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26 October 2015

To: The independent board committee and the independent shareholders of China Seven Star Holdings Limited

Dear Sirs,

(1) STRATEGIC SUBSCRIPTION OF NEW SHARES; (2) APPLICATION FOR WHITEWASH WAIVER; AND (3) SPECIFIC MANDATE FOR THE ISSUE OF NEW SHARES

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Share Subscription and the Whitewash Waiver, details of which are set out in the letter from the Board (the "**Letter from the Board**") contained in the circular dated 26 October 2015 issued by the Company to the Shareholders (the "**Circular**"), of which this letter of advice forms part. Terms used in this letter of advice shall have the same meanings as ascribed to them under the section headed "Definitions" in this Circular unless the context requires otherwise.

The Share Subscription

The Company announced on 27 August 2015 that, amongst others, the Company entered into the Subscription Agreement with CMI and the Other Investors (by way of the Deeds of Accession), pursuant to which CMI and the 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 (the "**Subscription Price**") in an aggregate amount of HK$5,000,040,000. The issue of the Subscription Shares will be subject to a specific mandate to be approved by the Independent Shareholders by an ordinary resolution at the EGM.

The Whitewash Waiver

As at the date of the Subscription Agreement, the Concert Group did not own or have control or direction over any Shares. Immediately after the 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). Accordingly, 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 granted by 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, amongst others, approval by the Independent Shareholders at the EGM by way of poll. The Whitewash Waiver is a condition precedent to the completion of the Subscription Agreement.

The Independent Board Committee comprising the non-executive Director, Mr. Tu Baogui, and all the independent non-executive Directors, namely Mr. Lyu Wei, Mr. Wong Chak Keung and Mr. Ling Yu Zhang, has been established to advise the Independent Shareholders on (i) whether the terms of Subscription Agreement are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the Share Subscription is in the interests of the Company and the Shareholders as a whole; (iii) whether the Whitewash Waiver is fair and reasonable so far as the Independent Shareholders are concerned and is in the interests of the Company and the Shareholders as a whole; and (iv) how the Independent Shareholders should vote in respect of the resolutions to approve the Share Subscription and the Whitewash Waiver at the EGM. We, V Baron Global Financial Services Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect and such appointment was approved by the Independent Board Committee.

As at the Latest Practicable Date, apart from the existing engagement in connection with the Share Subscription and the Whitewash Waiver, we did not have any business relationship with the Company within the past two years. Save for the normal fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, CMI, the Other Investors or any party acting in concert with any of them. We consider ourselves independent to form our opinion in respect of the Share Subscription and the Whitewash Waiver.

BASIS OF OUR OPINION

In formulating our opinion with regard to the Share Subscription and the Whitewash Waiver, we have relied on the information and facts supplied, opinions expressed and representations made to us by the management of the Group (including but not limited to those contained or referred to in the Announcement and this Circular). We have assumed that the information and facts supplied, opinions expressed and representations made to us by the management of the Group were true, accurate and complete at the time they were made and continue to be true, accurate and complete in all material aspects until the date of this Circular. We have also assumed that all statements of belief, opinions, expectation and intention made by the management of the Company in this Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in this Circular, or the reasonableness of the opinions expressed by the Company, its management and/or advisers, which have been provided to us.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in this Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, that the information contained in this Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in this Circular or this Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of this Circular, save and except for this letter of advice.

This Circular includes particulars given in compliance with the Takeovers Code for the purpose of giving information with regard to the Group. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this Circular (other than those relating to CMI, the Other Investors and parties acting in concert with any of them) and confirm, having made all reasonable enquires, that to the best of their knowledge, opinions expressed in this Circular (other than those expressed by CMI, the Other Investors and parties acting in concert with any of them) have been arrived at after due and careful consideration and there are no other facts not contained in this Circular, the omission of which would make any statement in this Circular misleading.

The sole director of CMI, namely Mr. Liu Tianlin, accepts full responsibility for the accuracy of the information contained in this Circular relating to CMI and confirms, having made all reasonable enquiries, that to the best of his knowledge, opinions expressed in this Circular (other than those expressed by the Group and the Other Investors) have been arrived at after due and careful consideration and there are no other facts not contained in this Circular, the omissions of which would make any statement in this Circular misleading.

D. E. Shaw Composite does not have any director. The managing director and CEO for Greater China of D. E. Shaw Composite, namely Mr. Donald Tang, accepts full responsibility for the accuracy of the information contained in this Circular relating to D. E. Shaw Composite and D. E. Shaw Group and confirms, having made all reasonable enquiries, that to the best of his knowledge, opinions expressed in this Circular (other than those expressed by the Group, CMI and the rest of the Other Investors) have been arrived at after due and careful consideration and there are no other facts not contained in this Circular, the omissions of which would make any statement in this Circular misleading.

