**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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

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



# EXCEL DEVELOPMENT (HOLDINGS) LIMITED
# 怡益控股有限公司

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1372)**

# MAJOR TRANSACTION IN RELATION TO ACQUISITION OF THE ENTIRE EQUITY INTEREST IN THE TARGET COMPANY AND NOTICE OF EXTRAORDINARY GENERAL MEETING

**Financial adviser to the Company**

VEDA | CAPITAL
智略資本

A notice convening the EGM (as defined herein) of the Company to be held at 8th Floor, Gloucester Tower, The Landmark, 15 Queen's Road Central, Hong Kong on Thursday, 4 February 2016 at 11:00 a.m. is set out on pages 101 to 103 of this circular. A form of proxy for use at the EGM is enclosed with this circular.

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

19 January 2016

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*In this circular, unless the context otherwise requires, the following expressions have the meanings as set out below:*

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| "Acquisition" | the proposed acquisition of the Sale Share and the Sale Loan under the Sale and Purchase Agreement |
| "Acquisition Announcement" | the announcement of the Company dated 12 October 2015 in relation to the Acquisition |
| "Automotive Engine Sales Framework Agreements" | the First Automotive Engine Sales Framework Agreement, the Second Automotive Engine Sales Framework Agreement and the Third Automotive Engine Sales Framework Agreement |
| "Automotive Engine Sales Parties" | BAIC Yinxiang Automobile Co., Limited# (北汽銀翔汽車有限公司), ChongQing Mystery Speed Automobile Accessory Limited# (重慶幻速汽車配件有限公司) and ChongQing North Automobile Company Limited# (重慶比速汽車有限公司) |
| "Board" | the board of Directors |
| "Business Days" | a day (excluding Saturday, Sunday and public holiday) on which licensed banks in Hong Kong are generally open for business |
| "Business Restructuring" | the business restructuring undergone by the Target Company including the establishment of the PRC Company by the WFOE Company and upon the establishment of the PRC Company, following which the PRC Company became a wholly-owned subsidiary of the WFOE Company |
| "BVI" | the British Virgin Islands |
| "Company" | Excel Development (Holdings) Limited, a company incorporated in the Cayman Islands with limited liability, the issued Shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 1372) |
| "Completion" | completion of the sale and purchase of the Sale Share and the Sale Loan pursuant to the Sale and Purchase Agreement |
| "Completion Date" | the date which is the third (3rd) Business Day after the date on which the conditions precedent under the Sale and Purchase Agreement are satisfied or waived or such other date as the Purchaser and the Vendor may agree in writing |
| "connected person(s)" | as defined in the Listing Rules |
| "Consideration" | the aggregate consideration of HK$800,000,000 payable in respect of the Acquisition pursuant to the Sale and Purchase Agreement |

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| "Conversion Price" | the initial conversion price of HK$2.0 per Conversion Share upon the exercise of the conversion rights attaching to the Convertible Bonds |
| "Conversion Shares" | the new Shares to be allotted and issued to the holder of the Convertible Bonds by the Company upon exercise of the conversion rights attaching to the Convertible Bonds |
| "Convertible Bonds" | the zero coupon convertible bonds to be issued by the Company upon Completion pursuant to the terms of the Sale and Purchase Agreement in partial settlement of the Consideration, details of which are set out in the paragraph headed "The Convertible Bonds" |
| "Directors" | directors of the Company |
| "EGM" | an extraordinary general meeting of the Company to be held to consider and, if though fit, approve the Acquisition and the transactions contemplated thereunder |
| "Engine Production Line" | the underlying engine production line pursuant to the Production Line Agreement |
| "Enlarged Group" | the Group as enlarged by the Target Group immediately upon Completion |
| "Escrow Agent" | the escrow agent to be engaged by the Purchaser, the Company and the Vendor at Completion in respect of the escrow arrangement of the Promissory Notes and the Convertible Bonds |
| "Factory Leasing Agreement" | the factory leasing agreement entered into by the PRC Company and ChongQing North Automobile Company Limited# (重慶比速汽車有限公司) in relation to the leasing of the factory located in Tuchang Village, Hechuan District, Chongqing City, PRC |
| "First Automotive Engine Sales Framework Agreement" | the framework agreement dated 18 November 2015 and entered into by the PRC Company and BAIC Yinxiang Automobile Co., Limited# (北汽銀翔汽車有限公司) in relation to the supply of automotive engines by the PRC Company to BAIC Yinxiang Automobile Co., Limited# (北汽銀翔汽車有限公司) |
| "Group" | the Company and its subsidiaries |
| "Guarantor" | Ms. Weng Guangmin |
| "HK Company" | Smart Source Corporation Limited, a company incorporated in Hong Kong with limited liability and a direct wholly-owned subsidiary of the Target Company |

