expiring on 7 January 2065 for industrial use.</p>														

Notes:

- Pursuant to a State-owned Land Use Rights Grant Contract dated 8 January 2015 entered into between the State-owned Land Resources Bureau of Heshan City and Jiangmen Dongpeng Smart Home Co. Ltd. ("Jiangmen Dongpeng", a wholly-owned subsidiary of the Company), the land use rights of a parcel of land was contracted to be granted to Jiangmen Dongpeng with the particulars as follows:

Contract No.	:	440784-2015-0001
Site Area	:	190,400.33 sq.m.
Land Use	:	Industrial
Land Term	:	50 years for industrial use
Plot Ratio	:	≥1.0
Land Premium	:	RMB51,408,089

2. Pursuant to 2 Construction Land Planning Permits, permission towards the planning of portion of the aforesaid land parcel with a site area of approximately 1,788.8 sq.m. have been granted to Jiangmen Dongpeng. The details are set out as follows:

No.	Permit No.	Site Area (sq.m.)	Issuance date
(1)	Di Zi Di No. 440784201500115	894.4	27 May 2015
(2)	Di Zi Di No. 440784201500153	894.4	30 July 2015
Total:		<u>1,788.8</u>	

3. Pursuant to a State-owned Land Use Rights Certificate (“LURC”) — He Guo Yong (2015) Di No. 002204, the land use rights of a parcel of land with a site area of approximately 190,400.33 sq.m. have been granted to Jiangmen Dongpeng for a term of 50 years expiring on 7 January 2065 for industrial use.

4. Pursuant to 2 Construction Work Planning Permits issued by the Urban-Rural Planning Bureau of Heshan County in favour of Jiangmen Dongpeng, the construction works of 2 buildings of the property have been approved. The details are set out as follows:

No.	Permit No.	Gross Floor Area (sq.m.)	Issuance date
(1)	Jian Zi Di No. 440784201500145	5,427.83	27 May 2015
(2)	Jian Zi Di No. 440784201500196	5,416.34	30 July 2015
Total:		<u>10,844.17</u>	

5. Pursuant to a Construction Work Commencement Permit — No. 440784201510220201 dated 22 October 2015 in favour of Jiangmen Dongpeng, permission by relevant local authority was given to commence the construction of the 2 buildings mentioned in note 4 with a total gross floor area of approximately 10,844.17 sq.m.

6. The replacement cost of the property (excluding the land) as if completed as at the valuation date according to the development proposal as described above and which can be freely transferred in the market, would be RMB13,300,000.

7. We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal advisers, which contains, inter alia, the following:

- a. Jiangmen Dongpeng has obtained aforesaid State-owned Land Use Rights Certificate and legally holds the land use rights of the land parcel mentioned in note 3;
- b. As confirmed by Jiangmen Dongpeng, the property is not subject to any third party’s interests or any restrictions arising from judicial foreclosure and enforcement. Jiangmen Dongpeng is entitled to occupy, use, lease or otherwise dispose of the property; and
- c. Jiangmen Dongpeng has legally obtained the land use rights of the property and relevant construction work permits and approvals in accordance with the actual construction work development stage and there is no substantial legal obstacle for Jiangmen Dongpeng to apply for the Real Estate Title Certificates after obtaining the Construction Work Completion and Inspection Certificate.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 29 February 2016 (RMB)
6.	2 parcels of land, various buildings and structures under construction located at Peng Shan Village Zhanggongmiao Town Li County Changde City Hunan Province The PRC	<p>The property comprises 2 parcels of land with a total site area of approximately 207,591.83 sq.m. and various buildings with a total gross floor area of 104,995.53 sq.m. and structures erected thereon which are under construction. (“Part A”)</p> <p>As advised by the Group, the development of Part A is scheduled to be completed in 2018. Upon completion, Part A will have a total gross floor area of approximately 120,000 sq.m.</p> <p>The total construction cost of the development of Part A is estimated to be approximately RMB369,500,000, of which approximately RMB91,000,000 had been paid as at the valuation date.</p> <p>The structures of Part A mainly include plant area roads and landscaped facilities.</p> <p>In addition to Part A, the property also comprises 2 industrial buildings with a total gross floor area of approximately 5,243 sq.m. and various structures located on a parcel of leased land. (“Part B”)</p> <p>The land use rights of the property have been granted for terms expiring on 14 May 2063 and 26 September 2063 for industrial use. (refer to note 3)</p>	Part A of the property is currently under construction, whilst Part B of the property is currently occupied by the Group for production, office, warehouse and ancillary purposes.	<p>109,300,000</p> <p>(The amount does not contain the valuation figure of RMB22,600,000 mentioned in note 9)</p> <p>100% interest attributable to the Group: RMB109,300,000</p>

Notes:

- Pursuant to 5 State-owned Land Use Rights Grant Contracts dated 4 January 2015, 27 November 2013 and 8 June 2013 entered into between the State-owned Land Resources Bureau of Li County and Lixian Xinpeng Ceramics Co., Ltd. (“Xinpeng Ceramics”, a wholly-owned subsidiary of the Company), the land use rights of several parcels of land were contracted to be granted to Xinpeng Ceramics with the particulars as follows:

Contract No.	:	Li (2014) Rang Zi No. 178
Site Area	:	1,648.20 sq.m.
Land Use	:	Industrial
Land Term	:	50 years for industrial use
Plot Ratio	:	≥0.8
Land Premium	:	RMB239,700

Contract No. : Li (2014) Rang Zi No. 179
 Site Area : 288.19 sq.m.
 Land Use : Industrial
 Land Term : 50 years for industrial use
 Plot Ratio : ≥ 0.8
 Land Premium : RMB42,700

Contract No. : Li (2014) Rang Zi No. 180
 Site Area : 1,870.84 sq.m.
 Land Use : Industrial
 Land Term : 50 years for industrial use
 Plot Ratio : ≥ 0.8
 Land Premium : RMB271,600

