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China Seven Star Holdings Limited
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56 Gloucester Road, Wanchai, Hong Kong

Executive Director
Mr. NI Xinguang (Chairman)
Ms. CHEN Xiaoyan

Non-executive Director
Mr. TU Baogui

Independent non-executive Directors
Mr. WONG Chak Keung
Mr. LYU We
Mr. LING Yu Zhang

Registered and principal office
Unit A02, 11/F
Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

26 October 2015

To the Shareholders

Dear Sir or Madam,

(1) STRATEGIC SUBSCRIPTION OF NEW SHARES; (2) APPLICATION FOR WHITEWASH WAIVER; (3) SPECIFIC MANDATE FOR THE ISSUE OF NEW SHARES; (4) PROPOSED CHANGE OF COMPANY NAME AND (5) NOTICE OF EGM

(A) INTRODUCTION

Reference is made to the announcements of the Company dated 26 June 2015, 7 July 2015, 27 July 2015, 7 August 2015, 27 August 2015, 31 August 2015, 2 September 2015, 17 September 2015, 24 September 2015 and 16 October 2015 in relation to, among other things, the Share Subscription and the Whitewash Waiver and the announcement of the Company dated 23 October 2015 in relation to the Proposed Change of Company Name.

On 18 June 2015, CMI and Other Investors (by way of Deeds of Accession) entered into the Subscription Agreement with the Company pursuant to which CMI and Other Investors have conditionally agreed to subscribe for, and the Company has conditionally agreed to allot and issue, a total of 26,316,000,000 Subscription Shares at an issue price of HK$0.19 per Subscription Share in an aggregate amount of HK$5,000,040,000. Out of the 26,316,000,000 Subscription Shares, 20,418,000,000 Subscription Shares representing approximately 70.80% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares upon Closing, would be subscribed for by CMI.

The purpose of this circular is to provide you with, among other things, (i) further information regarding the Share Subscription, the Whitewash Waiver and the Proposed Change of Company Name, (ii) the recommendations of the Independent Board Committee to the Independent Shareholders in relation to the Share Subscription and the Whitewash Waiver, (iii) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Share Subscription and the Whitewash Waiver, and (iv) the notice of the EGM.

(B) THE ACQUISITIONS

I. Acquisition I

Principal terms of the YGD Agreement are set out below:

Date : 14 June 2015

Parties to Acquisition I : China Seven Star Real Estate Operation Management Limited, as Purchaser I, a wholly-owned subsidiary of the Company incorporated in Hong Kong with limited liability; and

YGD Finance Holdings Limited, as Vendor I, a company incorporated in the British Virgin Islands with limited liability.

Save as disclosed above, to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, Vendor I and its ultimate beneficial owner, Mr. Shen Hua, are third parties independent of the Company and its connected persons and are not related to CMI and Other Investors.

Equity interests transferred

Subject to the terms and conditions of the YGD Agreement, Purchaser I agreed to acquire the entire equity interests in YGD Securities (HK) Limited held by Vendor I as at 14 June 2015. Upon the completion of the YGD Agreement, YGD Securities (HK) Limited has become a wholly-owned subsidiary of the Company.

Consideration

The total consideration for the acquisition of the entire equity interests in YGD Securities (HK) Limited is HK$9,000,000 plus the net asset value of YGD Securities (HK) Limited as at 30 June 2015. The consideration was agreed between Vendor I and Purchaser I after arm's length negotiations with reference to the licensed status of YGD Securities (HK) Limited to carry out Type 1 regulated activity under the

SFO and the financial position of YGD Securities (HK) Limited. The Company has settled the total consideration of HK$22,656,166 out of the Group's available internal resources.

Conditions precedent

Completion of the YGD Agreement is conditional upon the fulfilment of the following conditions:

(1) obtaining the approval from the SFC for Purchaser I to become the substantial shareholder(s) (as defined under Schedule 1 to the SFO) of YGD Securities (HK) Limited as a result of Acquisition I;

(2) confirmation in writing of the appointment and retaining in writing of the existing two responsible officers, one trader, one settlement officer and one information technology staff member by YGD Securities (HK) Limited;

(3) obtaining necessary approval from the board of directors of YGD Securities (HK) Limited in respect of the execution of the YGD Agreement;

(4) Purchaser I having completed the due diligence investigations over, including but not limited to, any affair, business, assets, liabilities, operations, records, financial condition, value of assets, accounts, results, legal and financial structures of YGD Securities (HK) Limited on or before 19 June 2015 and, in its sole discretion, been satisfied with the results and findings of such due diligence investigations;

(5) Purchaser I having completed the applications and supplements on or before 19 June 2015 for the purpose of obtaining approval for Purchaser I to become the substantial shareholder(s) (as defined under Schedule 1 to the SFO) of YGD Securities (HK) Limited under the SFO and Vendor I will make such application on or before 30 June 2015;

(6) the approval of Acquisition I by the board of directors of Purchaser I and the Board; and

(7) the approval of Acquisition I by Purchaser I, the Company and the shareholders of the Company, if necessary.

Completion

Completion will take place on the fifth business day after all the conditions precedent above have been satisfied or otherwise waived and in any case, should not be later than 31 December 2015 or a later date agreed by parties of the YGD Agreement. If the conditions are not satisfied or waived by 31 December 2015 (or such later date as agreed upon by Purchaser I and Vendor I), the YGD Agreement will be terminated.

The YGD Agreement was completed on 29 September 2015.

Information on parties to Acquisition I

The Company

The Company is an investment holding company and its principal subsidiaries are engaged in trading of chemical materials, and provision of consultancy services and provision of insurance agency services in the PRC.

Purchaser I

China Seven Star Real Estate Operation Management Limited, being Purchaser I is a company incorporated in Hong Kong with limited liability. It is a wholly owned subsidiary of the Company.

Vendor I

YGD Finance Holdings Limited, being Vendor I is an investment holding company incorporated in British Virgin Islands with limited liability.

YGD Securities (HK) Limited

YGD Securities (HK) Limited is a company incorporated in Hong Kong with limited liability and is a wholly-owned subsidiary of YGD Finance Holdings Limited. It is licensed to carry out Type 1 regulated activity (dealing in securities) under the SFO. It has trading rights on the Stock Exchange and is a participant to the Central Clearing and Settlement System (CCASS) of the Stock Exchange.

The audited consolidated financial information of YGD Securities (HK) Limited for the period ended 31st December, 2013 and 31st December, 2014 respectively, which has been prepared in accordance with the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, are summarized as follows (for illustration purposes only):

	Period from 1st August, 2012 (date of incorporation) to 31st December, 2013 *(HK$)*	**Year ended 31st December, 2014** *(HK$)*
Loss before taxation	408,187	7,253,691
Loss and total comprehensive loss for the year/period	408,187	7,253,691

Net assets of YGD Securities (HK) Limited as at 31st December, 2014 were HK$8,338,122.

II. Acquisition II

Principal terms of the Yuan Agreement are set out below:

Date	:	15 June 2015
Parties to Acquisition II	:	China Seven Star Asset Management Limited, a wholly-owned subsidiary of the Company, as Purchaser II; and Mr. Yen Jong Ling, as Vendor II, an independent third party, who is the ultimate controlling shareholder of Yuan Asset Management Limited. Mr. Yen Jong Ling is not related to CMI or Other Investors.

Save as disclosed above, to the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, Vendor II is a third party independent of the Company and its connected persons.

Equity shares acquired

Subject to the terms and conditions of the Yuan Agreement, Purchaser II agreed to acquire the entire equity interests in Yuan Asset Management Limited held by Vendor II as at 15 June 2015. Upon the completion of the Yuan Agreement, Yuan Asset Management Limited has become a wholly-owned subsidiary of the Company.

Consideration

The total consideration for the acquisition of the entire equity interests in Yuan Asset Management Limited to Purchaser II is HK$5,300,000.

As agreed between Vendor II and Purchaser II, Purchaser II has committed to pay any additional costs during the lodging period (which is expected to be 3 to 6 months) for the application for the proposed change in substantial shareholder of a licensed corporation to the SFC by Purchaser II under the Yuan Agreement. Purchaser II will pay the staff costs of Yuan Asset Management Limited, limited to HK$112,000 per month. The rent and other expenses of Yuan Asset Management Limited will be shared equally between Purchaser II and Vendor II while such expenses shared by Purchaser II are limited to HK$125,000 per month. The rental share arrangement shall commence from the date of the Yuan Agreement and end on the date when SFC approves the change of substantial shareholder.

The consideration was agreed between Vendor II and Purchaser II after arm's length negotiations with reference to the licensed status of Yuan Asset Management Limited to carry out Type 4 and Type 9 regulated activities under the SFO. The Company has settled the total consideration of HK$5,300,000 out of the Group's internal resources.