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| "Hong Kong" | the Hong Kong Special Administrative Region of the PRC |
| "Independent Third Party(ies)" | any person(s) or company(ies) and their respective ultimate beneficial owner(s) are third parties independent of the Group and its connected persons in accordance with the Listing Rules |
| "Independent Valuer" or "Jones Lang" | Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent professional valuer appointed by the Purchaser to conduct the business valuation on the Target Company and its subsidiaries |
| "Last Trading Day" | 12 October 2015, being the date of the Acquisition Announcement |
| "Latest Practicable Date" | 14 January 2016, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular |
| "Listing Rules" | the Rules Governing the Listing of Securities on the Stock Exchange |
| "Maturity Date" | the second anniversary of the date of issue of the Convertible Bonds |
| "Payment Date" | the date on which the Promissory Notes and Convertible Bonds are released to the Vendor or its nominee(s) in accordance with the terms of the Sale and Purchase Agreement |
| "PRC" | the People's Republic of China, for the purposes of this circular and for geographical reference only, excludes Taiwan, the Macao Special Administrative Region and Hong Kong |
| "PRC Company" | a company established by the WFOE Company in Chongqing City, PRC with limited liability pursuant to the Business Restructuring |
| "PRC Lawyer" | Hills & Co., the legal advisers to the Company as to PRC law |
| "Production Line Agreement" | the agreement entered into by the WFOE Company and Beijing Guangan Xinye Information Consultation Centre# (北京廣安信業信息諮詢中心) on 8 October 2015 in relation to the purchase of the Engine Production Line by the WFOE Company |
| "Profit Guarantee" | the guarantee of the 1st Guaranteed Profit and the 2nd Guaranteed Profit given by the Vendor under the Sale and Purchase Agreement |

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| "Promissory Notes" | 10% interest bearing promissory notes in the aggregate principal amount of HK$410,000,000 to be issued by the Company to the Vendor (or its nominee(s)) for part of the Consideration which shall be due on the 2nd anniversary from the date of its issue |
| "Purchaser" | Future Marvel Limited, a company incorporated in BVI with limited liability and a direct wholly-owned subsidiary of the Company |
| "Sale and Purchase Agreement" | the agreement dated 12 October 2015 entered into between the Purchaser, the Vendor and the Guarantor in relation to the sale and purchase of the Sale Share and Sale Loan (as amended and supplemented by the Supplemental S&P Agreements) |
| "Sale Loan" | the loan owing by the Target Company to the Vendor and the WFOE Company to the Guarantor at Completion and all obligations, liabilities and debts owing or incurred by the Target Company to the Vendor and the WFOE Company to the Guarantor at Completion whether actual, contingent or deferred and irrespective of whether or not the same is due and payable at Completion. As at 8 October 2015, the Sale Loan amounted to approximately HK$49,696,000 |
| "Sale Share" | one (1) share in the Target Company, representing the entire issued share capital of the Target Company |
| "Second Automotive Engine Sales Framework Agreement" | the framework agreement dated 18 November 2015 and entered into by the PRC Company and ChongQing Mystery Speed Automobile Accessory Limited# (重慶幻速汽車配件有限公司) in relation to the supply of automotive engines by the PRC Company to ChongQing Mystery Speed Automobile Accessory Limited# (重慶幻速汽車配件有限公司) |
| "Service Agreement" | the agreement dated 30 December 2015 entered into between the Guarantor and the PRC Company in relation to the appointment of Guarantor as a director of the PRC Company |
| "SFO" | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) |
| "Share(s)" | ordinary share(s) of HK$0.01 each of the Company |
| "Shareholders" | shareholders of the Company |
| "Specific Mandate" | the specific mandate to be sought from the Shareholders at the EGM for the allotment and issue of the Conversion Shares |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited |

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| "Supplemental Announcements" | the announcements of the Company dated 20 November 2015 and 15 January 2016 in relation to the Supplemental S&P Agreements |
| "Supplemental S&P Agreements" | the supplemental agreements dated 20 November 2015 and 15 January 2016 respectively and entered into between the Purchaser, the Vendor and the Guarantor in relation to the amendment of certain terms of the Sale and Purchase Agreement |
| "Takeovers Code" | the Hong Kong Code on Takeovers and Mergers |
| "Target Company" | Well Surplus Enterprises Limited, a company incorporated in BVI with limited liability and wholly owned by Power Expert Global Limited |
| "Target Group" | Target Company and its subsidiaries |
| "Third Automotive Engine Sales Framework Agreement" | the framework agreement dated 18 November 2015 and entered into by the PRC Company and ChongQing North Automobile Company Limited# (重慶比速汽車有限公司) in relation to the supply of automotive engines by the PRC Company to ChongQing North Automobile Company Limited# (重慶比速汽車有限公司) |
| "Valuation Report" | the valuation report on the Target Group prepared by Jones Lang |
| "Vendor" | Power Expert Global Limited, a company incorporated in BVI with limited liability, which is wholly-owned by Ms. Weng Guangmin |
| "WFOE Company" | Lianyungang Signality and Information Consulting Services Co., Ltd# (連雲港訊利信息諮詢服務有限公司), a wholly foreign-owned enterprise established in the PRC with limited liability and wholly-owned by the HK Company |
| "Youth Force" | Youth Force Asia Limited, a company incorporated in BVI with limited liability and a controlling Shareholder |
| "1st Purchaser" | BAIC Yinxiang Automobile Co., Limited# (北汽銀翔汽車有限公司) |
| "2nd Purchaser" | ChongQing Mystery Speed Automobile Accessory Limited# (重慶幻速汽車配件有限公司) |
| "3rd Purchaser" | ChongQing North Automobile Company Limited# (重慶比速汽車有限公司) |

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| "HK$" | Hong Kong dollars, the lawful currency of Hong Kong |
| "RMB" | Renminbi, the lawful currency of the PRC |
| "US$" | United States dollars, the lawful currency of the United States of America |
| "%" | per cent. |

# *The Chinese names have been translated into English for reference only*

# EXCEL DEVELOPMENT (HOLDINGS) LIMITED
# 怡益控股有限公司

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1372)**

*Executive Directors:*
Mr. Wong Hin Shek
Mr. Xing Bin

*Independent non-executive Directors:*
Ms. Chu Yin Yin, Georgiana
Mr. Yip Tai Him
Mr. Chan Kai Wing

*Registered office:*
Cricket Square, Hutchins Drive
PO Box 2681
Grand Cayman
KY1-1111
Cayman Islands

*Head office and principal place of business in Hong Kong:*
21st Floor
1 Duddell Street
Central
Hong Kong

19 January 2016

*To the Shareholders*

Dear Sir or Madam,

## MAJOR TRANSACTION IN RELATION TO ACQUISITION OF THE ENTIRE EQUITY INTEREST IN THE TARGET COMPANY AND NOTICE OF EXTRAORDINARY GENERAL MEETING

### INTRODUCTION

References are made to the Acquisition Announcement and the Supplemental Announcements.

The Board announced that on 12 October 2015 (after trading hours), the Purchaser, the Guarantor and the Vendor entered into the Sale and Purchase Agreement (as amended and supplemented by the Supplemental S&P Agreements), pursuant to which the Purchaser has conditionally agreed to acquire and the Vendor has conditionally agreed to sell the Sale Share and the Sale Loan for the Consideration of HK$800,000,000 which will be satisfied by the issue of the Promissory Notes and Convertible Bonds by the Company to the Vendor.

The purpose of this circular is to provide you with, among other matters, (i) further details regarding the Sale and Purchase Agreement and the proposed Acquisition; (ii) financial information of the Group and the Target Group; (iii) pro forma financial information of the Enlarged Group; (iv) valuation report on the Target Company; (v) the general information of the Company; and (vi) a notice convening the EGM.