Contract No. : Li 2013 Rang Zi No. 214
 Site Area : 9,474.13 sq.m.
 Land Use : Industrial
 Land Term : 50 years for industrial use
 Plot Ratio : ≥ 0.8
 Land Premium : RMB1,400,000

Contract No. : Li (2013) Rang Zi No. 129
 Site Area : 194,310.47 sq.m.
 Land Use : Industrial
 Land Term : 50 years for industrial use
 Plot Ratio : ≥ 0.6
 Land Premium : RMB23,348,800

2. Pursuant to 3 Construction Land Planning Permits, permission towards the planning of a parcel of land with a site area of approximately 207,592.84 sq.m. have been granted to Xinpeng Ceramics. The details are set out as follows:

No.	Permit No.	Site Area (sq.m.)	Issuance date
(1)	Jian Gui (Di) Zi Di No. K430723201410004	3,807.23	6 November 2014
(2)	Di Zi Di No. 430723201320025	194,310.47	9 July 2013
(3)	Jian Gui (Di) Zi Di No. 430723201451004	9,475.14	14 April 2014
Total:		<u>207,592.84</u>	

3. Pursuant to 2 State-owned Land Use Rights Certificates (“LURCs”), the land use rights of 2 parcels of land with a total site area of approximately 207,591.83 sq.m. have been granted to Xinpeng Ceramics, for terms of 50 years expiring on 14 May 2063 and 26 September 2063 for industrial use. The details are set out as follows:

No.	LURC No.	Location	Site Area (sq.m.)	Expire Date
(1)	Li Guo Yong (2014) Di No. 208	QiaoJiaHe Village Committee Peng Shan Village Linan Town ZhangGongMiao Town Li County Changde City	9,474.13	26 September 2063
(2)	Li Guo Yong (2015) Di No. 69	QiaoJiaHe Village Committee Peng Shan Village Linan Town ZhangGongMiao Town Li County Changde City	198,117.7	4 May 2063
Total:			<u>207,591.83</u>	

4. Pursuant to a State-owned Land Use Rights Certificate — Li Guo Yong (2008) Di No. 1050, the land use rights of a parcel of land with a site area of approximately 171,378 sq.m. have been granted to Hunan Jinpeng (a company incorporated under the laws of the PRC with limited liability in January 2008 and a connected person of Dongpeng), for a term of 50 years expiring on March 2055 for industrial use.
5. Pursuant to a Management Operation Contract (承包經營合同) and Supplemental Agreement entered into between Hunan Jinpeng and Xinpeng Ceramics, the land parcel mentioned in note 4 was leased to Xinpeng Ceramics with expiry date on 31 December 2018 at a monthly rent of RMB1,117,911.74 exclusive of water, electric and other fees as at the valuation date.
6. Pursuant to a Construction Work Planning Permit — No. K430723201420005, Part A of the property with a total gross floor area of approximately 104,995.53 sq.m. has been approved for planning by Planning Bureau of Li County.
7. Pursuant to a Construction Work Commencement Permit — No. 2015012 dated 22 October 2015 in favour of Xinpeng Ceramics, permissions by the relevant local authority was given to commence the construction of portion of Part A of the property with a total gross floor area of approximately 62,363.66 sq.m.
8. For 2 buildings with a total gross floor area of approximately 5,243 sq.m. and various structures located on the leased land parcel mentioned in note 4, we have not been provided with any Building Ownership Certificates or official plans relating to the property. (Part B)
9. The replacement cost of part A of the property (excluding the land) as if completed as at the valuation date according to the development proposal as described above and which can be freely transferred in the market, would be RMB421,200,000.
10. In the valuation of the property, we have attributed no commercial value to Part B of the property mentioned in note 8 which is located on the leased land parcel and has not obtained any Building Ownership Certificates. However, for reference purpose, we are of the opinion that the depreciated replacement costs of Part B of the property (excluding the land) as at the valuation date would be RMB22,600,000 assuming the relevant title certificates have been fully obtained and the buildings could be freely transferred.

11. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:
- a. Xinpeng Ceramics has obtained aforesaid State-owned Land Use Rights Certificates and legally holds the land use rights of the land parcels mentioned in note 3;
 - b. As confirmed by Xinpeng Ceramics, the property is not subject to any third party's interests or any restrictions arising from judicial foreclosure and enforcement. Xinpeng Ceramics is entitled to occupy, use, lease or otherwise dispose of the property;
 - c. Xinpeng Ceramics has legally obtained the land use rights of the property and relevant construction work permits and approvals in accordance with the actual construction work development stage and there is no substantial legal obstacle for Xinpeng Ceramics to apply for the Building Ownership Certificates after obtaining the Construction Work Completion and Inspection Certificate; and
 - d. As confirmed by Xinpeng Ceramics, the subject construction project (Part B) has been completed and put to use, but because the land use rights are held by Hunan Jinpeng, the relevant procedures should be applied by Hunan Jinpeng.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 29 February 2016 (RMB)																					
7.	5 parcels of land, 18 buildings and various structures No.6 Chuangxin Avenue Meilin Town Fengcheng County Yichun City Jiangxi Province The PRC	<p>The property comprises 5 parcels of land with a total site area of approximately 600,038 sq.m. and 18 buildings and various structures erected thereon which were completed in various stages between 2008 and 2015.</p> <p>The buildings have a total gross floor area of approximately 148,167.24 sq.m. and the details of uses and their respective gross floor areas are set out as follows:</p> <table border="1"> <thead> <tr> <th>Use</th> <th>No. of Item</th> <th>Gross Floor Area (sq.m.)</th> </tr> </thead> <tbody> <tr> <td>Complex</td> <td>1</td> <td>12,340.44</td> </tr> <tr> <td>Production</td> <td>8</td> <td>115,275.10</td> </tr> <tr> <td>Warehouse</td> <td>1</td> <td>7,603.00</td> </tr> <tr> <td>Staff Quarter</td> <td>2</td> <td>10,022.70</td> </tr> <tr> <td>Ancillary</td> <td>6</td> <td>2,926.00</td> </tr> <tr> <td>Total</td> <td>18</td> <td>148,167.24</td> </tr> </tbody> </table>	Use	No. of Item	Gross Floor Area (sq.m.)	Complex	1	12,340.44	Production	8	115,275.10	Warehouse	1	7,603.00	Staff Quarter	2	10,022.70	Ancillary	6	2,926.00	Total	18	148,167.24	<p>The property is currently occupied by the Group for production, office, warehouse, staff quarter and ancillary purposes.</p>	<p>239,700,000</p> <p>(The amount does not contain the valuation figure of RMB47,900,000 mentioned in note 5)</p> <p>100% interest attributable to the Group: RMB239,700,000</p>
Use	No. of Item	Gross Floor Area (sq.m.)																							
Complex	1	12,340.44																							
Production	8	115,275.10																							
Warehouse	1	7,603.00																							
Staff Quarter	2	10,022.70																							
Ancillary	6	2,926.00																							
Total	18	148,167.24																							
		<p>The structures mainly include slope protection facilities and roads.</p> <p>The land use rights of the property have been granted for a term of 50 years expiring on 27 June 2058 and 16 February 2062 for industrial use.</p>																							