Conditions precedent

The completion of the Yuan Agreement is subject to the fulfilment or waiver (as the case may be) of, among other things, the following conditions precedent:

(1) the approval of the change in substantial shareholder of a licensed corporation by SFC;

(2) the approval of the Yuan Agreement by the board of directors of Purchaser II and the Board;

(3) approval of the Yuan Agreement by Purchaser II, the Company and the shareholders of the Company, if necessary;

(4) there having been no litigation, arbitration, investigation, notices, orders, judgments or claims on or involving Yuan Asset Management Limited or its directors or responsible officers which Purchaser II considers will have a material adverse effect on the business (including but not limited to the Type 4 and Type 9 regulated activities), financial position or operating performance;

(5) the licences granted by the SFC to Yuan Asset Management Limited having not been suspended or revoked before the completion; and

(6) Purchaser II being satisfied with the results of the legal, financial and operational due diligence review on Yuan Asset Management Limited.

If the above conditions have not been fully fulfilled, satisfied or waived on or before 1 December 2015 (or such other date as may be agreed between the parties to the Yuan Agreement), Vendor II should immediately return all the amount paid and relevant costs incurred by Purchaser II to Purchaser II.

Vendor II's undertaking and guarantee

Vendor II has given certain undertakings under the Yuan Agreement, including but not limited to:

(1) Vendor II commits and ensures that he is the only legal and actual owner of Yuan Asset Management Limited and undertakes to indemnify Purchaser II for all the liabilities caused by Vendor II to Yuan Asset Management Limited and Purchaser II;

(2) the licences granted to Yuan Asset Management Limited by SFC continues to remain valid, and Yuan Asset Management Limited continues to comply with the corresponding rules and regulations; and

(3) Vendor II undertakes to keep both of its two existing responsible officers (as defined in the SFO) at Yuan Asset Management Limited until completion.

Completion

The completion of the Yuan Agreement shall take place on or before 1 December 2015 after all the conditions precedent are satisfied, or such other date as the parties may agree in writing. If the conditions are not satisfied or waived by 1 December 2015 (or on a date otherwise agreed upon by Purchaser II and Vendor II by written consent), the Yuan Agreement will be terminated and Vendor II shall refund the amount paid by Purchaser II to Vendor II in accordance with the Yuan Agreement, and pay the expenses incurred by Purchaser II in connection with the purchase of the equity interests in Yuan Asset Management Limited.

The Yuan Agreement was completed on 29 September 2015.

Information on parties to Acquisition II

Purchaser II

China Seven Star Asset Management Limited, being Purchaser II is a company incorporated in Hong Kong with limited liability. It is a wholly-owned subsidiary of the Company.

Vendor II

Mr. Yen Jong Ling is the managing director of Yuan Asset Management Limited and directly owns 100% equity interest in Yuan Asset Management Limited.

Yuan Asset Management Limited

Yuan Asset Management Limited is an investment management firm licensed and regulated by the Securities and Futures Commission in Hong Kong to carry out Type 4 regulated activity (advising on securities) and Type 9 regulated activity (asset management) under the SFO.

The audited financial information of Yuan Asset Management Limited for the period ended 31st December, 2013 and for the year ended 31st December, 2014 respectively, which has been prepared in accordance with the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, are summarised as follows (for illustration purposes only):

	Period from 1st April 2013 to 31st December, 2013 *(HK$)*	**Year ended 31st December,** 2014 *(HK$)*
Loss before taxation	139,004	916,267
Loss and total comprehensive loss for the year/period	139,004	916,267

Net assets of Yuan Asset Management Limited as at 31st December, 2014 were HK$1,276,526.

(C) THE SUBSCRIPTION AGREEMENT

Date: 18 June 2015

Parties: the Company
CMI
Other Investors (by way of Deeds of Accession)

Subscription Shares

Pursuant to the Subscription Agreement, the Company has conditionally agreed to allot and issue 20,418,000,000 Subscription Shares to CMI and 5,898,000,000 Subscription Shares to Other Investors agreeable to both CMI and the Company at the Subscription Price of HK$0.19 per Share. The net price of the Subscription Share after deduction of relevant expenses (including but not limited to the professional fees and disbursements) is approximately HK$0.1898 per Share. CMI has the right to assign its rights to subscribe for the Subscription Shares to the Permitted CMI Assignee. On 25 June 2015, CMI has assigned its rights, benefits and obligations under the Subscription Agreement to CMI Hong Kong, a fellow subsidiary of CMI engaged in investment holding, and is indirectly wholly-owned by China Minsheng Investment.

The following table sets out a summary of the allocation of the Subscription Shares.

Name	Number of Subscription Shares	Shareholding percentage (at Closing assuming: (a) Closing under the Subscription Agreement take place; and (b) there is no change to the share capital of the Company other than the issue of the Subscription Shares)
CMI (Note1)	20,418,000,000	70.80%
Other Investors		
— D. E. Shaw Composite	1,720,000,000	5.96%
— Union Sky	1,390,000,000	4.82%
— WIC LP	1,788,000,000	6.20%
— Mr. Xu	1,000,000,000	3.47%

Note 1: on 25 June 2015 CMI has assigned its rights, benefits and obligations under the Subscription Agreement to CMI Hong Kong.

To the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, CMI and Other Investors and their respective ultimate beneficial owners are third parties independent of the Company and its connected persons.

As Mr. Shi the ultimate beneficial owner of Union Sky, is a director of China Minsheng Investment which indirectly wholly-owns CMI, Union Sky is presumed to be a party acting in concert with CMI for the purpose of the Takeovers Code. Save for Union Sky being presumed to be a party acting in concert with CMI, none of CMI and the rest of Other Investors fall within the 9 classes of presumptions of acting in concert under the Takeovers Code.

Other than (i) Union Sky being presumed to be a party acting in concert with CMI, and (ii) Mr. Xu being the general partner of WIC LP there are no other relationships (past, present or contemplated), financial, business or otherwise amongst CMI and the Other Investors so far as the Listing Rules and the Takeovers Code are concerned.

Save for the terms of the Subscription Agreement, pursuant to which any Continuing Investor's (as defined under section headed "Termination" below) has the right to subscribe for the Subscription Shares (whether in full or in part) not subscribed for by the Defaulting Investor (as defined under section headed "Termination" below), there is no other understanding, agreements or arrangements between CMI and the Other Investors in relation to the voting rights of the Company (including their acquisition or disposal of the voting rights of the Company).

As (1) none of Other Investors is or will become a core connected person to the Company upon Closing of the Share Subscription; (2) the subscriptions of the Subscription Shares by Other Investors are not financed directly or indirectly by CMI or any core connected person of the Company; and (3) none of the Other Investors is accustomed to take instructions from CMI or any core connected person of the Company in relation to the acquisition, disposal, voting or other disposition of the Shares registered in his name or otherwise held by him, all of the Other Investors will be members of "the public" defined under Rule 8.24 of the Listing Rules upon Closing of the Share Subscription.

In the unlikely event that any of the Other Investors fails to complete the subscription of the Subscription Shares and the election to exercise of the right (as referred to under section headed "Termination" below) to further subscribe by CMI of such Subscription Shares (whether in full or in part) not subscribed by the defaulting investor would result in the Company having insufficient public float, CMI will not exercise such right, and if necessary, CMI will enter into a supplemental agreement with the Company and Other Investors to reduce the number of Subscription Shares to be subscribed by CMI and downsize the total number of Subscription Shares accordingly to ensure the Company has sufficient public float.

Subscription Price

The Subscription Price represents:

(1) a discount of approximately 89.89% to the closing price of HK$1.88 per Share as quoted on the Stock Exchange on the Last Trading Day;

(2) a discount of approximately 87.66% to the average closing price per Share of HK$1.54 for the last 5 consecutive trading days up to and including the Last Trading Day;

(3) a discount of approximately 86.62% to the average closing price per Share of HK$1.42 for the last 10 consecutive trading days up to and including the Last Trading Day;

(4) a discount of approximately 83.76% to the average closing price per Share of HK$1.17 for the last 30 consecutive trading days up to and including the Last Trading Day;

(5) a discount of approximately 84.30% to the closing price per Share of HK$1.21 as quoted on the Stock Exchange on the Latest Practicable Date;

(6) approximately 111.76 times the audited consolidated net asset value per Share of approximately HK$0.0017 as at 31 December 2014; and

(7) approximately 10.44 times the unaudited consolidated net asset value per Share of approximately HK$0.0182 as at 30 June 2015.

The Subscription Price was arrived at after arm's length negotiations between the Company and CMI and Other Investors with reference to the liquidity and recent trading performance of the Shares, the financial conditions and the business outlook of the Group. The Directors (other than the Independent Board Committee whose opinion is set out in the letter from the Independent Board Committee) consider that the Subscription Price and the terms of the Subscription Agreement are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

Non-disposal undertaking

Each of CMI and Other Investors has undertaken to the Company that for a period of 6 months from the Closing Date, it will not and it will procure that none of its nominees and companies controlled by it and trusts associated with it (whether individually or together and whether directly or indirectly) will (i) offer, lend, pledge, issue, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, or otherwise transfer or dispose of (either conditionally or unconditionally, or directly or indirectly, or otherwise) any Subscription Shares or any interests therein beneficially owned or held by it or (ii) enter into any swap or similar agreement that transfers, in whole or in part, the economic risk of ownership of such Subscription Shares, whether any such transaction described in (i) or (ii) above is to be settled by delivery of Shares or such other securities, in cash or otherwise or (iii) announce any intention to enter into or effect any such transaction described in (i) or (ii) above, unless with the prior written consent of the Company.