The sole director of Union Sky, namely Mr. Shi Yuzhu, accepts full responsibility for the accuracy of the information contained in this Circular relating to Union Sky and confirms, having made all reasonable enquiries, that to the best of his knowledge, opinions expressed in this Circular (other than those expressed by the Group, CMI and the rest of the Other Investors) have been arrived at after due and careful consideration and there are no other facts not contained in this Circular, the omissions of which would make any statement in this Circular misleading.

Mr. Xu, being the sole general partner of WIC LP, accepts full responsibility for the accuracy of the information contained in this Circular relating to WIC LP and himself and confirms, having made all reasonable enquiries, that to the best of his knowledge, opinions expressed in this Circular (other than those expressed by the Group, CMI and the rest of the

Other Investors) have been arrived at after due and careful consideration and there are no other facts not contained in this Circular, the omissions of which would make any statement in this Circular misleading.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs or future prospects of the Group, CMI and the Other Investors, or their respective shareholders, subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Share Subscription and the Whitewash Waiver. Our opinion is necessarily based on the market, financial, economic and other conditions in effect and the information made available to us as at the Latest Practicable Date. However, should there be any material changes to our opinion after the Latest Practicable Date, Shareholders would be notified as soon as practicable. Nothing contained in this letter of advice should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Where information in this letter of advice has been extracted from published or otherwise publicly available sources, we have ensured that such information has been correctly and fairly extracted, reproduced or presented from the relevant sources while we are not obligated to conduct any independent in-depth investigation into the accuracy and completeness of such information.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Share Subscription and the Whitewash Waiver, we have taken into consideration the following principal factors and reasons:

(I) THE SHARE SUBSCRIPTION

1. Background of and reasons for the Share Subscription

Business and financial overview of the Group

The Company is engaged in trading of chemical materials, provision of consultancy services and provision of insurance agency services in the PRC.

Before 2015, the Company had invested into various businesses such as the advertising agency business, sales of kitchenware products and chemical materials business. According to the Directors, the Group ceased its advertising agency business in the second half of 2013 upon expiry of the exclusive agency rights relating to such business on 31 December 2012 due to the keen competition for selling of advertising air time. The Group also ceased its sales and distribution business (i.e. the sales of kitchenware products) in 2014 as a result of the deteriorating market condition since the end of 2013 to reduce operational costs and investment losses.

Set out below are the consolidated financial results of the Group for the six months ended 30 June 2015 & 2014 and the three years ended 31 December 2014, 2013 & 2012 as extracted from the Company's interim report for the six months ended 30 June 2015 (the "**2015 Interim Report**") and its annual report for the year ended 31 December 2014 (the "**2014 Annual Report**"):

	For the six months ended 30 June 2015	**For the six months ended 30 June 2014**	**For the year ended 31 December 2014**	**For the year ended 31 December 2013**	**For the year ended 31 December 2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(unaudited)	(unaudited)	(audited)	(audited)	(audited)
Turnover	139,036	29,954	68,086	112,220	616,877
(Loss)/Profit for the period/year	(12,225)	(18,759)	(41,123)	(21,261)	17,265

As depicted by the above table, the Group's financial performance has been deteriorating over the past few years. As mentioned earlier, the Group ceased its advertising agency business in the second half of 2013 upon expiry of the exclusive agency rights. According to the 2014 Annual Report, there were keen competition from low pricing internet sales platforms coupled by keen competition of selling of advertising air time from the second half of 2013 and the Group was unable to compete with other suppliers after losing the exclusive agency rights. For the year ended 31 December 2013, the Group's total audited turnover decreased substantially by more than 80% from approximately HK$616.9 million to approximately HK$112.2 million. During the same said year, the Group also started to become loss making.

In 2014, the Group ceased its sales and distribution business (i.e. the sales of kitchenware products). According to the 2014 Annual Report, sales of kitchenware products to telemarketing operators decreased, which in turn affected the profitability of such kitchenware products. The adverse market situation has continued after the end of 2013 due to keen competition from low pricing internet sales platforms. The Group encountered difficulty in selling kitchenware products during the first half of 2014. As a result, the Group decided to cease such business to reduce operating costs and investment losses.

Following the cessation of the advertising agency business and the sales and distribution business, the Company is only engaged in the trading of chemical materials, provision of consultancy services and provision of insurance agency services businesses. For the year ended 31 December 2014, the Group recorded no consultancy service income and its revenue was mainly generated from the trading of chemical materials business. The Group's total audited turnover further decreased to approximately HK$68.1 million and its loss making situation had also worsened during the same year under review.