Notes:

- Pursuant to 6 State-owned Land Use Rights Grant Contracts dated 16 February 2012 entered into between the State-owned Land Resources Bureau of Fengcheng City and Fengcheng Dongpeng Ceramics Co., Ltd. ("Fengcheng Dongpeng", a wholly-owned subsidiary of the Company), the land use rights of several parcels of land were contracted to be granted to Fengcheng Dongpeng with the particulars as follows:

Contract No.	:	Feng Guo Tu (Chu Rang He) Zi (2008) Di No.18
Site Area	:	71,333 sq.m.
Land Use	:	Industrial
Land Term	:	50 years for industrial use
Plot Ratio	:	<1.0
Land Premium	:	RMB12,100,000

Contract No. : Feng Guo Tu (Chu Rang He) Zi (2008) Di No.19
 Site Area : 66,667 sq.m.
 Land Use : Industrial
 Land Term : 50 years for industrial use
 Plot Ratio : <1.0
 Land Premium : RMB11,310,000

Contract No. : Feng Guo Tu (Chu Rang He) Zi (2008) Di No.20
 Site Area : 96,667 sq.m.
 Land Use : Industrial
 Land Term : 50 years for industrial use
 Plot Ratio : <1.0
 Land Premium : RMB16,400,000

Contract No. : Feng Guo Tu (Chu Rang He) Zi (2008) Di No.21
 Site Area : 98,796 sq.m.
 Land Use : Industrial
 Land Term : 50 years for industrial use
 Plot Ratio : <1.0
 Land Premium : RMB16,770,000

Contract No. : 36201203200006
 Site Area : 149,728 sq.m.
 Land Use : Industrial
 Land Term : 50 years for industrial use
 Plot Ratio : ≥ 1.0
 Land Premium : RMB25,160,000

Contract No. : 36201203200007
 Site Area : 116,977 sq.m.
 Land Use : Industrial
 Land Term : 50 years for industrial use
 Plot Ratio : ≥ 1.0
 Land Premium : RMB19,660,000

2. Pursuant to 5 State-owned Land Use Rights Certificates (the “LURCs”), the land use rights of 5 parcels of land with a total site area of approximately 600,038 sq.m. have been granted to Fengcheng Dongpeng, for a term of 50 years expiring on 27 June 2058 and 16 February 2062 for industrial use. The details are set out as follows:

No.	LURC No.	Location	Site Area (sq.m.)	Expiring Date
(1)	Feng Guo Yong (2008) Di No. 41379734	Fengcheng Industrial Park	49,628	27 June 2058
(2)	Feng Guo Yong (2008) Di No. 41379735	Fengcheng Industrial Park	248,869	27 June 2058
(3)	Feng Guo Yong (2008) Di No. 41379736	Fengcheng Industrial Park	34,836	27 June 2058
(4)	Feng Guo Yong (2013) Di No. A043	Phase II of Fengcheng Industrial Park	149,728	16 February 2062
(5)	Feng Guo Yong (2013) Di No. A044	Phase II of Fengcheng Industrial Park	116,977	16 February 2062
Total:			<u>600,038</u>	

3. Pursuant to 6 Building Ownership Certificates (“BOCs”), 6 buildings of the property with a total gross floor area of approximately 121,081.44 sq.m. are owned by Fengcheng Dongpeng. The details are set out as follows:

No.	BOC No.	Gross Floor Area	
		(sq.m.)	Issuance date
(1)	Feng Fang Quan Zheng Mei Lin Zhen Zi Di No. 2011002015	12,340.44	26 April 2011
(2)	Feng Fang Quan Zheng Mei Lin Zhen Zi Di No. 2011002016	33,215.00	26 April 2011
(3)	Feng Fang Quan Zheng Mei Lin Zhen Zi Di No. 2011002017	45,552.00	26 April 2011
(4)	Feng Fang Quan Zheng Mei Lin Zhen Zi Di No. 2011002018	3,648.00	26 April 2011
(5)	Feng Fang Quan Zheng Mei Lin Zhen Zi Di No. 2011002019	1,798.00	26 April 2011
(6)	Feng Fang Quan Zheng Gong Ye Yuan Zi Di No. 2013009605	24,528.00	17 December 2013
Total:		<u>121,081.44</u>	