Conditions precedent in respect of the Share Subscription

The obligations of CMI and Other Investors to subscribe and pay for, and the obligations of the Company to issue, the Subscription Shares to CMI and Other Investors are subject to the fulfilment or waiver (as the case may be) of the following conditions:

(1) Compliance at the Closing:

   (i) the representations and warranties of the Company made in the Subscription Agreement being true, accurate and correct in all respects and not misleading in any respect at, and as if made on, such date; and

   (ii) the Company having performed all of its obligations and undertakings made under the Subscription Agreement to be performed on or before such date;

(2) Listing: the Stock Exchange having given its approval for the listing and trading of the Subscription Shares and such approval not having been subsequently revoked, withdrawn or cancelled;

(3) Material adverse change: up to the Closing, there shall not have occurred any change (nor any development or event involving a prospective change), which is materially adverse to the condition (financial or other), prospects, results of operations or general affairs of any of the Company or any other member of the Group;

(4) No default: at the Closing, none of the Company or any other member of the Group is in breach of or in default (nor has any event occurred which, with the giving of notice and/or the passage of time and/or the fulfilment of any other requirement would result in a default by the Company or any other member of the Group) under the terms of any indenture, contract, lease, mortgage, deed of trust, note agreement, loan agreement or other agreement, obligation, condition, covenant or instrument to which it is a party or to which their respective assets are bound;

(5) No restrictions or prohibitions: no order, judgment, restrictions or decisions having been made, promulgated or adopted by judicial or governmental authority or regulatory authority to restrict or prohibit the transactions contemplated under the Subscription Agreement;

(6) No proceedings: no proceedings having been initiated or threatened by third parties with any judicial or governmental authority in any jurisdiction to restrict or prohibit the transactions under the Subscription Agreement, declare the transaction contemplated herein illegal or seek for a remedy of a material nature;

(7) Independent Shareholders' approval: the passing at an extraordinary general meeting of the Company of resolutions approving the Subscription Agreement and the transactions contemplated thereunder, the granting of a specific mandate to the directors of the Company to allot and issue the Subscription Shares and the Whitewash Waiver pursuant to Note 1 to the Notes on dispensation from Rule 26 of the Takeovers Code waiving any obligation on CMI to make a mandatory general offer for all the securities of the Company not already owned or agreed to be acquired by it and parties acting in concert with it which would otherwise arise under Rule 26.1 of the Takeovers Code upon subscription of the Subscription Shares;

(8) Whitewash Waiver: the SFC having granted the Whitewash Waiver in favour of CMI and any conditions stipulated thereon having been fulfilled to the extent that such conditions are capable of being fulfilled before Closing;

(9) Other consents: there shall have been delivered to CMI and Other Investors copies of all consents and approvals required under agreements to which any member of the Group is a party on the part of the Company in relation to the issue of the Subscription Shares and all the transactions contemplated under the Subscription Agreement or a written confirmation signed by a director of the Company that none is required, in each case in form and substance reasonably

satisfactory to CMI and Other Investors (including, without limitation, approval by the Company's board of directors, shareholders and any relevant governmental or regulatory authorities);

(10) Legal opinions: there having been delivered to CMI and Other Investors opinions, in form and substance reasonably satisfactory to CMI and Other Investors, dated the date of the Closing of, Hong Kong legal counsel of the Company, to be agreed by the parties as to the law of Hong Kong;

(11) Director's closing certificate: A director or the chief executive director of the Company having delivered a written confirmation in the form as set out in the Subscription Agreement on or before the Closing;

(12) Necessary approval from regulatory bodies: on or prior to the Closing, there shall have been delivered to CMI and Other Investors copies of all necessary consents and approvals from competent regulatory bodies and other governmental agencies and for the transaction contemplated in the Subscription Agreement or a written confirmation signed by a director of the Company that none is required;

(13) Licenses: The licences issued by the SFC under the SFO to the Targets remaining valid and effective, and no additional conditions, restrictions or suspension have been imposed on any of such licences or any of the approved regulated activities approved to be conducted by the Targets;

(14) The acquisition: Yuan Agreement and YGD Agreement having become unconditional in all respects and, if required by the Listing Rules, the shareholders of the Company having approved at an extraordinary general meeting or, if permitted by the Listing Rules, by way of a written resolution or certificate, the agreements and the transactions contemplated thereunder;

(15) Satisfactory due diligence: CMI having completed and, in its sole discretion, been satisfied with the results and findings of due diligence investigations over the business, financial, liabilities, legal and other aspects of the Company, its subsidiaries and the Targets;

(16) Name change: the passing at an extraordinary general meeting of the Company of a special resolution approving the change of the Company's name to such name as notified by CMI to the Company in writing and the Register of the Companies of Hong Kong having issued a certificate of change of name to the Company reflecting the above change of name;

(17) SFC approval: The SFC having granted its approval for CMI which will be regarded as substantial shareholder(s) (as defined under Schedule 1 to the SFO) as a result of the transactions contemplated hereunder to become a substantial shareholder (as defined in the SFO) of the Targets under section 132 of the SFO; and

(18) NDRC filing: CMI, the Permitted CMI Assignee and/or their respective controlling shareholder having made the necessary filing with (or obtained the necessary approval form) the National Development and Reform Commission of The People's Republic of China in relation to the entering by CMI of the Subscription Agreement and the consummation by CMI of the transactions contemplated thereunder.

Pursuant to the Subscription Agreement, where any provision requires or contemplates the giving of notice, consent or waiver by CMI and Other Investors, CMI and Other Investors authorise and agree that CMI shall be given the full authority to, at its own and sole discretion, to give such notice, consent or waiver as it deems fit for itself and on behalf of each of the Other Investors. Therefore, CMI may, at its sole discretion and upon such terms as it thinks fit, for itself or on behalf of all Other Investors waive compliance with the whole or any part of the 18 points as stipulated above under "Conditions precedent in respect of the Share Subscription" (other than those in conditions 2, 7, 17 and 18 are not waivable).

As at the Latest Practicable Date, save for condition (14), none of the above conditions has been fulfilled or waived.

If the conditions set out in "Conditions precedent in respect of the Share Subscription" have not been satisfied (or waived where permitted) by 31 December 2015 or such other time as the parties may otherwise agree, the obligations of CMI and the Other Investors to subscribe for, and the Company to allot and issue, the Subscription Shares under the Subscription Agreement shall become null and void save for any antecedent breaches by any party.

In the event that CMI waives condition 8 above in respect of the Whitewash Waiver and elect to proceed with the transactions contemplated under the Subscription Agreement, CMI will comply with all the relevant requirements under the Takeovers Code, including but not limited to, the making of a general offer under Rule 26.1 of the Takeovers Code. Accordingly the offer period as defined under the Takeovers Code has commenced.

In respect of condition 12 above, so far as the Company is aware of, the only necessary consents and approvals required are that from the SFC regarding the Whitewash Waiver (as set out in point 8 above) and that from the Stock Exchange for its approval for the listing and trading of the Subscription Shares (as set out in condition 2 above).

Completion

Closing will take place at 10 : 00am (Hong Kong time) (or such other time as may be agreed by the Company, CMI and Other Investors) on the third business day after the closing conditions of the Share Subscription (as stipulated above) have all been satisfied (or, where applicable, waived by CMI (for itself or on behalf of all of the Other Investors)) and subject to the purchase of all of the issued shares of the Targets under the

YGD Agreement and the Yuan Agreement having been completed or completing of the same time, the Company will issue the Subscription Shares to CMI and Other Investors and/or any of its affiliates nominated (prior notification be given to the Company) by it.

Resignation and appointment of directors

Pursuant to the Subscription Agreement, CMI has the right to ask for up to six of the current Directors to resign as a director with effect from Closing or such earliest time permitted under the Takeovers Code (or pursuant to any prior consent) by the Executive. CMI also has the right to require that eight new Directors nominated by it be appointed to the Board with effect from Closing if so elected in accordance with the Company's articles of association. Upon Closing of the Share Subscription, CMI may propose change in the Board composition to cater for development of the financial services business of the Group. As at the Latest Practicable Date, CMI has no definite plan in this regard. The Company will make further announcements pursuant to Rule 13.51(2) of the Listing Rules to provide further details about changes to the Directors.

Termination

The obligations of CMI and Other Investors to subscribe for the Subscription Shares and all other obligations under the Subscription Agreement shall be several (and not joint and several). In the event where any of CMI and Other Investors (the "Defaulting Investor") fails to complete the subscription of the Subscription Shares, the other non-defaulting investors (the "Continuing Investors") shall have the right to: (i) defer Closing by no longer than seven business days; (ii) terminate the Subscription Agreement or; (iii) continue to complete the subscription of the Subscription Shares for which they have agreed to subscribe under the Subscription Agreement and, as a further right and only if so elected, to also subscribe for the Subscription Shares (whether in full or in part) not subscribed for by the Defaulting Investor. In the case where the Continuing Investors have elected (iii) above, the Company shall be obliged to issue such Subscription Shares to the Continuing Investors at Closing. Any of such Closing or termination of the Subscription Agreement shall be without prejudice to the rights the Company and/or the Continuing Investors have against the Defaulting Investor.