**THE ACQUISITION**

**The Sale and Purchase Agreement**

Date : 12 October 2015 (after trading hours) (as amended and supplemented by the Supplemental S&P Agreements dated 20 November 2015 and 15 January 2016 respectively)

Parties : (1) Future Marvel Limited, a wholly-owned subsidiary of the Company, as the Purchaser;

(2) Power Expert Global Limited, as the Vendor; and

(3) Ms. Weng Guangmin, as the Guarantor.

The Vendor is principally engaged in investment holding. As at the Latest Practicable Date, the Vendor is wholly-owned by the Guarantor and the Vendor owns the entire equity interest in the Target Company, a company incorporated in BVI with limited liability, with its principal activities being investment holding. The Target Company owns the entire equity interest in the HK Company, a company incorporated in Hong Kong with limited liability. The HK Company owns the entire equity interest in the WFOE Company, a wholly foreign-owned enterprise established in the PRC with limited liability.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Guarantor and the Vendor are Independent Third Parties.

**Assets to be acquired**

Pursuant to the Sale and Purchase Agreement, the Purchaser has conditionally agreed to acquire and the Vendor and the Guarantor have conditionally agreed to sell the Sale Share and the Sale Loan. The Sale Share, representing the entire issued share capital of the Target Company, will be sold free from all encumbrances together with all rights to any dividend or other distribution declared, made or paid after the date of the Sale and Purchase Agreement. The Sale Loan, representing the loan owing by the Target Company to the Vendor and the WFOE Company to the Guarantor at Completion, will be sold by the Vendor and the Guarantor free from all encumbrances together with all rights attaching thereto as at the Completion Date.

The Purchaser shall not be obliged to purchase any of the Sale Share and the Sale Loan unless the sale and purchase of the Sale Share and the Sale Loan are completed simultaneously.

As at 8 October 2015, the Sale Loan amounted to approximately HK$49,696,000.

**Consideration**

The Consideration of HK$800,000,000 is to be satisfied in the following manner:

(i) as to HK$410,000,000 by way of issue of the Promissory Notes to the Vendor (or its nominee(s)) upon Completion; and

(ii) as to HK$390,000,000 by way of issue of the Convertible Bonds with the Conversion Price (being HK$2.0 per Conversion Share) to the Vendor (or its nominee(s)) upon Completion.

The Consideration was arrived at after arm's length negotiations between the Vendor and the Purchaser after taking into account (i) the Profit Guarantee provided by the Vendor; and (ii) the future prospects of the Target Group.

**Adjustment to Consideration**

*Profit Guarantee*

Pursuant to the Sale and Purchase Agreement (as amended and supplemented by the Supplemental S&P Agreements), the Guarantor and the Vendor have warranted and guaranteed to the Purchaser that (i) the audited consolidated profit after tax (the "**Audited CPAT**") of the Target Group as shown in the audited consolidated accounts of the Target Group prepared in accordance with the Hong Kong Financial Reporting Standards for the twelve (12) full calendar months period commencing from the 1st calendar day of the month following Completion (the "**1st Profit Guarantee Period**") shall not be less than HK$170,000,000 (the "**1st Guaranteed Profit**"); and (ii) the Audited CPAT of the Target Group as shown in the audited consolidated accounts of the Target Group prepared in accordance with the Hong Kong Financial Reporting Standards for the twelve (12) full calendar months period immediately following the 1st Profit Guarantee Period (the "**2nd Profit Guarantee Period**") (together with the 1st Profit Guarantee Period, collectively being the "**Relevant Periods**") shall not be less than HK$230,000,000 (the "**2nd Guaranteed Profit**").

The 1st Guaranteed Profit of HK$170,000,000 and the 2nd Guaranteed Profit of HK$230,000,000 were determined after arm's length negotiations between the Vendor and the Purchaser after taking into account of (i) the aggregate amount of order and prices of the automobile engines under the Automotive Engine Sales Framework Agreements; and (ii) the anticipated production capacity of the Engine Production Line.

Immediately upon the issue of the Promissory Notes and the Convertible Bonds, the Promissory Notes and the Convertible Bonds shall be deposited with the Escrow Agent until the Payment Date as security for the 1st Guaranteed Profit and the 2nd Guaranteed Profit.

As at the Latest Practicable Date, to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Escrow Agent is an Independent Third Party.