4. For the remaining 12 buildings of the property with a total gross floor area of approximately 27,085.80 sq.m., we have not been provided with any title certificates.
5. In the valuation of the property, we have attributed no commercial value to the 12 buildings of the property mentioned in note 4 which have not obtained any Building Ownership Certificates. However, for reference purpose, we are of the opinion that the depreciated replacement costs of these buildings (excluding the land) as at the valuation date would be RMB47,900,000 assuming the relevant title certificates had been obtained and the buildings could be freely transferred.
6. We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal advisers, which contains, *inter alia*, the following:
- a. Fengcheng Dongpeng has obtained aforesaid State-owned Land Use Rights Certificates and Building Ownership Certificates and legally holds the land use rights and building ownership rights of the land parcels and buildings mentioned in notes 2 and 3, respectively;
 - b. As confirmed by Fengcheng Dongpeng, the property is not subject to any third party’s interests or any restrictions arising from judicial foreclosure and enforcement. Fengcheng Dongpeng is entitled to occupy, use, lease or otherwise dispose of the property;
 - c. According to a Certification Letter (證明) issued by the relevant local authority, for one of the 12 buildings with a gross floor area of approximately 2,403 sq.m. mentioned in note 4, the risk of being administratively penalized is relatively low; and
 - d. Fengcheng Dongpeng has not obtained the Construction Work Planning Permit and Construction Work Commencement Permit for the other 11 buildings with a total gross floor area of approximately 24,682.80 sq.m. of the property mentioned in note 4, Fengcheng Dongpeng is subject to the risk of being fined and ordered to suspend use by the relevant administrative authorities.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 29 February 2016 (RMB)																					
8.	3 parcels of land, 10 buildings and various structures No. 15 Chuangxin Avenue Fengcheng Industrial Park Fengcheng County Yichun City Jiangxi Province The PRC	<p>The property comprises 3 parcels of land with a total site area of approximately 245,726 sq.m. and 10 buildings and various structures erected thereon which were completed in various stages between 2013 and 2015.</p> <p>The buildings have a total gross floor area of approximately 128,603.94 sq.m. and the details of uses and their respective gross floor areas are set out as follows:</p> <table border="1"> <thead> <tr> <th>Use</th> <th>No. of Item</th> <th>Gross Floor Area (sq.m.)</th> </tr> </thead> <tbody> <tr> <td>Production</td> <td>5</td> <td>54,138.50</td> </tr> <tr> <td>Office</td> <td>1</td> <td>6,668.43</td> </tr> <tr> <td>Warehouse</td> <td>1</td> <td>14,527.80</td> </tr> <tr> <td>Staff Quarter</td> <td>2</td> <td>10,648.57</td> </tr> <tr> <td>Vacant</td> <td>1</td> <td>42,620.64</td> </tr> <tr> <td>Total</td> <td>10</td> <td>128,603.94</td> </tr> </tbody> </table> <p>The structures mainly include slope protection facilities and roads.</p> <p>The land use rights of the property have been granted for a term of 50 years expiring on 16 August 2062 for industrial use.</p>	Use	No. of Item	Gross Floor Area (sq.m.)	Production	5	54,138.50	Office	1	6,668.43	Warehouse	1	14,527.80	Staff Quarter	2	10,648.57	Vacant	1	42,620.64	Total	10	128,603.94	<p>Portions of the property are currently occupied by the Group for production, office, and ancillary purposes, whilst the other portions of the property are currently vacant.</p>	<p>57,700,000</p> <p>(The amount does not contain the valuation figure of RMB108,500,000 mentioned in note 7)</p> <p>100% interest attributable to the Group: RMB57,700,000</p>
Use	No. of Item	Gross Floor Area (sq.m.)																							
Production	5	54,138.50																							
Office	1	6,668.43																							
Warehouse	1	14,527.80																							
Staff Quarter	2	10,648.57																							
Vacant	1	42,620.64																							
Total	10	128,603.94																							

Notes:

- Pursuant to 3 State-owned Land Use Rights Grant Contracts dated 16 August 2012 entered into between the State-owned Land Resources Bureau of Fengcheng City and Jiangxi Dongpeng Bathroom Products Co., Ltd. ("Jiangxi Bathroom Products", a wholly-owned subsidiary of the Company) the land use rights of 3 parcels of land were contracted to be granted to Jiangxi Bathroom Products with the particulars as follows:

Contract No.	:	36201203200027
Site Area	:	84,137 sq.m.
Land Use	:	Industrial
Land Term	:	50 years for industrial use
Plot Ratio	:	≥1
Land Premium	:	RMB14,200,000

Contract No. : 36201203200028
 Site Area : 81,666 sq.m.
 Land Use : Industrial
 Land Term : 50 years for industrial use
 Plot Ratio : ≥ 1
 Land Premium : RMB14,000,000

Contract No. : 36201203200029
 Site Area : 79,923 sq.m.
 Land Use : Industrial
 Land Term : 50 years for industrial use
 Plot Ratio : ≥ 1
 Land Premium : RMB13,500,000

2. Pursuant to a Construction Land Planning Permits — Feng Gong Yuan Di Zi Di No. 2012-014, permission towards the planning of the aforesaid land parcels with a total site area of approximately 245,726 sq.m. has been granted to Jiangxi Bathroom Products.
3. Pursuant to 3 State-owned Land Use Rights Certificates (the “LURCs”), the land use rights of 3 parcels of land with a total site area of approximately 245,726 sq.m. have been granted to Jiangxi Bathroom Products, for a term of 50 years expiring on 16 August 2062 for industrial use. The details are set out as follows:

No.	LURC No.	Location	Site Area (sq.m.)	Expiring Date
(1)	Feng Guo Yong (2012) Di No. 1138	Fengcheng Industrial Park	81,666	16 August 2062
(2)	Feng Guo Yong (2012) Di No. 1139	Fengcheng Industrial Park	79,923	16 August 2062
(3)	Feng Guo Yong (2012) Di No. 1145	Fengcheng Industrial Park	84,137	16 August 2062
Total:			<u>245,726</u>	