Ranking of the Subscription Share

The Subscription Shares, when allotted and issued, will rank equally in all respects with the Shares in issue on the date of allotment and issue of the Subscription Shares.

Mandate to issue the Subscription Shares

The Subscription Shares will be allotted and issued under a specific mandate to be approved by the Independent Shareholders by an ordinary resolution at the EGM.

Application for listing

An application will be made by the Company to the Listing Committee for the listing of, and permission to deal in, the Subscription Shares.

INFORMATION ON CMI AND OTHER INVESTORS

CMI and CMI Hong Kong

CMI is the company that entered into the Subscription Agreement and is an indirectly wholly-owned subsidiary of China Minsheng Investment. On 25 June 2015 CMI has assigned its rights, benefits and obligations under the Subscription Agreement to its fellow subsidiary CMI Hong Kong which is indirectly wholly-owned by China Minsheng Investment. CMI and CMI Hong Kong are managed by CMI Capital, the financial division of China Minsheng Investment. The investment mandate of CMI Capital focuses on investment in the financial sectors, covering traditional financial institutions and innovative internet based financial companies both in the PRC and internationally.

China Minsheng Investment is a large private investment company organised by The All-China Federation of Industry and Commerce in China and was launched by 59 well-known private enterprises throughout China. The shareholders of China Minsheng Investment are all large scale private enterprises, some of which are among China's top 500 companies. The business scope of the shareholders of China Minsheng Investment involves a variety of industries such as machinery manufacturing, metallurgy, information technology, asset management, garment, biological pharmacy, environmental protection, new energy, culture and media, commerce and trade, electric power, home appliances stores, e-commerce, real estate and so forth. As at the Latest Practicable Date, no single shareholder of China Minsheng Investment held more than 4% of the voting rights or equity contributed in China Minsheng Investment.

China Minsheng Investment was established and registered in Shanghai in May 2014, with a registered capital of RMB50 billion. It is a conglomerate with a wide variety of businesses including equity investment, equity investment management, business consulting, financial consulting, industrial investment, asset management, and investment consulting. China Minsheng Investment's strategy is to fully utilise its competitive strengths in terms of national brand, integration of resources, financial strength, comprehensive operations, management output and other competitive advantages in the implementation of its strategic integration in key target industries, with the objective to create a strategic and sustainable business model. China Minsheng Investment will, through capital investment and leverage, and featured by business consolidation and the full range of financial licenses, apply its resources and efforts in developing distinctive business portfolios and key segments. In terms of the specific implementation path, China Minsheng Investment, relying on industrial integration, industrial strategic investment, mixed investment, establishment of full financial licenses platform and exploration of overseas investment market, will actively carry out the relevant business activities.

The directors of CMI, the directors of China Minsheng Investment as well as those shareholders of China Minsheng Investment whose ultimate beneficial owners are directors of CMI or directors of China Minsheng Investment are considered to be parties acting in concert with CMI.

D. E. Shaw Composite

D. E. Shaw Composite is an investment vehicle managed by an entity within the D. E. Shaw Group, a global investment and technology development firm with more than US$37 billion in investment capital as of 1 July 2015, and offices in North America, Europe, and Asia.

Mr. Xu and WIC LP

Mr. Xu Xiang is the general manager of Shanghai Zexi Investment Management Company Limited (上海澤熙投資管理有限公司) and has rich experience in fund management. Shanghai Zexi Investment Management Company Limited is a reputable PRC fund management company based in Shanghai. WIC LP is a limited partnership established under the laws of the PRC. It is managed by its general partner Mr. Xu.

Union Sky

Union Sky is a company incorporated in the British Virgin Islands and is wholly-owned by Mr. Shi. Mr. Shi is a reputable investor in PRC who has rich experience in the internet and finance industry. Mr. Shi is the founder of Giant Interactive Group Inc., a leading online game developer and operator in the PRC and his recent investments in the financial service industry include his investment in Haitong Securities Company Limited (stock code: 6837-HK), and as at the Latest Practicable Date, Mr. Shi is interested in approximately 7.27% of the issued share capital of Haitong Securities Company Limited. Mr. Shi is a director and vice chairman of China Minsheng Investment.

REASONS FOR AND BENEFITS OF THE ACQUISITIONS AND THE SHARE SUBSCRIPTION

The Group is engaged in trading of chemical materials, provision of consultancy services and provision of insurance agency services in the PRC. In the past, the Group had invested into various businesses such as advertising agency business, sale of kitchenware products and chemical materials business. Upon the expiry of the exclusive agency rights relating to the advertising agency business of the Group on 31 December, 2012, the Group ceased its advertising agency business in the second half of 2013 in view of the keen competition for selling of advertising air time.

The Group also ceased its sales and distribution business in 2014 as a result of the deteriorating market condition since the end of 2013 to reduce operational costs and investment losses. Amongst the three segments of business maintained by the Group as at the end of 2014, only the chemical materials business generated minimal segmental profit for the year ended 31 December 2014.

The Company has been actively exploring new investments and business opportunities and the Directors have recently considered the real estate business and solar power business as possible avenues for expansion. However, upon a further comprehensive review on the overall risk profile of both business sectors, the Directors had decided to adopt a wait-and-see approach in 2015 in respect of commencing these lines of business.

The Directors have also been reviewing the market conditions of the financial services sector and related businesses and are of the view that such sectors and businesses are expected to have very positive potential and bring long-term benefits to the Group. The Company has therefore decided to expand into the financial services sector and related businesses, and currently plans to focus on such sectors and businesses as a core business segment of the Group.

Given the Company's plan to expand into financial services sector and related businesses it has entered into the YGD Agreement and Yuan Agreement. Under the YGD Agreement, the Group will acquire 100% of the issued shares of YGD Securities (HK) Limited. The core business of YGD Securities (HK) Limited comprises of securities brokerage and dealing, and it is also the holder of a Type 1 licence issued by the SFC under the SFO. Under the Yuan Agreement, the Group will acquire 100% of the issued shares of Yuan Asset Management Limited. The core businesses of Yuan Asset Management Limited comprise of asset management and research, and it is also the holder of Type 4 and 9 licences issued by the SFC under the SFO.

The Group plans to use both YGD Securities (HK) Limited and Yuan Asset Management Limited as its initial platforms in establishing its financial services and related businesses. The intention is in due course to develop the Group to become an integrated security house offering sales and trading, corporate finance, discretionary and non-discretionary asset management, securities margin financing, principal investment with a focus on financial services and extending loan finance to suitable business using the Group's license under the Money Lenders Ordinance of Hong Kong.

In an effort to further implement this strategy, the Directors believe that it would create business synergies if the Company were to introduce prominent and reputable strategic investors who would be able to work with the Company to enhance its professional expertise in the financial services sector, to develop the pipeline of business opportunities in financial services sector and to accelerate the formation of a comprehensive financial services platform by way of identifying, evaluating and acquiring established financial institutions in Hong Kong and overseas.

The Directors have considered:

(a) the background, industry expertise and management experience of CMI;

(b) the benefits including strategic value and management expertise in areas such as asset management, principal investment, internet and finance industries that the Other Investors could bring to the Group in the future; and

(c) the significant strengthening of the Company's financial position as a result of the Share Subscription.

The Directors are of the view that the Company will be able to exploit businesses and investment opportunities upon completion of the Acquisitions and Share Subscription and with the benefit of the experience of CMI and the Other Investors, the Group will be in a better position to assess and evaluate the commercial viability of the business opportunities, to source and identify new business development and diversification opportunities, and to capture and undertake those opportunities.

The Company has considered other fund raising methods such as rights issue or open offer, and debt financing and considered that the Share Subscription is preferable for the following reasons:

(a) it would be difficult for financial institutions to provide facility up to such a substantial amount to the Group as proposed under the Share Subscription and debt financing would inevitably increase the financial costs of the Group; and

(b) a pre-emptive issue such as rights issue or open offer would not be able to bring in strategic investors as Shareholders, particularly investors with the background and professional expertise, such as CMI and the Other Investors.

Having considered the past business and financial performance of the Group and the importance of the licensed status that the Group could achieve through the Acquisitions in implementing the strategy described above, the Directors are of the view that the terms of YGD Agreement and Yuan Agreement are fair and reasonable and in the interest of Shareholders as whole.