For the six months ended 30 June 2015, while the performance of the provision of consultancy services and the provision of insurance agency services businesses remained stagnant, the trading of chemical materials business of the Group had been improving, leading to a significant increase in the Group's total unaudited turnover. Nevertheless, the gross profit margin of such business was as low as around 1%, and the Group had continued to be loss making in the first half of 2015 since its minimal gross profit was unable to cover the increasing administrative expenses.

In view of the historical deteriorating financial performance of the Group as well as the low profit margin of the Group's existing core revenue-generating trading of chemical materials business as illustrated above, we concur with the Directors that the Group is in need to identify new suitable opportunities to diversify its business into other profitable areas.

The Group's future development plan

As advised by the Directors, the Company has been actively exploring new investments and business opportunities and they have 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.

As further advised by the Directors, they have also been reviewing the market conditions of the financial services sector and related businesses and are of the view that such sector and businesses are expected to have 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 sector and businesses as a core business segment of the Group.

Given the Company's plan to expand into the financial services sector and related businesses, the Group has entered into the YGD Agreement and the Yuan Agreement. Pursuant to 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 securities brokerage and dealing, and it is also the holder of Type 1 license issued by the SFC under the SFO. Whereas pursuant to 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 asset management and research, and it is also the holder of Type 4 and 9 licenses issued by the SFC under the SFO. For further information on YGD Securities (HK) Limited and Yuan Asset Management Limited (including their respective financial information), please refer to the section headed "The Acquisitions" of the Letter from the Board. The Acquisitions were completed on 29 September 2015.

We understand from the Directors that 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. A detailed discussion on the future financial services and related businesses of the Group, including its business model and internal control system, is set out under the sub-section headed "Further information on the financial services business" of the Letter from the Board.

Moreover, in an effort to further implement the aforesaid 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.

Information on CMI and China Minsheng Investment

Set out below is the information on CMI and China Minsheng Investment as extracted from the Letter from the Board:

CMI is an indirect wholly-owned subsidiary of China Minsheng Investment. As at the Latest Practicable Date, CMI had assigned its rights, benefits and obligations under the Subscription Agreement to its fellow subsidiary, CMI Hong Kong which is also indirect 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 the PRC. 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 etc.

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.

Shareholders may also refer to the sub-section headed "Information on CMI and Other Investors" of the Letter from the Board for information on the Other Investors.

Future intentions of CMI regarding the Group

Set out below are the future intentions of CMI regarding the Group as extracted from the Letter from the Board:

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 had 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.

CMI has currently no intention to discontinue any of the existing businesses 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.

Delineation of business between the Group and CMI Capital

As extracted from the Letter from the Board, in relation to potential competition in securing investment opportunities in strategic and principal investments, it is the intention that the following measures will be taken to achieve a clear delineation of business between the Group and CMI Capital:

(a) 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

(b) 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 was 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 the United Kingdom to conduct real estate asset management business. As the Group has no immediate intention to enter into the real estate fund management business, it is expected that there will be no conflict of interests in this regard.

We are of the opinion that the above measures and arrangement would provide a delineation of business between the Group and CMI Capital and thus reduce the potential competition in securing investment opportunities in strategic and principal investments.

Outlook of the financial services market in Hong Kong

With reference to the HKEx Fact Book — 2014 published by the Stock Exchange in March 2015, the Stock Exchange markets continued to show signs of growth in multiple dimensions amid buoyant primary market activities. The total market capitalisation of the securities market (including the Main Board and the Growth Enterprise Market of the Stock Exchange ("**GEM**")) at the end of 2014 was approximately HK$25,071.8 billion, being approximately 4% higher than at the end of 2013. The year's highest and lowest single-day turnover in the securities market were approximately HK$148.3 billion and HK$39.7 billion respectively (as compared to the highest of HK$128.4 billion and lowest of HK$38.6 billion in 2013). The total securities market turnover in 2014 was approximately HK$17,155.7 billion, up by approximately 12% as compared to the prior year. The average daily turnover for the overall market in 2014 recorded a year-on-year increase of approximately 11% to approximately HK$69.5 billion. There were a record high of 122 newly listed companies on the Main Board and GEM in 2014, with total equity funds raised reaching a record level of approximately HK$942.7 billion, of which the funds raised through initial public offering ("**IPO**") increased year-on-year by approximately 38% to approximately HK$232.5 billion. The amount of post-IPO funds raised was another new record, which increased significantly by approximately 238% to approximately HK$710.2 billion as compared to the prior year.