4. Pursuant to a Construction Work Planning Permits — Feng Gong Yuan Gui Jian Zi Di No. 2012-021 in favour of Jiangxi Bathroom Products, the construction work of the property with a total gross floor area of approximately 87,871 sq.m. (including 8 buildings) has been approved.
5. Pursuant to 4 Construction Work Commencement Permits, in favour of Jiangxi Bathroom Products, permissions by the relevant local authority was given to commence the construction of the property with a total gross floor area of approximately 87,357.4 sq.m. (including 8 buildings). The details are set out as follows:

No.	Permit No.	Gross Floor Area (sq.m.)	Issuance date
(1)	362202201301090401	42,636.70	9 January 2013
(2)	362202201301090501	5,180.39	9 January 2013
(3)	362202201306264001	6,668.43	26 June 2013
(4)	362202201306274301	32,871.88	27 June 2013
Total:		<u>87,357.40</u>	

6. For the remaining 2 buildings of the property, we have not been provided with any title certificate or any related construction work permits and approvals.
7. In the valuation of the property, we have attributed no commercial value to the 10 buildings of the property mentioned in notes 5 and 6 which have not obtained any building ownership certificates. However, for reference purpose, we are of the opinion that the depreciated replacement costs of these buildings (excluding the land) as at the valuation date would be RMB108,500,000 assuming the relevant title certificates had been obtained and the buildings could be freely transferred.
8. Pursuant to a Mortgage Contract of Maximum Amount, the land use rights of 3 parcels of land mentioned in note 3 of the property are subject to a mortgage in favour of Bank of China Co., Ltd. Fengcheng Sub-Branch.
9. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:
 - a. Jiangxi Bathroom Products has obtained aforesaid State-owned Land Use Rights Certificates and legally holds the land use rights of the land parcels mentioned in note 3;
 - b. As confirmed by Jiangxi Bathroom Products, except for the mortgage mentioned in note 8, the property is not subject to any third party's interests or any restrictions arising from judicial foreclosure and enforcement. Jiangxi Bathroom Products is entitled to occupy, use, lease or otherwise dispose of the property;
 - c. Jiangxi Bathroom Products has obtained relevant construction work permits, approvals and certificates for the actual construction work development stage mentioned in note 5 and there is no substantial legal obstacle for Jiangxi Bathroom Products to apply for the Building Ownership Certificates; and
 - d. Jiangxi Bathroom Products has not obtained the Construction Work Planning Permit and Construction Work Commencement Permit for the 2 buildings of the property mentioned in note 6 and Jiangxi Bathroom Products is subject to the risk of being fined and ordered to suspend use by the relevant administrative authorities.

IN THE GRAND COURT OF THE CAYMAN ISLANDS

CAUSE NO. 46 OF 2016 (RMJ)

IN THE MATTER OF

**DONGPENG HOLDINGS COMPANY LIMITED
AND IN THE MATTER OF
SECTION 86 OF THE COMPANIES LAW (2015 REVISION)
OF THE CAYMAN ISLANDS**

SCHEME OF ARRANGEMENT

between

DONGPENG HOLDINGS COMPANY LIMITED

and

**THE HOLDERS OF SCHEME SHARES
(as hereinafter defined)**

(A) In this Scheme of Arrangement, unless inconsistent with the subject or context, the following expressions shall have the meanings respectively set out opposite them:

“acting in concert”	has the meaning ascribed to it in the Takeovers Code
“Business Day”	a day other than a Saturday, Sunday or a public holiday in Hong Kong or the Cayman Islands
“Cancellation Price”	the cancellation price of HK\$4.48 per Scheme Share payable in cash by the Joint Offerors to the Scheme Shareholders pursuant to the Scheme
“Cayman Islands Grand Court”	the Grand Court of the Cayman Islands
“Companies Law”	the Companies Law (2015 Revision) of the Cayman Islands, as consolidated and revised
“Company”	Dongpeng Holdings Company Limited, an exempted company incorporated in the Cayman Islands with limited liability, the ordinary shares of which are currently listed on the Main Board of the Hong Kong Stock Exchange (stock code: 3386)

“Director”	a director of the Company
“Effective Date”	the date on which the Scheme, if approved and sanctioned by the Cayman Islands Grand Court, becomes effective in accordance with its terms and the Companies Law, being the date on which a copy of the Order of the Cayman Islands Grand Court sanctioning the Scheme is delivered to the Registrar of Companies in the Cayman Islands for registration pursuant to section 86(3) of the Companies Law, and which is expected to be 20 June 2016 (Cayman Islands time)
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Shareholders”	the Shareholders other than the Joint Offerors and the Joint Offerors Concert Parties and any other Shareholders who are interested in or involved in the Proposal, the Scheme and the arrangements or agreements in connection with the Proposal and the Scheme
“Joint Offerors”	Profit Strong and Max Glory
“Joint Offerors Concert Parties”	parties acting in concert or presumed to be acting in concert with any of the Joint Offerors under the definition of “acting in concert” under the Takeovers Code, including the Sequoia Existing Shareholders, Mr. HE Xinming, Superb Idea Investments Limited, Mr. CHEN Kunlie, Cosmo Ray Investments Limited, High Ride Investments Limited, Rich Blossom Investments Limited and Senior Management Shareholders
“Latest Practicable Date”	16 May 2016, being the latest practicable date prior to the printing of this Scheme Document for ascertaining certain information contained herein
“Max Glory”	Max Glory Ltd., an exempted company incorporated in the Cayman Islands with limited liability and wholly owned by Sequoia Advisors, an affiliate of the Sequoia Existing Shareholders
“Participating Shareholders”	Mr. CHEN Kunlie, Superb Idea, Cosmo Ray, High Ride, Rich Blossom, CAI Chuyang, JIN Guoting, LIN Hong, SHAO Yu, SHI Yufeng and BAO Jianyong