Having considered the reasons and benefits and the alternative choices of fund raising methods above, the Directors consider that despite the dilution effect and the substantial discount of the Subscription Price to the closing price of Shares on the Last Trading Day but taking into account the multiple that the Subscription Price represents to the latest published net asset value per share, it is fair and reasonable to proceed with the Share Subscription and the Directors (other than the Independent Board Committee whose opinion is set out in the letter from the Independent Board Committee) consider that the terms of the Subscription Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

USE OF PROCEEDS

The gross proceeds from the Share Subscription would amount to HK$5,000,040,000. The net proceeds after deduction of relevant expenses (including but not limited to the professional fees and disbursements) of approximately HK$4,995,300,000, are intended to be employed in the following manner:

(1) 20% or approximately HK$1 billion of the proceeds will be used for expanding and reserving capital for the securities broking business of the Group conducting under the license for carrying out Type 1 regulated activity of dealing in securities under the SFO held under the Targets immediately upon Closing. It is expected that these funds will be utilised as follows:

a. immediately upon Closing, approximately HK$550 million will be allocated to securities margin financing business which will provide funding on a secured basis for clients to acquire listed securities;

b. immediately upon Closing, approximately HK$300 million will be allocated for sales and trading. As it is proposed that the majority of clients of the Company would be institutional clients, such funds will be allocated to facilitate the dealing and settlement requirements of such institutional clients;

c. approximately HK$40 million for building up IT systems, including trading system;

d. approximately HK$70 million for recruitment of traders, sales personnel, and researchers. The recruitment process will commence as soon as practicable and prior to the Closing; and

e. approximately HK$40 million for the rental and refurbishment of the office. The process will commence as soon as practicable and prior to the Closing;

(2) 5% or approximately HK$250 million of the proceeds will be used for developing the group's capability of extending loan finance to suitable businesses pursuant to its license under the Money Lending Ordinance of Hong Kong. This fund will be set-aside for the money lending business immediately upon Closing;

(3) 2.5% or approximately HK$125 million of the proceeds will be used for expanding the asset management businesses of the Targets which are currently limited in size and funds available to invest, with a view to transforming them into a local and regional prominent asset management platform within the first year from Closing of the Share Subscription;

(4) 2.5% or approximately HK$125 million of the proceeds will be used for expanding other lines of investment banking business by obtaining licences from the SFC for other regulated activities under the SFO such as Type 6 regulated activity of advising on corporate finance within the first year from the Closing of the Share Subscription;

(5) 30% to 40% or approximately HK$1.5 billion to HK$2 billion of the proceeds will be used for as part of the Group's plans to establish further its financial services and other related businesses, making strategic investments in and, or acquisitions of other established financial institutions both in Hong Kong and overseas covering internet finance, leasing, insurance, private banking and internet technologies and platforms. It is expected the funds will be substantially invested within the first year from the Closing of the Share Subscription;

(6) 15% to 25% or approximately HK$750 million to HK$1.25 billion of the proceeds will be used for, as part of the Group's establishment of a principal investment business, making investments in the financial and non-financial industries, such as investing in listed companies' securities through participating in placings of high quality listed companies in Hong Kong and other countries and regions and taking proprietary positions in trading high quality stocks on the secondary market.; and

(7) 15% or approximately HK$750 million of the proceeds will be used as general working capital of the Group, including the recruitment of personnel to expand the managerial and operational headcount of the Group, marketing and brand promotion.

Upon Closing, the Company will make announcements to update quarterly on its cash to total assets ratio until such ratio fall below 50% and will disclose the status of the use of proceeds in its subsequent interim and annual reports.

FUTURE INTENTIONS OF CMI REGARDING THE GROUP

CMI is supportive to the Group's existing business plan of using both YGD Securities (HK) Limited and Yuan Asset Management Limited as its initial platforms in establishing its financial services and related businesses and in due course to develop the Group to become an integrated security house offering sales and trading, corporate finance, discretionary and non-discretionary asset management, securities margin financing, principal investment with a focus on financial services and extending loan finance to suitable business using the Group's license under the Money Lenders Ordinance of Hong Kong.

Following the Closing, CMI intends to undertake a comprehensive strategic review on the Group for the purpose of optimising the above business plans and determining what changes, if any, would be appropriate or desirable in order to optimise and rationalise the business activities, personnel and assets portfolio of the Group. Subject to the strategic review, it is possible that the Group may accelerate the formation of a comprehensive financial services platform by acquiring other established financial institutions both in Hong Kong and overseas covering internet finance, leasing, insurance, private banking and internet technologies and platforms. As at the Latest Practicable Date, CMI has not formulated definitive proposals, terms or timetable for any possible future acquisitions and no agreements for any possible future acquisitions have been entered into. Subject to the strategic review, it is also possible that changes would be made to the management and professional team of the Group. The Company will comply with all applicable requirements of the Listing Rules and/or the Takeovers Code when appropriate.

CMI has currently no intention to discontinue any of the existing business of the Group, namely trading of chemical materials, provision of consultancy services and provision of insurance agency services in the PRC and such businesses will be conducted in the manner in which they are presently conducted immediately following the Closing. Subject to the above strategic review, it is possible that changes be made to such existing businesses to facilitate the development of the Group's financial services and related business. CMI does not intend to redeploy the fixed assets of the Company and intends to continue the employment of the employees of the Group.

BUSINESS TREND AND FINANCIAL AND TRADING PROSPECTS OF THE GROUP

As disclosed in the 2015 interim report of the Company, the turnover of the Group during the first half of 2015 increased by 364.2% comparing to the same period in 2014 mainly due to the increased volume in trading of chemical materials. Due to intense competition in the chemical materials trading business, the gross profit margin of the Group decreased from 1.2%

for the first half of 2014 to 1.0% for the first half of 2015. As a result, the Group recorded a loss of approximately HKD12.2 million for the first half of 2015, comparing to a loss of approximately HKD18.4 million for the first half of 2014.

With respect to the prospects of the chemical materials trading business, due to the fierce competition in China, low profit margin in this business segment, and the Group's focus on developing the financial services segment, the Company considered to gradually reduce the chemical materials trading business. Although the Group's insurance agency business and consultancy business also face fierce competition in China, the Company will these two segments as they are but will review them on a regular basis.

As described in the section headed "Reasons for and benefits of the Acquisitions and the Share Subscription" above, the Group plans to expand into financial services sector and related businesses. In view of the possible launch of Shenzhen-Hong Kong Stock Connect in due course and the possible increase in number of companies listing in Hong Kong due to the recent frozen of the initial public offering market in PRC, it is considered the financial services sector and related business in Hong Kong has positive prospects.

As the Acquisitions have completed on 29 September 2015, in the event that the Share Subscription fails to proceed to Closing, the Company intends to continue the brokerage and asset management businesses operated under the Targets and will formulate its revised business plan in relation to the development of the financial services business based on the then market condition and available business opportunities.

FURTHER INFORMATION ON THE FINANCIAL SERVICES BUSINESS

Business model

The financial services business of the Group will initially cover the following principal segments:

Strategic Investment	**Principal Investment**	**Securities Brokerage**	**Money Lending**
• Participating in IPOs/ Placings which are expected to have strategic value • Investment in non-listed securities which are expected to have strategic value • Setting up joint ventures or other forms of investment vehicles	• Taking proprietary positions in trading of stocks on the secondary market • Participating in IPOs/ Placings with an aim of making investment return only • Investment in non-listed equity securities with an aim of making investment return only • Investment in government bonds and investment grade corporate bonds	• Securities brokerage service • Margin financing • Placing and underwriting	• Extending loan finance to suitable businesses

Other than the four initial segments, it is the intention other segments of financial services business such as corporate finance and asset management will be rolled out in due course to develop the Group into an integrated security house.

Strategic Investment

It is intended that the Group will engage in making strategic investments through (i) participating in IPOs and placings of listed securities; (ii) investment in non-listed securities; and (iii) setting up joint ventures or other forms of investment vehicles.

Strategic investments will involve medium to long term investments which, in addition to passive purchase of equity interests, are expected to bring strategic value (such as commercial cooperation) to the business of the Group or where the Group will be able to have influence over the target company with an aim of developing the financial services and related businesses of the Group.

The scope of the strategic investments within the first year from Closing of the Share Subscription is intended to include 3 to 10 established financial institutions both in Hong Kong and overseas covering internet finance, leasing, insurance, private banking and internet technologies and platforms. The expected investment size for each target company would be between HK$200 million to HK$800 million. It is the intention that the priority of such strategic investments will be allocated to Hong Kong listed companies and those well-established institutions regulated by relevant authorities. The role of the Group would involve being a cornerstone investor in IPO, a placee in placing, and a buyer or an offeror in acquisitions.

Further, CMI is currently exploring the feasibility of establishing a joint venture in the PRC by the Group and a competent strategic partner and develop the joint venture from scratch into a full-fledged security house. Pursuant to the relevant laws and regulations in PRC, a full-fledged security house will be subject to a minimum paid-in capital requirement of RMB500 million (equivalent to approximately HK$625 million) and the maximum shareholding percentage of foreign investor (such as the Group) is 49%. It is expected the initial investment by the Group into such joint venture will be approximately HK$500 million.

To maximise the investment return, the proceeds allocated for strategic investments, before committed or paid, will be invested in short term high liquidity assets as part of the principal investment.

Principal Investment

The Group is also intended to engage in making principal investments through (i) taking proprietary positions in trading of stocks on the secondary market; (ii) participating in IPOs and placings; (iii) investment in non-listed securities; and (iv) investment in debt securities such as government bonds and investment grade corporate bonds.

Principal investments will involve taking short to medium term proprietary trading positions in liquid and high quality securities with an aim of making investment returns or making passive investments as a financial investor. Typically there will be no business cooperation nor material influence over the target companies. It is the intention that the Group will become a primary platform in making principal investments in the financial and non-financial industries in Hong Kong and other countries and regions and taking proprietary positions in trading high quality stocks on the secondary market. In addition to equity principal investments, it is also the intention that the principal investment portfolio will include certain portion of debt securities such as government bonds and investment grade corporate bonds. CMI will provide the requisite expertise and network connection to the Group in undertaking principal investments. CMI will also refer principal investment opportunities to the Group.