With reference to HKEx Monthly Market Highlights — July 2015 as disclosed on the Stock Exchange's website, the average daily turnover for the securities market in the first seven months of 2015 was approximately HK$125,449 million, up by approximately 98% as compared to the corresponding period last year. Funds raised through IPO in the first seven months of 2015 was approximately HK$143,748 million, representing an increase of approximately 36% as compared to the corresponding period last year. Total funds raised in the first seven months of 2015 was approximately HK$786,146 million, representing an increase of approximately 200% as compared to the corresponding period last year.

On 17 November 2014, Shanghai-Hong Kong Stock Connect was launched to provide mutual trading access between the Shanghai and Hong Kong stock markets. The Shanghai Stock Exchange and the Stock Exchange enable investors to trade eligible shares listed on each other's market subject to daily and aggregate quotas. As at 30 June 2015, there were 569 eligible stocks for northbound trading and 286 eligible stocks for southbound trading.

In addition, the China Securities Regulatory Commission ("**CSRC**") and SFC jointly announced on 22 May 2015 that to deepen Mainland-Hong Kong financial cooperation and promote the joint development of the Mainland and Hong Kong capital markets, the CSRC and SFC have decided to embark the Mainland-Hong Kong Mutual Recognition of Funds ("**MRF**") initiative. On even date, the CSRC and SFC signed a memorandum of regulatory cooperation in respect of the MRF.

Through the MRF, the CSRC and SFC will allow Mainland and Hong Kong funds that meet the eligibility requirements to follow streamlined procedures to obtain authorisation or approval for offering to retail investors in each other's market.

As extracted from the relevant announcement, the MRF is considered to be an important element in the opening up of the Mainland's capital market. It is also an important milestone in the mutual opening of the Mainland and Hong Kong markets. The MRF will enhance mutual capital market access between the Mainland and Hong Kong, and is significant in various ways, including:

(a) The MRF will deepen the exchange and cooperation of the Mainland and Hong Kong asset management industries, broaden cross-border investment channels, and enhance the competitiveness of the Mainland and Hong Kong fund markets.

(b) The MRF will lay the foundation of the CSRC and the SFC to jointly develop a fund regulatory standard, promote the integration and development of the Asian asset management industry, and encourage the transformation of Asian savings into cross border investments.

(c) The MRF will provide more diverse fund investment products to the Mainland and Hong Kong investors, and expand the business opportunities and enhance the international competitiveness of the Mainland and Hong Kong management firms.

Under the MRF, the CSRC and SFC will establish equivalent eligibility requirements for recognising Mainland and Hong Kong funds, to promote the mutually beneficial development of recognised funds and broadly balanced cross-border in and out fund flows. The initial investment quota for the MRF is RMB300 billion for in and out fund flows each way and the MRF has been implemented on 1 July 2015.

We are of the view that the favourable statistics and intensifying cooperation between the Stock Exchange/SFC and CSRC as demonstrated above may suggest the potential prospects of the financial services sector in Hong Kong.

Other financing alternatives available to the Group

Upon our enquiry, the Directors advised us that the Company has considered other fund raising methods, such as debt financing and equity financing like rights issue or open offer, 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.

Taking into account the persistent loss making history of the Group, the Group may not be able to obtain bank borrowings up to the substantial amount as proposed under the Share Subscription if without any asset pledge and/or incurring relatively high interest rate. We noted that as at 30 June 2015, the Group had unaudited fixed assets of approximately HK$847,000, which would likely to be insufficient as pledges for bank borrowings of substantial amount. On the other hand, we also concur with the Directors that bank borrowings would increase the financial costs of the Group and thus create adverse effect on the Group's financial performance, especially under its current loss making situation.

Based on the foregoing factors, we concur with the Directors that besides the Share Subscription, there is no other fund raising method currently available to the Group with comparable fund raising size and would allow the Group to bring in strategic investors as Shareholders to revive its existing deteriorating financial performance.

Reasons for the Share Subscription and intended use of proceeds

As referred to in the Letter from the Board, 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 explore businesses and investment opportunities upon completion of the Acquisitions on 29 September 2015 and the 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 gross proceeds from the Share Subscription would amount to HK$5,000,040,000. As broadly disclosed under the sub-section headed "Use of proceeds" of the Letter from the Board, the Company intends to apply the net proceeds from the Share Subscription of approximately HK$4,995,300,000 in the short to medium run in accordance with the Group's strategies to develop and expand its future business, namely in the financial services sector and related businesses. We concur with the Directors that the substantial amount to be raised from the Share Subscription could allow the Company to meet the tentative funding needs for development of the financial services sector and related businesses in various areas such as securities broking, loan finance, asset management etc., and facilitate the Company to formulate a more comprehensive plan for expansion into these new business areas.