In the event that (i) the actual Audited CPAT of the Target Group for the 1st Profit Guarantee Period (the "**1st Period Actual Profit**"); and/or (ii) the actual Audited CPAT of the Target Group for the 2nd Profit Guarantee Period (the "**2nd Period Actual Profit**") (collectively the "**Actual Profits**") as shown in the Auditors' Certificates (as defined below) is/are less than the 1st Guaranteed Profit or the 2nd Guaranteed Profit (as the case may be), the Vendor shall compensate (the "**Compensation**") the Purchaser by 3 times of the aggregate amount of shortfall of the Relevant Periods, as calculated according to the following formulae (the "**Compensation Formulae**"):

**Compensation for the 1st Profit Guarantee Period = (1st Guaranteed Profit – 1st Period Actual Profit) x 3**

**Compensation for the 2nd Profit Guarantee Period = (2nd Guaranteed Profit – 2nd Period Actual Profit) x 3**

Pursuant to the Supplemental S&P Agreements, the maximum amounts of the Compensation for the Relevant Periods are limited to HK$800,000,000.

The multiple factor of 3 was arrived at after arm's length negotiations between the Purchaser and the Vendor. The Board considers that the Compensation Formulae and the multiple factor of 3 times under the Compensation Formulae are favorable to the Company and Shareholders as a whole due to the following reasons:

(a) as illustrated by the two following scenarios for reference purposes: (i) assuming the Target Group records zero profit for the Relevant Periods, the Purchaser would receive an aggregate Compensation of HK$800,000,000, which is equal to the Consideration; and (ii) assuming the Target Group records an aggregate profit of HK$133,333,333 for the Relevant Periods (i.e. the profit level recorded by the Target Group which the Purchaser can receive the maximum amounts of Compensation), with the shortfall being approximately HK$266,666,667, and in accordance to the multiple factor of 3 times under the Compensation Formulae, the Purchaser can also receive an aggregate Compensation of HK$800,000,000, together with an aggregate profit of approximately HK$133,333,333.

(b) the State Council of the PRC released an announcement on "No Restriction on New Energy Cars by the State Council of the People's Republic of China" (國務院：新能源車不得限行購), which emphasised that from 1 October 2015 to 31 December 2016, the PRC government has implemented a 50 percent reduction in the tax on buying vehicles for passenger vehicles which are under

1,600 cubic centimeters ("**cc**") displacement in mainland China, whereas the automobile engines produced under the Engine Production Line are under 1,600cc. Therefore, the Company considers that such policy implementation would encourage PRC residents to acquire the relevant vehicles and thus stimulating the demand on such automotive engines and creating a positive effect on the Target Group's business.

(c) having a strategic cooperation with the Automotive Engine Sales Parties i.e. one of them is a state-owned enterprise, can greatly enhance the Group's image, status and bargaining ability within the PRC automotive industry, which can directly broaden the customer base of the Group in a long term perspective upon Completion.

Given the abovementioned factors, the Purchaser consider that the multiple factor of 3 times under the Compensation Formulae is fair and reasonable as the downside of the transaction is limited to an extent whereas given the favourable policy support by the PRC Government and the solid background of the Automotive Engine Sales Parties, the Company considers that the potential of the Target Group's automotive engines business is huge and therefore, has greatly facilitated the Company to enter into the Sale and Purchase Agreement with the Vendor.

In the event that payment of the Compensation be required, the Vendor shall be obliged to compensate the Purchaser upon the receipt of the auditors' certificate(s) for the Audited CPAT of the Target Group (the "**Auditors' Certificate(s)**") for the 1st Profit Guarantee Period (the "**1st Auditors' Certificate**") and/or the 2nd Profit Guarantee Period (the "**2nd Auditors' Certificate**") (as the case may be) an amount equivalent to (i) Compensation for the 1st Profit Guarantee Period; and/or (ii) the Compensation for the 2nd Profit Guarantee Period respectively by (a) first cancelling the corresponding outstanding principal amount of the Promissory Notes; and (b) if all the outstanding amount of the Promissory Notes has been cancelled, cancelling the corresponding outstanding principal amount of the Convertible Bonds.

If the cancellation of all the principal amount of the Promissory Notes and the Convertible Bonds is not sufficient to set off the amount of the Compensation, the Vendor shall pay the shortfall in cash to the Purchaser within 14 days after receipt of the relevant Auditors' Certificate.