Securities Brokerage Service

Following the completion of the Acquisitions, the Group, through the Targets, is licensed to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 9 (asset management) regulated activities under the SFO. It is proposed the securities brokerage business of the Group will be conducted through YGD Securities (HK) Limited, which has trading rights on the Stock Exchange and is a participant to the Central Clearing and Settlement System (CCASS) of the Stock Exchange.

The securities brokerage business will mainly involve (i) providing a trading system to enable customers to transact listed securities via the trading platform established by the Stock Exchange and in return receiving brokerage commission income; (ii) providing margin financing on a secured basis to such trading customers in return for interest income; and (iii) identifying buyers of listed securities by acting as underwriter or placing agent of the listed issuers or with other brokers, in return for underwriting or placing commission income.

Money Lending

The Group is currently holding a license under the Money Lending Ordinance of Hong Kong. It is the intention that the Group will also engage in money lending business as a complementary part of the margin finance business. The money lending business will mainly involve extending loan finance to suitable business on fixed or revolving terms.

Delineation of Business between the Group and CMI Capital

It is the intention that the following measures will be taken to achieve a clear delineation between the Group and CMI Capital in relation to potential competition in securing investment opportunities in strategic and principal investments:

1. On new investment opportunities, the Group's primary focus will be investing in companies engaged in financial service and related industries (the "**Group's Territory**"); and

2. In the event that CMI Capital identifies any strategic or principal investment opportunities that fall under the Group's Territory, CMI Capital will refer such investment opportunities to the Group and CMI Capital will only invest in such investment opportunities if the Group prefers not to take up such opportunities. Notwithstanding such referral arrangement is a measure to avoid competition between the Group and CMI Capital, to support the development of the Group's financial services business, CMI Capital may actively identify and refer investment opportunities under the Group's Territory during the development stage of the Group's financial services business and after the financial services business of the Group having matured, such support may gradually reduce.

In relation to the existing investment portfolio managed by CMI Capital, CMI Capital has no plan to sell any part of the portfolio to the Group. As at the Latest Practicable Date, CMI Capital's intention is to continue to hold such portfolio until the suitable time for their realisation. Also, it is not the plan for the Group to invest in companies in the existing investment portfolio managed by CMI Capital. Accordingly, it is expected that there will be no conflict of interests in this regard.

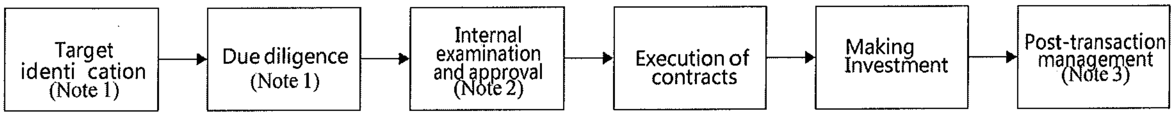
For the asset management business, CMI Capital is in its early stage of developing such business and has recently set up a joint venture real estate fund with Savills Investment Management in UK to conduct real estate asset management business. As the Group has no immediate intention to enter into real estate fund management business, it is expected that there will be no conflict of interests in this regard.

Internal Control

Upon Closing of the Share Subscription, the Group proposes to develop a risk management system that will be tailored to comprehensively, effectively and rigorously manage the risks in the Group's financial services business. Set out below are a summary of the proposed guidelines, policies and risk control measures in relation to each of the main business sectors of the Group.

Strategic and Principal Investments

It is proposed that the division of the Group engaging in the strategic and principal investments (the "**Investment Division**") will have an internal control procedure to manage the risks in this business and protect the Group's investment. As at the Latest Practicable Date, the Investment Division was at the preparation stage. It is proposed that with the assistance of the risk management committee, investment decision committee and internal audit committee of the Investment Division, the directors and management responsible for the Investment Division will take the lead in the internal control and risk management process. The senior management and the relevant legal and compliance department of the Investment Division will get involved in this process as well. The Group's risk management procedures will mainly consist of target due diligence reviews, multilevel assessment and approval processes, and post-transaction management. The chart below summarises the key steps that the Investment Division will use to assess and manage the various risks:



Notes:

1. The Investment Division will identify potential targets through their sales and marketing efforts and referrals from their customers or cooperating with banks and other institutions. The execution team of the Investment Division is responsible for communicating with the management of the target and conducting a detailed analysis of the relevant target to understand its background, industry information, proposed uses of funds, financing status, business scale, financial conditions, future plans and business prospects. Competent external legal advisers, financial advisers and auditors shall be appointed to advise on the legal, financial and accounting issues arising from the due diligence;

2. Depending on the nature, size and structure of the proposed investment, the senior management (including the legal and compliance department) and the investment decision committee will be involved in the internal examination and approval process and in the event that any investment constitutes a notifiable transaction under Chapter 14 of the Listing Rules, the Company will comply with the relevant notification, announcement and shareholder's approval process, as applicable. In event that any investment involves a complicated deal structure and/or constitutes a notifiable and/or connected transaction of the Company under the Listing Rules, the Board will also get involved in the internal approval process and will be the final decision maker for such investment;

3. To manage the post-transaction risks, the execution team of the Investment Division will monitor the target's financial condition through publicly available information, on-site investigations, reviewing the target's financial statements and discussions with the management of the target from time to time.

As at the Latest Practicable Date, the framework and key steps in relation to the foregoing internal control policies have been agreed in principle but the relevant details thereof are still being reviewed by CMI internally. It is expected that these internal control policies will be adopted by the Group immediately upon Closing of the Share Subscription.

Securities Brokerage and Money Lending

As SFC licensed entities, each of YGD Securities (HK) Limited and Yuan Asset Management Limited has established an internal control and risk management procedure in accordance with the relevant laws and regulations in Hong Kong. Upon Closing of the Share Subscription, as part of the ordinary course of the Group's securities brokerage service and money lending service, the division of the Group engaging in the securities brokerage and money lending business will be exposed primarily to (i) credit risk in respect to the Group's brokerage service and money lending service; (ii) operational risk relating to the Group's internal processes and staff; (iii) regulatory risks in respect of compliance with rules and regulations; and (iv) anti-money laundering risk in respect of illegal or improper use of the Group's operations. As part of the Group's initiatives to manage these risks, the Group proposes to establish and implement an operation manual which contains its credit policy, operating procedures and other internal control measures regulating such businesses.

Credit risk management

(a) to assess the credibility of the customers and identify the loan purpose. The assessment of customers' creditworthiness for granting trading limit and margin limit, will take into account factors such as customers' financial position, occupation and employment status, investment experience, cash and securities positions, payment records and default records (if any);

(b) to carry out the personal background check and request for bank credit reference letter (for personal loan);

(c) to review the financial statements of the customers (for corporate customers);

(d) to inspect the effectiveness and legality of the collateral;

(e) to enhance the capability of the officers in respect of assessment of the value of the collaterals; and

(f) to strictly comply with the operating and internal approval procedures for each transaction.

Operational risk management

The SFC licensed entities have account opening procedures in compliance with the Code of Conduct for Persons Licensed by or Registered with the SFC (the "Code of Conduct"). The Group will only take orders or instructions from customers who have completed account opening procedures including the signing of account opening forms and trading agreements. When signing the account opening form, the customer's signature is required to be witnessed by the Group's account executive. Account executives have to observe the Code of Practice and the Personal Data (Privacy) Ordinance when handling personal data of customers, such as collecting copies of identity card during account opening process.

Account executives responsible for handling customers' orders must be registered with the SFC as a Responsible Officer or Licensed Representative. The Group will formulate a policy for its recruitment, licensing and training for licensed staff to ensure that they are properly recruited, appointed, licensed and trained. The Group will only employ persons who are fit and proper and competent to perform the duties for which they are employed.

Regulatory risk management

The Group is subject to a number of different regulatory requirements, and the securities brokerage arm in particular is required to comply with the requirements under the Securities and Futures (Financial Resources) Rules (the "FRR"), including maintaining adequate capital and liquid capital at all times. The accounts department of the SFC licensed entities is responsible for the preparation of the financial returns according to the requirements under the FRR. In addition, the accounts department of the SFC licensed entities will closely monitor the daily reconciliation of customer trust bank account and the Company's bank account for funding and settlement purposes to ensure compliance with the Securities and Futures (Clients Money) Rules.

Anti-money laundering risk management

All the staff members of the Group are required to adhere to the requirements set out in the Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Ordinance and the SFC Guideline on Anti-Money Laundering and Counter Terrorist Financing and any update in relation thereto.

Integrated Internal Control System

Going forward, in additional to the internal control procedures set out above, the Group may adopt a consolidated and integrated internal control and risk management procedure applicable to its financial services business such that the financial services business of the Group can be further integrated. Such procedure will be designed in accordance with the relevant requirements set out in the applicable laws and regulations in Hong Kong and shall be approved by the relevant regulators in Hong Kong. In addition, an internal audit department will be set up by the Group to further strengthen and support the integrated internal control system.