Having taken into account (i) the loss making history of the Group and that its existing core revenue-generating trading of chemical materials business has a rather low profit margin; (ii) the Company's plan to expand into the financial services sector and related businesses and the future business model of the Group as comprehensively presented in the Letter from the Board; (iii) the potential prospects of the financial services sector as demonstrated under the sub-section headed "Outlook of the financial services sector in Hong Kong" of this letter of advice; (iv) the background of CMI and the Other Investors, as well as their support to the Company's plan to expand into the financial services sector and related businesses; (v) the possible synergy effects on the Group after the introduction of CMI and the Other Investors as its strategic investors as represented by the Directors and the measures to be taken to achieve a clear delineation of business between the Group and CMI Capital; (vi) the Share Subscription being an appropriate fund raising alternative currently available to the Group; (vii) the proposed use of proceeds from the Share Subscription in the short to medium run to fulfill the Group's business strategies to expand into the financial services sector and related businesses which require abundant funding; and (viii) the possible accretion in the net asset value of the Group upon completion of the Share Subscription (please also refer to the section headed "Possible financial effects of the Share Subscription" of this letter of advice), we concur with the Directors that the Share Subscription and the intended use of proceeds are in the interests of the Company and the Shareholders as a whole.

2. Principal terms of the Subscription Agreement

The following is a summary of the major terms of the Subscription Agreement:

Date: 18 June 2015

Issuer: The Company

Subscribers: CMI and the Other Investors

Subscription Shares: A total of 26,316,000,000 Subscription Shares to be allocated in the below manner:

Name	Number of Subscription Shares	% 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)
CMI	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

Subscription Price: HK$0.19 per Subscription Share.

The Subscription Price represents:

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

(ii) 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;

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

(iv) 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;

(v) approximately 111.76 times the audited consolidated net asset value per Share (being the audited consolidated net assets of the Group as at 31 December 2014 divided by the total number of issued Shares as at 31 December 2014) of approximately HK$0.0017 as at 31 December 2014; and

(vi) approximately 10.44 times the unaudited consolidated net asset value per Share (being the unaudited consolidated net assets of the Group as at 30 June 2015 divided by the total number of issued Shares as at 30 June 2015) of approximately HK$0.0182 as at 30 June 2015.

To assess the fairness and reasonableness of the Subscription Price, we have taken into consideration the following factors:

The Group's future development plan

As confirmed by the Directors, the Company has decided to expand into the financial services sector and related businesses, and currently plans to focus on such sector and businesses as a core business segment of the Group.

As further confirmed by the Directors, upon completion of the Acquisitions on 29 September 2015, 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. A detailed discussion on the future financial services and related businesses of the Group, including its business model and internal control system, is set out under the sub-section headed "Further information on the financial services business" of the Letter from the Board.

Moreover, in an effort to further implement the aforesaid 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.

With the potential prospects of the financial services sector in Hong Kong as demonstrated under the sub-section headed "Outlook of the financial services sector in Hong Kong" of this letter of advice, we are of the view that the operating environment of the Group in the financial services sector is likely to be generally positive.

Strengths of CMI as strategic investor

As extracted from the Letter from the Board and reproduced under the sub-section headed "Information on CMI and China Minsheng Investment" of this letter of advice, 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 the PRC. 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. Moreover, with a registered capital of RMB50 billion, China Minsheng Investment 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.

We were advised by the Directors that the recognisable brand name, extensive network, industry expertise and management experience of CMI and China Minsheng Investment would likely to contribute to the future business development of the Group in the financial services sector.

Furthermore, as concluded under the sub-section headed "Delineation of business between the Group and CMI Capital" of this letter of advice, we are of the opinion that those measures and arrangement to be taken would provide a delineation of business between the Group and CMI Capital and thus reduce the potential competition in securing investment opportunities in strategic and principal investments.

Non-disposal undertaking given by CMI and the Other Investors

We noticed from the Letter from the Board that, each of CMI and the Other Investors has undertaken to the Company that for a period of six 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.

We are of the view that the aforesaid non-disposal undertaking would be beneficial to the Group.