“Profit Strong”	Profit Strong Investments Limited, a company incorporated in the British Virgin Islands with limited liability and which is wholly-owned by Mr. HE Xinming
“Proposal”	the proposal for the privatisation of the Company by the Joint Offerors by way of the Scheme and the restoration of the share capital of the Company to the amount immediately before the cancellation of the Scheme Shares, on the terms and subject to the conditions set out in this Scheme Document
“Record Time”	4:00 p.m. (Hong Kong time) on the Scheme Record Date
“Register”	the principal or branch register of members of the Company (as the case may be)
“Scheme”	a scheme of arrangement under section 86 of the Companies Law involving the cancellation of all the Scheme Shares and reduction of share capital and the restoration of the share capital of the Company to the amount immediately before such cancellation and reduction of share capital
“Scheme Document”	this composite document, including each of the letters, statements, appendices and notices in it, as may be amended or supplemented from time to time
“Scheme Record Date”	20 June 2016, or such other time and date as shall have been announced to holders of Shares, being the record date for the purpose of determining the entitlements of Scheme Shareholders under the Scheme
“Scheme Shareholders”	holder(s) of Scheme Shares as at the Record Time
“Scheme Shares”	Share(s) other than those held by the Joint Offerors, Mr. HE Xinming, Sequoia Existing Shareholders and the Participating Shareholders
“Senior Management Shareholders”	CAI Chuyang, JIN Guoting, LIN Hong, SHAO Yu, SHI Yufeng and BAO Jianyong
“Sequoia Advisors”	Sequoia Capital China Advisors Limited
“Sequoia Existing Shareholders”	Sequoia Growth, Sequoia Partners and Sequoia Principals
“Sequoia Growth”	Sequoia Capital China Growth Fund I, L.P., an exempted limited partnership established in the Cayman Islands and its general partner is Sequoia Capital China Growth Fund Management I, L.P.

“Sequoia Partners”	Sequoia Capital China Growth Partners Fund I, L.P., an exempted limited partnership established in the Cayman Islands and its general partner is Sequoia Capital China Growth Fund Management I, L.P.
“Sequoia Principals”	Sequoia Capital China GF Principals Fund I, L.P., an exempted limited partnership established in the Cayman Islands and its general partner is Sequoia Capital China Growth Fund Management I, L.P.
“Share(s)”	ordinary share(s) of US\$0.000002 each in the share capital of the Company
“Shareholders”	the holders of the Shares
“Takeovers Code”	The Code on Takeovers and Mergers

(B) The Company was incorporated as an exempted company on 12 March 2012 in the Cayman Islands under the Companies Law.

(C) The authorized share capital of the Company as at the Latest Practicable Date was US\$50,000 divided into 25,000,000,000 Shares of which 1,268,077,800 Shares were issued and fully paid, with the remainder being unissued.

(D) The Joint Offerors have proposed the privatisation of the Company by way of the Scheme.

1. The primary purpose of the Scheme is that all of the Scheme Shares should be cancelled and extinguished and that the Company should become owned by the Joint Offerors as to 42.61% and 14.54%, respectively.
2. On the Latest Practicable Date, 935,908,800 Shares were legally and/or beneficially owned by the Joint Offerors and Joint Offeror Concert Parties and registered as follows:

Shareholders	As at the Latest Practicable Date	
	Number of Shares	%
Profit Strong	392,518,463	30.95
Joint Offerors Concert Parties		
Sequoia Capital China Growth Fund I, L.P.	85,085,552	6.71
Sequoia Capital China Growth Partners Fund I, L.P.	2,029,098	0.16
Sequoia Capital China GF Principals Fund I, L.P.	10,438,150	0.83

Shareholders	As at the Latest Practicable Date	
	Number of Shares	%
Mr. HE Xinming	3,750,000	0.30
Superb Idea Investments Limited	160,763,325	12.68
Mr. CHEN Kunlie	1,500,000	0.12
Cosmo Ray Investments Limited	33,074,966	2.61
High Ride Investments Limited	188,617,978	14.87
Rich Blossom Investments Limited	45,025,268	3.55
Senior Management Shareholders	13,106,000	1.03
Subtotal	<u>935,908,800</u>	<u>73.81</u>
Total Shares in issue	<u>1,268,077,800</u>	<u>100.00</u>

3. Each of the Joint Offerors Concert Parties will procure that any Shares in respect of which they are beneficially interested will not be represented or voted at the meeting convened at the direction of the Cayman Islands Grand Court for the purpose of considering and, if thought fit, approving the Scheme.
4. The Joint Offerors have and Joint Offerors Concert Parties have undertaken to the Cayman Islands Grand Court to be bound by the Scheme, and to execute and do and procure to be executed and done all such documents, acts and things as may be necessary or desirable to be executed or done by each of them for the purpose of giving effect to this Scheme.

THE SCHEME

PART I

Cancellation of the Scheme Shares

1. On the Effective Date:
 - (a) the issued share capital of the Company shall be reduced by cancelling and extinguishing the Scheme Shares;
 - (b) subject to and forthwith upon such reduction of capital taking effect, the share capital of the Company will be increased to its former amount by issuing to the Joint Offerors (to Profit Strong as to 44.50% and to Max Glory as to 55.50%) the same number of Shares as the number of Scheme Shares cancelled and extinguished; and
 - (c) the Company shall apply the credit arising in its books of account as a result of the capital reduction referred to in paragraph 1(a) above in paying up in full at par the new Shares issued to the Joint Offerors, credited as fully paid.

PART II**Consideration for the cancellation and extinguishment of the Scheme Shares**

2. In consideration of the cancellation and extinguishment of the Scheme Shares, the Joint Offerors shall pay or cause to be paid to each Scheme Shareholder the Cancellation Price.