Competitive Strengths

It is expected that, upon Closing of the Share Subscription, the Group will have the following competitive strengths in its financial services business:

The Group will have a strong shareholder base

Upon Closing of the Share Subscription, CMI will be the controlling shareholder of the Group. In addition, D. E. Shaw Composite, Mr. Xu, and Mr. Shi will be shareholders of the Group upon Closing of the Share Subscription. Details of the background and shareholder base of CMI and its ultimate parent China Minsheng Investment are set in section headed "INFORMATION ON CMI AND OTHER INVESTORS". The Group believes that such strong shareholder base will enhance its clients' confidence in the Group, broaden the Group's client base and provide the Group with more business opportunities.

The Group's diversified business platforms will operate synergistically and share the Group's business network and client base

Upon Closing of the Share Subscription, it is the intention to develop the Group into a comprehensive financial services platform covering diversified sectors. It is planned that the Group will leverage the support from CMI in areas such as industry expertise and project sourcing capacity, and the Group's existing experience in operation management and business network across China to facilitate the development of the core competitiveness of the Group. It is the strategy of the Group that such diversified business sectors will operate synergistically by sharing of business and organisational networks and sharing of client resources and business development. The Group believes such synergies could improve the Group's overall operating efficiency and competitiveness.

The Group's strong financial position upon Closing of the Share Subscription

Upon Closing of the Share Subscription it is expected that the financial position of the Group will be significantly strengthened by the proceeds of the Share Subscription. The Group believes that such strong financial position will be a competitive strength for the Group in implementing its proposed business strategies.

Risk Factors

Any inability to effectively mitigate credit risk may have a material adverse impact on the Group's business, financial condition and results of operations

Upon Closing of the Share Subscription, the sustainability of the Group's financial services business and future growth depends largely on the Group's ability to effectively manage its credit risk and maintain the quality of its receivables portfolio. As such, any deterioration in its receivable portfolio or impairment in the collectability of the receivables could materially and adversely affect the Group's results of operations. The quality of the Group's receivables portfolio may deteriorate for a variety of reasons, including factors beyond the Group's control, such as a slowdown in the economic growth of the PRC or global economies, a recurrence of a global credit crisis or other adverse macroeconomic trends which may cause operational, financial and liquidity problems for the Group's customers thereby affecting their ability to make timely loan repayments. If the level of the Group's impaired receivables increases, the Group's business, financial condition and results of operations may be materially and adversely affected.

The Group may be unable to successfully identify, invest in or acquire suitable investment projects or acquisition targets

Upon Closing of the Share Subscription, the Group expects part of its growth to be achieved through investments and acquisitions. However, the Group may be unable to identify suitable investment and acquisition opportunities, negotiate acceptable terms, or successfully invest in identified projects or acquire identified targets. Identifying appropriate investment projects and acquisition targets with good potential requires an assessment of a number of factors, many of which are inherently subjective, and as a result our estimates may prove to be inaccurate. The due diligence the Group conducts for an investment or acquisition opportunity may not comprehensively and fully capture the financial, business and other information of the target. The Group may be unable to adequately identify, evaluate or address the financial, legal and operational risks arising from our investments and acquisitions, which could expose it to unanticipated costs and liabilities. These types of risks could have an adverse effect on the Group's reputation, business prospects, results of operations and financial condition.

The Group's securities brokerage service may be adversely affected by the trading system failure and/or trading errors

In respect of the Group's brokerage services, the Group relies heavily on the Broker Supplied System (the **"BSS"**) to execute customers' instructions accurately and promptly, and, to process a large number of transactions simultaneously during peak periods. The Group's BSS is provided by a vendor recognised by the Stock Exchange. It may be vulnerable to a number of disruptions such as computer viruses and hacking. Such disruptions may cause data corruption and interruptions, delay or cessation in executing customers' trading instructions which could have a material adverse effect on our business operation. Any hacking into the Group's system may also jeopardise the security of confidential information (such as customer data or trading records) stored in the Group's computer systems and cause losses to the Group.

During the course of providing brokerage service, trading errors may occur such as errors made on taking customer's instruction (i.e. incorrect security name, quantity of the transaction or incorrect buy/sell order) or incorrect input of customer's instruction or customer's account number. The Group has to bear the losses resulting from trading errors made by its in-house account executives. In the event that the trading errors are not effectively prevented or controlled, or rectification measures could not cover the loss incurred, the financial results of the Group would be adversely affected.

The Group's business and prospects may be materially and adversely affected if its risk management and internal control systems ineffective or inadequate

The Group's business and prospects may be materially and adversely affected if its risk management and internal control systems is ineffective or inadequate. Any deficiencies in these systems and practices could adversely affect our ability to timely and accurately record, process, summarise and report financial and other data, as well as adversely affect efficiency and increase the potential likelihood of financial reporting errors and non-compliance with rules and regulations.

While the Group will, upon Closing of the Share Subscription, put in place internal control policies, there is no assurance that they will be properly implemented or are adequate and effective for the continuously changing business environment. In view of the continuous development of the market, the Group's business operation and financial results may be materially affected.

The Group's business and future success depend substantially on the strategies and visions of its key management personnel

Given that the competition for competent personnel is intense, the Group may not be able to attract or retain the services of the necessary key personnel for the Group's business in the future. Should the Group fail to recruit and retain these key personnel, the Group operation and profitability could be materially and adversely affected. In addition, under the licensing requirements of the SFO, the Group must at all times maintain at least two Responsible Officers for each regulated activity. In case any two of the Responsible Officers resign simultaneously, the Group will breach the relevant licensing requirements. This may result in suspension of the relevant SFC licences and effectively suspending the Group's business operation. In such event, the Group's business operation and financial results will be adversely affected.

The financial services business of the Group will be subject to the market volatility

Upon Closing of the Share Subscription, the Group will be transforming its main business to financial services. The performance of the Group's securities brokerage business will be subject to the market volatility, any decrease in the trading volume and/or prices of shares in the securities market could result in a reduction of the Group's commission income. Also, if the value of any collateral taken is insufficient to meet the settlement of any outstanding receivables from the Group's margin finance customers, the Group may result in suffering a loss from such lending if there was a default of the repayment of such loans. The Group's strategic and principal investment generally involves direct equity/debt investments in private/ listed companies with the Group's own capital. Even if a sound investment has been made by the Group, a drop in the overall securities market may result in a decline of the prices of the securities in which the Group has made an investment. Accordingly, any decrease in the overall securities market may result in a material adverse change to the performance and financial conditions of the Group.

If the Group cannot attract sufficient clients and maintain its client base, the Group's financial services business will be materially and adversely affected

The financial services market, in particular the securities brokerage business, is highly competitive. The Group will be required to attract new clients for its financial services business. Although CMI is planning to take proactive steps to refer new clients to the Group for its financial services business and the Group itself will take steps to develop its own client base, there is no guarantee that such initiatives will succeed. In addition, there is no guarantee that the new clients developed by the Group or referred to the Group will generate sufficient severance for the Group.

Recruitment Policy

Upon Closing of the Share Subscription, the Group will adopt a strict recruitment policy in respect of its financial services business and will recruit and promote individuals based on merit and their development potentials for the positions offered. The recruitment criteria for each position offered shall depend on the role and responsibilities associating with such position. In general, the recruitment process will consist of the following steps: (1) sourcing and identifying candidates; (2) screening; (3) assessments and testing; (4) interviewing; (5) background and reference checks; (6) making employment offers; and (7) executing employment contracts. As at the Latest Practicable Date, the recruitment process has commenced and a number of candidates for junior to middle level positions (including analyst, executive and vice president) have been identified and the negotiation with candidates for the senior management (including chief executive officer, chief financial officer, chief investment officer, head of legal and compliance and managing directors of business segments) of the financial service business are still in progress. It is planned that 8 senior management positions and 15 junior to middle positions will be recruited upon Closing of the Share Subscription. Subject to further comprehensive review of the senior management of the financial service business of the Group and the then market condition, it is planned that the team for financial service business will expand to around 40 members within one year from Closing of the Share Subscription.

FUND RAISING EXERCISE FOR THE PAST 12 MONTHS

Save as disclosed below, the Company did not undertake any fund raising exercise in the past 12 months immediately prior to the Latest Practicable Date.

Date of Announcement	Event	Net proceeds (approximately)	Intended use of proceeds	Actual use of proceeds as at the Latest Practicable Date
29 April 2015	Placing of new Shares and subscription of new Shares	HK$48.5 million	Acquisition of 10% equity interests in a company principally engaged in the real estate business in the PRC and the remaining balance applied to develop a solar power business	Approximately HK$28 million was used for acquiring the Targets. The remaining proceeds are deposited in bank
28 July 2014	Top-up placing of 110,000,000 Shares	HK$18.1 million	For general working capital of the Group	It was all used as general working capital of the Group

CHANGE IN SHAREHOLDING STRUCTURE

As at the Latest Practicable Date, the Company has 2,523,451,250 Shares in issue, other than the 1,428,000 outstanding share options granted under the share option scheme of the Company approved on 28 May 2004 and 87,840,000 outstanding share options granted under the share option scheme of the Company approved on 9 December 2013, the Company does not have any other outstanding convertible securities, options warrants or other derivatives in issue which are convertible or exchangeable into Shares.