If the 1st Period Actual Profit is equal to or more than the 1st Guaranteed Profit, the Vendor and the Purchaser shall procure the Escrow Agent to release to the Vendor the Promissory Notes in the principal amount of HK$174,250,000 and the Convertible Bonds in the principal amount of HK$165,750,000 within 10 Business Days after the issue of the 1st Auditors' Certificate (or such other day as the Vendor and the Purchaser may agree).

If the 2nd Period Actual Profit is equal to or more than the 2nd Guaranteed Profit, the Vendor and the Purchaser shall procure the Escrow Agent to release to the Vendor the Promissory Notes in the principal amount of HK$235,750,000 and the Convertible Bonds in the principal amount of HK$224,250,000 within 10 Business Days after the issue of the 2nd Auditors' Certificate (or such other day as the Vendor and the Purchaser may agree).

The Vendor and the Purchaser shall procure that the respective audited consolidated financial statements of the Target Group (the "**Consolidated AFS**") for each of the 1st Profit Guarantee Period and the 2nd Profit Guarantee Period be prepared, issued and reported on by the auditors being designated by the Purchaser and jointly appointed by the Vendor and the Purchaser in accordance with Hong Kong Financial Reporting Standards before the date falling three (3) months after the expiry of each of the Relevant Periods. The respective Auditors' Certificate for each of the Relevant Periods shall be delivered together with the relevant Consolidated AFS.

For the avoidance of doubt, should the Target Group record a loss in its Consolidated AFS during the Relevant Periods, the Actual Profits for the corresponding Relevant Periods shall be deemed as zero.

**Business Restructuring**

Pursuant to the Sale and Purchase Agreement, the Target Company shall undergo the Business Restructuring (being one of the conditions precedent to the Sale and Purchase Agreement) prior to Completion which includes the establishment of the PRC Company by the WFOE Company. Upon the establishment of the PRC Company, the PRC Company became a wholly-owned subsidiary of the WFOE Company.

The Business Restructuring was completed on 21 October 2015 and the PRC Company is now a wholly-owned subsidiary of the WFOE Company.

**Conditions precedent**

Completion is conditional upon the satisfaction or waiver (as the case may be) of the following conditions:

(i) the Purchaser being satisfied with the results of the due diligence review;

(ii) all necessary consents and approvals in relation to the sale and purchase of the Sale Share and Sale Loan contemplated under the Sale and Purchase Agreement having been obtained by the Vendor and the Guarantor;

(iii) all necessary consents and approvals in relation to the sale and purchase of the Sale Share and Sale Loan contemplated under the Sale and Purchase Agreement having been obtained by the Purchaser;

(iv) the Shareholders having passed the resolution(s) at an extraordinary general meeting of the Company to approve the Sale and Purchase Agreement and the transactions contemplated thereunder (including the issue of the Promissory Notes and the Convertible Bonds and the allotment and issue of the Conversion Shares);

(v) the Listing Committee of the Stock Exchange granting listing of and permission to deal in the Conversion Shares;

(vi) all guarantees, representations and warranties given by the Vendor under the Sale and Purchase Agreement remaining valid, true and correct in all respects as at Completion;

(vii) the obtaining of a PRC legal opinion (in the form and substance satisfactory to the Purchaser) issued by a PRC legal adviser appointed by the Purchaser on the Target Company, the Business Restructuring and transactions contemplated under the Sale and Purchase Agreement;

(viii) the due and proper completion of the Business Restructuring and if necessary, all necessary registration procedures in relation to the Business Restructuring having completed by the Vendor;

(ix) the obtaining of a valuation report (in the form and substance satisfactory to the Purchaser) issued by the Independent Valuer appointed by the Purchaser showing that the valuation of the Target Group to be not less than HK$800,000,000 as at the reference date to be agreed by the Vendor and the Purchaser based on the discounted cash flow model;

(x) signing of the Service Agreement;

(xi) signing of the Automotive Engine Sales Framework Agreements; and

(xii) the completion of the purchase of the Engine Production Line by the PRC Company.