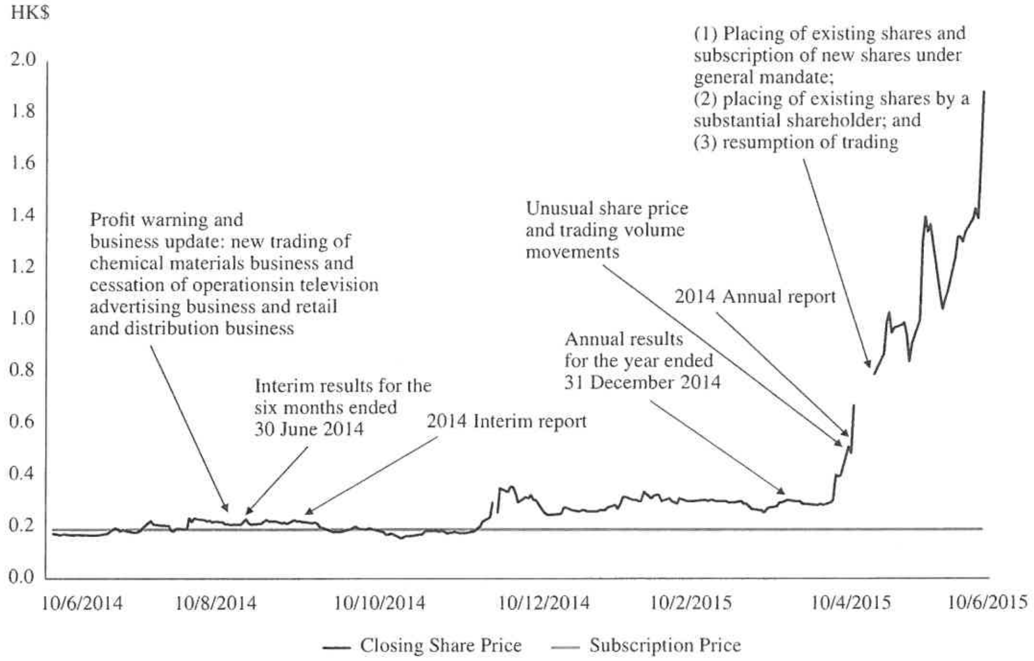
The huge fund raising size of the Share Subscription

The net proceeds from the Share Subscription is estimated to be of approximately HK$4,995,300,000. The Company intends to apply such substantial amount of net proceeds in accordance with the Group's strategies to develop and expand its future business. Given the huge fund raising size of the Share Subscription, as concluded under the sub-section headed "Other financing alternatives available to the Group" of this letter of advice, besides the Share Subscription, there is no other financing alternative currently available to the Group with comparable fund raising size and would allow the Group to bring in strategic investors as Shareholders to revive its existing deteriorating financial performance. On the other hand, we also concur with the Directors that the substantial amount to be raised from the Share Subscription could allow the Company to meet the tentative funding needs for development of the financial services sector and related businesses in various areas such as securities broking, loan finance, asset management etc., and facilitate the Company to formulate a more comprehensive plan for expansion into these new business areas.

The historical Share price movement

- During the Review Period

Set out below is a chart reflecting movements in the closing price of the Shares from 13 June 2014 up to and including the Last Trading Day (the "**Review Period**"), being an one-year period which represents a sufficient period of time to provide a general overview on the historical price performance of the Shares:



Source: https://hk.finance.yahoo.com

Note: Trading in the Shares was halted on 3 December 2014 and from 23 April 2015 to 29 April 2015 (both dates inclusive).

From the above chart, we noted that the closing prices of the Shares were nearly all the time equal or less than HK$0.30 per Share from 13 June 2014 to 14 April 2015, representing more than 75% of the total number of trading days during the entire Review Period. On 15 April 2015, there was a sudden surge in the market price of the Shares from the previous close of HK$0.305 to HK$0.40 per Share. Thereafter, the closing price of the Shares rose to HK$0.67 per Share on 22 April 2015, being the last trading day before trading in the Shares was halted pending the release of an announcement of the Company regarding (1) placing of existing Shares and subscription of new Shares under general mandate; and (2) placing of existing Shares by a substantial shareholder. On 30 April 2015, the Shares resumed trading and its closing price further increased to HK$0.79 per Share. The Company made an "unusual share price and trading volume movements" announcement on 20 May 2015, the day on which the closing price of the Shares jumped to HK$1.40 per Share. As referred to in the said announcement, the Board confirms that it is not aware of any reasons for such price and trading volume movements or any information which must be announced to avoid a false market in the Company's securities or of any inside information. The market Share prices remained at a high level afterwards and peaked at HK$1.88 per Share on the Last Trading Day.