The shareholding structure of the Company as at the Latest Practicable Date and after the Closing of the Share Subscription, assuming that there is no change in the issued share capital of the Company other than the issue of the Subscription Shares, are as follows:

	Existing number of issued Shares	Existing shareholding (%)	Number of new Subscription Shares	As a percentage of existing issued number of Shares	Enlarged issued number of Shares upon Closing	As a percentage of enlarged issued number of Shares
Existing Shareholders						
Mr. Ni Xinguang (Note 1)	462,072,000	18.31%	—	0.00%	462,072,000	1.60%
Ms. Ye Zhu Ying (Note 2)	231,497,650	9.17%	—	0.00%	231,497,650	0.80%
Other public Shareholders (Note 2)	1,829,881,600	72.52%	—	0.00%	1,829,881,600	6.35%
Subtotal — existing Shareholders	2,523,451,250	100.00%	—	0.00%	2,523,451,250	8.75%
Subscribers						
The Concert Group						
— CMI	—	0.00%	20,418,000,000	809.13%	20,418,000,000	70.80%
— Union Sky	—	0.00%	1,390,000,000	55.08%	1,390,000,000	4.82%
Subtotal — the Concert Group	—	0.00%	21,808,000,000	864.21%	21,808,000,000	75.62%
Other subscribers						
— D. E. Shaw Composite	—	0.00%	1,720,000,000	68.16%	1,720,000,000	5.96%
— WIC LP	—	0.00%	1,788,000,000	70.86%	1,788,000,000	6.20%
— Mr. Xu	—	0.00%	1,000,000,000	39.63%	1,000,000,000	3.47%
Subtotal — other subscribers	—	0.00%	4,508,000,000	178.65%	4,508,000,000	15.63%
Total	2,523,451,250	100.00%	26,316,000,000	1,042.86%	28,839,451,250	100.00%

Note:

1. Mr. Ni Xinguang has personal interest of 46,068,000 Shares and owns 416,004,000 Shares through Group First Limited, his wholly owned company.

2. Ms. Ye Zhu Ying and other public Shareholders are Independent Shareholders.

(D) THE WHITEWASH WAIVER

Immediately after Closing, the Concert Group will be interested in approximately 75.62% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares (assuming that there is no change in the issued share capital of the Company other than the issue of the Subscription Shares). Under Rule 26.1 of the Takeovers Code, the Concert Group would be obliged to make a mandatory general offer to the Shareholders for all the issued Shares and other securities of the Company not already owned or agreed to be acquired by it unless the Whitewash Waiver is obtained from the Executive.

In this regard, CMI has made an application to the Executive for the Whitewash Waiver in respect of the allotment and issue of the Subscription Shares. The Whitewash Waiver, if granted by the Executive, will be subject to, among other things, approval by the Independent Shareholders at the EGM by way of a poll.

As at the Latest Practicable Date, the Concert Group has not received any irrevocable commitment from any Shareholder to vote for or against the resolutions concerning the Share Subscription and/or the Whitewash Waiver to be proposed at the EGM.

The Whitewash Waiver is a condition precedent to the closing of the Subscription Agreement which can be waived at the discretion of CMI (for itself or on behalf of all Other Investors) and in the event that CMI waives such condition precedent and elect to proceed with the transactions contemplated under the Subscription Agreement, CMI will comply with all the relevant requirements under the Takeovers Code, including but not limited to, the making of a general offer under Rule 26.1 of the Takeovers Code.

If the Whitewash Waiver is approved by the Independent Shareholders and the Share Subscription proceeds to completion, the shareholding of the Concert Group in the Company will exceed 50% upon the allotment and issue of the Subscription Shares. CMI may further increase its shareholding in the Company without incurring any further obligations under Rule 26 of the Takeovers Code to make a general offer.

(E) PROPOSED CHANGE OF COMPANY NAME

Reference is made to the announcement of the Company on 23 October 2015, the Board proposed to change the Company's English name from "China Seven Star Holdings Limited" to "China Minsheng Financial Holding Corporation Limited" and the Company's Chinese name from "中國七星控股有限公司" to "中國民生金融控股有限公司".

Reasons for the Proposed Change of Company Name

Immediately after Closing, the Company will become a subsidiary of China Minsheng Investment. The Proposed Change of Company Name is to reflect the change in ownership of the majority of the Shares of the Company.

Conditions for the Proposed Change of Company Name

The Proposed Change of Company Name is subject to (i) the Subscription Agreement becoming unconditional (ii) the passing of a special resolution by the Shareholders approving the Proposed Change of Company Name at the EGM; and (iii) the Registrar of Companies of Hong Kong approving the new name in both English and Chinese and issuing a certificate of change of name.

Subject to the satisfaction of the above conditions, the Proposed Change of Company Name will take effect from the date on which the certificate of change of name is issued by the Registrar of Companies of Hong Kong.

Effect of the Proposed Change of Company Name

The Proposed Change of Company Name will not affect any rights of the Shareholders or the Company's daily business operation and its financial position.

All existing share certificates of the Company in issue bearing the Company's existing name (in English and Chinese) shall, after the Proposed Change of Company Name, continue to be evidence of legal title to the shares of the Company and valid for trading, settlement, registration and delivery purposes. There will not be any arrangement for exchange of the existing share certificates for new share certificates bearing the new name of the Company. Once the Proposed Change of Company Name becomes effective, any issue of new share certificates of the Company will bear the new name of the Company (in English and Chinese).

(F) EGM

The EGM will be held at the Boardroom, Basement 2, the Wharney Guang Dong Hotel Hong Kong, 57–73 Lockhart Road, Wanchai, Hong Kong on Wednesday, 18 November 2015 at 10:30 a.m. (or any adjournment thereof) to consider and, if though fit, pass (i) ordinary resolutions to approve (a) the Subscription Agreement and the transactions contemplated thereunder; (b) the granting of the Specific Mandate; and (c) the Whitewash Waiver and (ii) the special resolution to approve the Proposed Change of Company Name.

Group First Limited (which is wholly owned by Mr. Ni Xinguang, an executive Director, who was involved in the negotiation of the Share Subscription for and on behalf of the Company) and Mr. Ni Xinguang together holding approximately 18.31% of the issued share capital of the Company as at the Latest Practicable Date will abstain from voting on the relevant ordinary resolutions to be proposed at the EGM to approve the Share Subscription and the Whitewash Waiver. Save as disclosed above, no other Shareholder is required to abstain from voting at the EGM in respect of the resolutions relating to the Share Subscription and the Whitewash Waiver.

The Concert Group did not hold any Shares as at the Latest Practicable Date and, accordingly, will not be entitled to vote on any of the resolutions at the EGM.

As no Shareholder had a material interest in the Proposed Change of Company Name, no Shareholder is required to abstain from voting on the special resolution approving the Proposed Change of Company Name at the EGM.

A form of proxy for use at the EGM is enclosed with this circular. Whether or not you propose to attend the EGM, you are requested to complete the accompanying form of proxy and return it to the Company's branch share registrar and transfer office in Hong Kong, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting at the EGM or any adjourned meeting if you so desire.

The resolutions proposed to be approved at the EGM will be taken by poll and an announcement will be made by the Company following the conclusion of the EGM to inform you of its results.

(G) RECOMMENDATIONS

The Independent Board Committee comprising all the non-executive Directors, namely Mr. Tu Baogui, Mr. Lyu Wei, Mr. Wong Chak Keung and Mr. Ling Yu Zhang has been established to advise the Independent Shareholders in relation to the Share Subscription and the Whitewash Waiver. V Baron has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Share Subscription and the Whitewash Waiver and the appointment of the Independent Financial Adviser has been approved by the Independent Board Committee in accordance with Rule 2.1 of the Takeovers Code. None of the members of the Independent Board Committee has any material interest in or is involved or interested in the Share Subscription and the Whitewash Waiver.

Your attention is drawn to the letter from the Independent Board Committee set out on pages 42 to 43 of this circular which contains its recommendation to the Independent Shareholders in respect of the Share Subscription and the Whitewash Waiver based on the advice from the Independent Financial Adviser set out on pages 44 to 68 of this circular which contains their recommendations to the Independent Board Committee and the Independent Shareholders and the principal factors and reasons taken into consideration.

The Board considers the Proposed Change of Company Name is in the interests of the Company and the Shareholders as a whole and recommends the Shareholders to vote in favour of the resolutions in relation to the Proposed Change of Company Name at the EGM.

The Board (other than the Independent Board Committee whose opinion is set out in the letter from the Independent Board Committee) believes that the terms of the Subscription Agreement and the Whitewash Waiver are fair and reasonable and in the interests of the Company and the Shareholders as a whole and recommends the Independent Shareholders to vote in favor of the resolutions to be proposed at the EGM to approve the Subscription Agreement, the Whitewash Waiver and the respective transactions contemplated thereunder, including the allotment and issue of the Subscription Shares under a specific mandate.

(H) ADDITIONAL INFORMATION

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

Yours faithfully,
For and on behalf of the Board of
China Sever Star Holdings Limited

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Ni Xinguang
Chairman and Executive Director