PART III**General**

3. (a) As soon as possible and in any event not later than seven (7) Business Days after the Effective Date, the Joint Offerors shall send or cause to be sent to Scheme Shareholders cheques in respect of the sums payable to such Scheme Shareholders pursuant to Clause 2 of this Scheme.
- (b) Unless otherwise indicated in writing to the branch share registrar of the Company in Hong Kong, being Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, all such cheques shall be sent by post addressed to such Scheme Shareholders at their respective addresses as appearing on the Register at the Record Date or, in the case of joint holders, at the address as appearing on the Register at the Record Date of the joint holder whose name then stands first in the Register in respect of the relevant joint holding.
- (c) Cheques shall be posted at the risk of the addressee and neither the Joint Offerors nor the Company shall be responsible for any loss or delay in the transmission of the same.
- (d) Each cheque shall be payable to the order of the person to whom, in accordance with the provisions of paragraph (b) of this Clause 3, the envelope containing the same is addressed and the encashment of any such cheque shall be a good discharge to the Joint Offerors for the monies represented thereby.
- (e) On or after the day being six calendar months after the posting of the cheque pursuant to paragraph (b) of this Clause 3, the Joint Offerors shall have the right to cancel or countermand payment of any such cheque which has not been encashed or that has been returned uncashed and shall place all monies represented thereby in a deposit account of the Joint Offerors with a licensed bank of Hong Kong selected by the Company. The Joint Offerors shall hold such monies on trust for those entitled to it under the terms of this Scheme until the expiration of six years from the Effective Date and shall, prior to such date, make payments thereout of the sums payable pursuant to Clause 2 of this Scheme to persons who satisfy the Joint Offerors that they are respectively entitled thereto and the cheques referred to in paragraphs (b) of this Clause 3 of which they are payees have not been cashed. The Joint Offerors shall exercise its absolute discretion in determining

whether or not it is satisfied that any person is so entitled and a certificate of the Joint Offerors to the effect that any particular person is so entitled or not so entitled, as the case may be, shall be conclusive and binding upon all persons claiming an interest in the relevant monies.

- (f) On the expiration of six years from the Effective Date, the Joint Offerors shall be released from any further obligation to make any payments under this Scheme.
 - (g) Paragraph (f) of this Clause 3 shall take effect subject to any prohibition or condition imposed by law.
 - (h) Upon cancellation of the Scheme Shares, the Register shall be updated to reflect such cancellation.
4. Each instrument of transfer and certificate existing at the Record Time in respect of a holding of any number of Scheme Shares shall on the Effective Date cease to be valid for any purpose as an instrument of transfer or a certificate for such Scheme Shares and every holder of such certificate shall be bound at the request of the Joint Offerors to deliver up the same to the Joint Offerors for the cancellation thereof.
 5. All mandates or relevant instructions to the Company in force at the Record Time relating to any of the Scheme Shares shall cease to be valid as effective mandates or instructions on the Effective Date.
 6. This Scheme shall become effective as soon as a copy of the order of the Cayman Islands Grand Court sanctioning this Scheme under Section 86 of the Companies Law has been registered by the Registrar of Companies in the Cayman Islands.
 7. Unless this Scheme shall have become effective on or before 31 July 2016, or such later dates as the Company and the Joint Offerors may agree, or as the Cayman Islands Grand Court, on application of the Company and/or the Joint Offerors may allow, this Scheme shall lapse.
 8. The Company and the Joint Offerors may consent jointly for and on behalf of all concerned to any modification of or addition to this Scheme or to any condition that the Cayman Islands Grand Court may think fit to approve or impose.
 9. All costs, charges and expenses of the advisers and counsels appointed by the Offeree, will be borne by the Offeree, all costs, charges and expenses of the advisers and counsels appointed by Joint Offerors will be borne by the Joint Offerors, and other costs, charges and expenses of this Scheme will be shared between the Joint Offerors and the Offeree equally.

19 May 2016

**IN THE GRAND COURT OF THE CAYMAN ISLANDS
FINANCIAL SERVICES DIVISION**

Cause No. 46 of 2016 (RMJ)

IN THE MATTER OF SECTIONS 15 AND 86 OF THE COMPANIES LAW (2015 REVISION)

AND IN THE MATTER OF THE GRAND COURT RULE, ORDER 102

AND IN THE MATTER OF DONGPENG HOLDINGS COMPANY LIMITED

NOTICE OF COURT MEETING

NOTICE IS HEREBY GIVEN that, by an order dated on or about 11 May 2016 (the “**Order**”) made in the above matter, the Grand Court of the Cayman Islands (the “**Court**”) has directed a meeting (the “**Court Meeting**”) to be convened of the Scheme Shareholders (as defined in the Scheme of Arrangement hereinafter mentioned) for the purpose of considering and, if thought fit, approving, with or without modifications, a scheme of arrangement (the “**Scheme of Arrangement**”) proposed to be made between Dongpeng Holdings Company Limited (the “**Company**”) and the Scheme Shareholders and that the Court Meeting will be held at Imperial Room III, Mezzanine Floor — Towers Wing, The Royal Pacific Hotel & Towers, 33 Canton Road, China Hong Kong City, Tsim Sha Tsui, Hong Kong on Friday, 10 June 2016 at 3:00 p.m. at which place and time all Scheme Shareholders are requested to attend.

A copy of the Scheme of Arrangement and a copy of an explanatory memorandum explaining the effect of the Scheme of Arrangement are incorporated in the composite scheme document of which this Notice forms part. A copy of the composite scheme document can also be obtained by the Scheme Shareholders from the Hong Kong branch share registrar of the Company, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong.

Scheme Shareholders may vote in person at the Court Meeting or they may appoint another person (who must be an individual), whether a member of the Company or not, to attend and vote in their stead. A form of proxy for use at the Court Meeting is enclosed with the composite scheme document dated 19 May 2016 dispatched to members of the Company on 19 May 2016.