- During the Post Announcement Period

From 15 June 2015 to 27 August 2015 (both days inclusive), trading in the Shares had been suspended pending the publication of the Announcement. The market price of the Shares then declined significantly to HK$0.82 on 28 August 2015 (the "**First Resumption Day**") right after the trading suspension. We have enquired into the Directors and the Directors advised us that save and except for the publication of the Announcement regarding the Acquisitions, the Share Subscription and the Whitewash Waiver, the Company was not aware of any other incidents which might have affected the market Share price. During the period between the First Resumption Day and the Latest Practicable Date (both days inclusive) (the "**Post Announcement Period**"), movement in the market price of the Shares had been volatile and the Company made another "unusual share price and trading volume movements" announcement on 7 September 2015. The lowest and highest closing prices of the Shares were HK$0.38 recorded on 4 September 2015 and HK$1.31 recorded on 5 October 2015 respectively, and the average closing price of the Shares was HK$1.01 per Share in the Post Announcement Period. In this relation, we noted that the Subscription Price represents discounts of approximately 50.00%, 85.50% and 81.19% to the aforesaid lowest, highest and average closing prices.

Based on the trend of the historical Share price movement as set out above, the current financial fundamental of the Group may not by itself justify the high closing price of the Shares on the Last Trading Day.

Peer comparison

To assess the fairness and reasonableness of the Subscription Price, we have attempted to make reference to the price-to-earnings ("**P/E**") ratio and the price to book ("**P/B**") ratio of all the companies listed on the Stock Exchange which are principally engaged in business similar to that of the Group, namely the trading of chemical materials business, and derive a majority (over 80%) of revenue from such business (the "**Comparable**"). As far as we are aware of, we identified one such Comparable, which we consider to be exhaustive. Given that both the Company and the Comparable had been loss making in their respective latest full financial year, the P/E ratio is impracticable. In addition, as the Company is not an asset-based company, we set forth below the P/B ratios of the Company and the Comparable for Shareholders' reference only:

Company (stock code)	Principal business	P/B ratio *(times)*
Sheng Yuan Holdings Limited (851)	Trading of chemical products, provision of securities brokerage and financial services and asset management services.	5.36 *(Note 1)*
The Company (245)	Trading of chemical materials, provision of consultancy services and provision of insurance agency services in the PRC.	10.44 *(Note 2)*

Notes:

(1) The P/B ratio of the Comparable is calculated based on its latest published unaudited consolidated net asset value per share of HK$0.0625 as at 30 June 2015 and its closing share price of HK$0.335 on the Last Trading Day.

(2) The implied P/B ratio of the Company is calculated based on its latest published unaudited consolidated net asset value per Share of HK$0.0182 as at 30 June 2015 and the Subscription Price of HK$0.19.

Shareholders should note that the above peer comparison does not form part of our analysis on the fairness and reasonableness of the Subscription Price.

Conclusion on the Subscription Price

Taking into account the above factors regarding the Share Subscription which we summarise as below:

(i) it is the intention of the Group to expand into the financial services sector and related businesses which demonstrates potential prospects;

(ii) the Directors represented that the strengths of CMI and China Minsheng Investment would likely to contribute to the future business development of the Group in the financial services sector;

(iii) the non-disposal undertaking given by CMI and the Other Investors would be beneficial to the Group;

(iv) besides the Share Subscription, there is no other financing alternative currently available to the Group with comparable fund raising size and would allow the Group to bring in strategic investors as Shareholders to revive its existing deteriorating financial performance;

(v) the substantial amount to be raised from the Share Subscription could allow the Company to meet the tentative funding needs for development of the financial services sector and related businesses and facilitate the Company to formulate a more comprehensive plan for expansion into these new business areas;

(vi) the current financial fundamental of the Group may not by itself justify the high closing price of the Shares on the Last Trading Day; and

(vii) the Share Subscription would strengthen the net asset value and working capital position of the Group (please also refer to the section headed "Possible financial effects of the Share Subscription" of this letter of advice),

we consider that the Subscription Price, although being at a deep discount of approximately 89.89% to the closing price of the Shares on the Last Trading Day, is fair and reasonable so far as the Independent Shareholders are concerned.

3. Possible dilution on the shareholding interests of the existing Independent Shareholders

For illustrative purpose, we set out below the possible shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) immediately upon completion of the Subscription Agreement:

	As at the Latest Practicable Date		Immediately upon completion of the Subscription Agreement	
	Shares	*%*	*Shares*	*%*
Existing Shareholders				
Ni Xingguang *(Note 1)*	462,072,000	18.31	462,072,000	1.60
Ye Zhu Ying *(Note 2)*	231,497,650	9.17	231,497,650	0.80
Other public Shareholders *(Note 2)*	1,829,881,600	72.52	1,829,881,600	6.35
Sub-total	**2,523,451,250**	**100**	**2,523,451,250**	**8.75**
Subscribers				
The Concert Group				
CMI			20,418,000,000	70.80
Union Sky			1,390,000,000	4.82
Sub-total			**21,808,000,000**	**75.62**
Other subscribers				
D. E. Shaw Composite			1,720,000,000	5.96
WIC LP			1,788,000,000	6.20
Mr. Xu			1,000,000,000	3.47
Sub-total			**4,508,000,000**	**15.63**
Sub-total (all subscribers)			**26,316,000,000**	**91.25**
Total	**2,523,451,250**	**100**	**28,839,451,250**	**100**

Notes:

(1) Mr. Ni Xingguang has personal interest in 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.