In the case of joint holders of a share, any one of such persons may vote at the Court Meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto. However, if more than one of such joint holders be present at the Court Meeting personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding. For this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register of members of the Company in respect of such joint holding, the first named shareholder being the senior.

It is requested that forms appointing proxies be deposited at the Hong Kong branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 3:00 p.m. on 8 June 2016, but if forms are not so lodged they may be handed to the chairman of the Court Meeting at the Court Meeting.

By the Order, the Court has appointed HE Xinming, a director of the Company, or failing him, BAO Jianyong, also a director of the Company, or failing him any other person who is a director of the Company as at the date of the Order, to act as the chairman of the Court Meeting and has directed the chairman of the Court Meeting to report the results of the Court Meeting to the Court.

The Scheme of Arrangement will be subject to a subsequent application seeking the sanction of the Court.

By Order of the Court
Dongpeng Holdings Company Limited

Dated 19 May 2016

Registered Office

Floor 4, Willow House
Cricket Square
P.O. Box 2804
Grand Cayman KY1-1112
Cayman Islands

Principal Place of Business in Hong Kong

Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

**DONGPENG HOLDINGS COMPANY LIMITED****東鵬控股股份有限公司**

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3386)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting of Dongpeng Holdings Company Limited (the “**Company**”) will be held at Imperial Room III, Mezzanine Floor — Towers Wing, The Royal Pacific Hotel & Towers, 33 Canton Road, China Hong Kong City, Tsim Sha Tsui, Hong Kong on Friday, 10 June 2016 at 3:30 p.m. (Hong Kong time) (or so soon thereafter as the meeting of the Scheme Shareholders (as defined in the Scheme of Arrangement hereinafter mentioned) convened by direction of the Grand Court of the Cayman Islands for the same day and place shall have been concluded or adjourned), for the purpose of considering and, if thought fit, passing the following resolutions:

SPECIAL RESOLUTION**1 THAT:**

- (a) Pursuant to the scheme of arrangement dated 19 May 2016 (the “**Scheme of Arrangement**”) between the Company and the holders of the Scheme Shares (as defined in the Scheme of Arrangement) in the form of the print thereof, which has been produced to this meeting and for the purposes of identification signed by the chairman of this meeting, or in such other form and on such terms and conditions as may be approved or imposed by the Grand Court of the Cayman Islands, on the Effective Date (as defined in the Scheme of Arrangement), the issued share capital of the Company shall be reduced by the cancellation and extinguishment of the Scheme Shares (as defined in the Scheme of Arrangement); and
- (b) the directors of the Company be and are hereby authorised to do all acts and things considered by them to be necessary or desirable in connection with the implementation of the Scheme of Arrangement and the reduction of capital pursuant to the Scheme of Arrangement, including (without limitation) giving consent to any modification of, or addition to, the Scheme of Arrangement or the reduction of capital which the Grand Court of the Cayman Islands may see fit to impose.

ORDINARY RESOLUTIONS**2 THAT:**

- (a) subject to and simultaneously with the cancellation and extinguishment of the Scheme Shares referred to in resolution 1(a) taking effect, the share capital of the Company will be increased to its former amount by the issuance at par to Profit Strong Investments Limited and Max Glory Ltd. (the “Joint Offerors”), credited as fully paid, of the aggregate number of Shares as is equal to the number of Scheme Shares cancelled; and
- (b) The reserve created in the Company’s books of account as a result of the capital reduction will be applied in paying up in full at par the new Shares so issued, credited as fully paid, to the Joint Offerors.

- 3 THAT** the rollover arrangement between the Joint Offerors and Mr. CHEN Kunlie, Superb Idea Investments Limited, Cosmo Ray Investments Limited, High Ride Investments Limited, Rich Blossom Investments Limited, CAI Chuyang, JIN Guoting, LIN Hong, SHAO Yu, SHI Yufeng and BAO Jianyong under the rollover agreement entered into among them on 12 February 2016 is hereby approved.

By Order of the Board of
Dongpeng Holdings Company Limited
HE Xinming
Chairman

Dated 19 May 2016

Registered office

Floor 4, Willow House
Cricket Square
P.O. Box 2804
Grand Cayman KY1-1112
Cayman Islands

Principal place of business in Hong Kong

Level 54, Hopewell Centre
183 Queen’s Road East
Hong Kong

Notes:

- (1) A member entitled to attend and vote at the extraordinary general meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote instead of him. A proxy need not be a member of the Company, but must attend the extraordinary general meeting in person to represent him.
- (2) A **white** form of proxy for use at the extraordinary general meeting is enclosed with the composite document containing the Scheme of Arrangement dated 19 May 2016 dispatched to members of the Company.
- (3) In order to be valid, the **white** form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof, must be lodged with the Hong Kong branch share registrar of the Company in Hong Kong at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not less than 48 hours before the time for holding the extraordinary general meeting or any adjournment thereof failing which the form of proxy will not be valid. Completion and return of the form of proxy will not preclude a member from attending the extraordinary general meeting and voting in person if he so wishes. In the event that a member attends and votes at the extraordinary general meeting after having lodged his form of proxy, his form of proxy will be revoked by operation of law.
- (4) In the case of joint holders of a share, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the vote(s) of the other joint holder(s) and, for this purpose, seniority will be determined by the order in which the names stand in the register of members of the Company in respect of the relevant joint holding.
- (5) At the extraordinary general meeting, the chairman of the extraordinary general meeting will exercise his power under the articles of association of the Company to put all resolutions proposed at the extraordinary general meeting to a vote by way of a poll.

The register of members of the Company will be closed from Tuesday, 7 June 2016 to Friday, 10 June 2016 (both days inclusive) and during such period no transfer of shares will be registered. In order to be entitled to attend and vote at the extraordinary general meeting, all transfers accompanied by the relevant share certificates must be lodged with the Hong Kong share registrar of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Monday, 6 June 2016.