Although the shareholding interests of the existing Independent Shareholders would be diluted by approximately 74.54 percent point immediately upon completion of the Subscription Agreement, as balanced by (i) the reasons for and possible benefits of the Share Subscription; (ii) the Share Subscription being an appropriate financing alternative currently available to the Group as compared to other fund raising methods; (iii) the huge fund raising size of the Share Subscription, the proceeds of which are expected to contribute to the future business development of the Group; and (iv) the terms of the Subscription Agreement being fair and reasonable, we are of the view that the said possible dilution to the shareholding interests of the existing Independent Shareholders is acceptable.

4. Possible financial effects of the Share Subscription

The Directors expected that the Share Subscription would increase the net asset value of the Group as the capital base of the Group would be enlarged. The Share Subscription would also increase the net asset value per Share based on the enlarged net asset value of the Group divided by the total number of issued Shares immediately upon completion of the Subscription Agreement. Furthermore, the Share Subscription would generate net proceeds of approximately HK$4,995,300,000 to the Group.

RECOMMENDATION ON THE SHARE SUBSCRIPTION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Subscription Agreement (including the Subscription Price) are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Share Subscription is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the EGM to approve the Share Subscription and we recommend the Independent Shareholders to vote in favour of the resolution(s) in this regard.

(II) THE WHITEWASH WAIVER

As at the date of the Subscription Agreement, the Concert Group did not own or have control or direction over any Shares. Immediately after the 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). Accordingly, 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 granted by the Executive.

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, amongst others, approval by the Independent Shareholders at the EGM by way of poll. The Whitewash Waiver is a condition precedent to the completion of the Subscription Agreement, which can be waived at the discretion of CMI (for itself or on behalf of all Other Investors). As advised by the Directors, CMI is yet to decide whether to waive any of the conditions precedent to the completion of the Subscription Agreement. In the event that CMI waives the Whitewash Waiver condition and elects 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.

As such, if the Whitewash Waiver condition is not satisfied, completion of the Subscription Agreement will depend on whether the fulfilment of such condition is waived by CMI and CMI chooses to proceed with the general offer (the "**Alternative Conditions**"). In the event that the Alternative Conditions are not fulfilled, the Subscription Agreement will not proceed to completion.

Since the shareholding interest of the Concert Group in the Company will exceed 50% upon completion of the Subscription Agreement, CMI may increase its shareholdings in the Company without incurring further obligations under Rule 26 of the Takeovers Code to make a general offer for the Shares and other securities of the Company.

In light of (i) the reasons for and possible benefits of the Share Subscription as set forth under the sub-section headed "Reasons for the Share Subscription and intended use of proceeds" of this letter of advice; (ii) the Share Subscription being an appropriate financing alternative currently available to the Group as compared to other fund raising methods; (iii) the intended use of the net proceeds from the Share Subscription; and (iv) the terms of the Subscription Agreement, despite that the Subscription Price represents a discount of approximately 89.89% to the closing price of the Shares on the Last Trading Day, being fair and reasonable so far as the Independent Shareholders are concerned, we are of the opinion that the approval for the Whitewash Waiver, which is a condition precedent to the completion of the Subscription Agreement, is in the interests of the Company and the Shareholders as a whole and is fair and reasonable for the purpose of proceeding with the Share Subscription.

RECOMMENDATION ON THE WHITEWASH WAIVER

Having taken into consideration the reasons for and possible benefits of the Share Subscription and that the Share Subscription is conditional upon the grant of the Whitewash Waiver, we consider that the Whitewash Waiver is fair and reasonable so far as the Independent Shareholders are concerned and is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Whitewash Waiver and we recommend the Independent Shareholders to vote in favour of the resolution in this regard.

Yours faithfully,
For and on behalf of
V Baron Global Financial Services Limited

Ringo Hui	**Doris Sing**
Group General Manager	*Director*

Mr. Ringo Hui is a licensed person and responsible officer of V Baron Global Financial Services Limited registered with the SFC to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO and has over seven years of experience in corporate finance.

Ms. Doris Sing is a licensed person and responsible officer of V Baron Global Financial Services Limited registered with the SFC to carry on Type 6 (advising on corporate finance) regulated activity under the SFO and has over 11 years of experience in corporate finance.