The Vendor shall use its best endeavours to procure the fulfilment of the conditions (i), (ii), (vi) to (xii) above. The Purchaser shall use its best endeavours to procure the fulfilment of the conditions (iii) to (v) above by the Long Stop Date (as defined below). Save for conditions set out in (i) and (vi) above which can be waived by the Purchaser by notice in writing, no other conditions precedent can be waived. As at the Latest Practicable Date, the Purchaser had no intention to waive any of the conditions set out in (i) and (vi) above. If any of the conditions set out above have not been fulfilled (or waived, as the case may be) on or before 31 March 2016 or such other date as the Vendor, the Guarantor and the Purchaser may agree in writing (the "**Long Stop Date**"), the Sale and Purchase Agreement shall cease and determine and no parties shall have any obligations and liabilities thereunder save for any antecedent breaches of the terms thereof.

As at the Latest Practicable Date, save for conditions (viii), (ix), (x), (xi) and (xii) above, none of the above conditions had been fulfilled.

**Completion**

Completion shall take place on the Completion Date, being the 3rd Business Day after the fulfilment (or waiver, as the case may be) of the conditions set out above, or such other date as the Vendor and the Purchaser may agree in writing.

Upon Completion, the Target Company and its subsidiaries will become subsidiaries of the Company and their results, assets and liabilities will be consolidated into the consolidated financial statements of the Company.

**THE PROMISSORY NOTES**

The Company will issue the Promissory Notes in the aggregate principal amount of HK$410,000,000 to the Vendor as part of the Consideration upon Completion. The Promissory Notes are unsecured and at an interest rate of 10% per annum. The interest is payable at maturity. The Promissory Notes are transferrable (except to the connected person(s) of the Company) and will mature at the 2nd anniversary from the date of issue. The interest rate of 10% per annum for the Promissory Notes was arrived at after arm's length negotiations between the Vendor and the Purchaser after taking into account (i) the recent cost of borrowing of the Group of approximately 12% per annum; (ii) to facilitate the Group to dip into the PRC automobile engines industry in a timely manner; (iii) the minimal cash level of the Group for the funding of the Acquisition; (iv) the Profit Guarantee provided by the Vendor; and (v) the future prospects of the business of the PRC Company.

The Promissory Notes are redeemable early by the Company for any principal amount of not less than HK$10,000,000 (or all the outstanding principal amount if such amount is less than HK$10,000,000) together with the outstanding interest accrued on the redemption amount by not less than 10 Business Days' written notice to the holder of the Promissory Notes.

For the fulfilment of the Vendor's obligations under the Profit Guarantee, the Vendor and the Purchaser agree that the Promissory Notes in an aggregate face value of HK$410,000,000 shall be deposited with the Escrow Agent by the Vendor in favour of the Company after the Completion. For further details of the deposit, please refer to information as set out in the section headed "Adjustment to Consideration" above.

**THE CONVERTIBLE BONDS**

Pursuant to the terms of the Sale and Purchase Agreement, the Company will issue the Convertible Bonds in the principal amount of HK$390,000,000 to the Vendor as part payment of the Consideration upon Completion.

For the fulfilment of the Vendor's obligations under the Profit Guarantee, the Vendor and the Purchaser agree that the Convertible Bonds in the principal amount of HK$390,000,000 shall be deposited with the Escrow Agent by the Vendor in favour of the Company after the Completion. For further details of the deposit, please refer to information as set out in the section headed "Adjustment to Consideration" above.

The terms of the Convertible Bonds have been negotiated on an arm's length basis, principal terms of which are summarised as follows:

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| Issuer | : | the Company |
| Maturity Date | : | the 2nd anniversary of the issue date of the Convertible Bonds |
| Interest | : | the Convertible Bonds shall not bear any interest |
| Conversion period | : | The period commencing on the date of issue of the Convertible Bonds and ending on the Maturity Date |
| Conversion Price | : | HK$2.00 per Conversion Share (subject to adjustments) |
| Aggregate principal amount | : | HK$390,000,000 |
| Transferability | : | the Convertible Bonds cannot be transferred without the prior written consent of the Company, save where transfer is made to a wholly-owned subsidiary of the holder of the Convertible Bonds (the "**Bondholder**"), or the holding company of such Bondholder owning the entire issued share capital of such Bondholder, provided that the Convertible Bonds will be re-transferred to such Bondholder immediately upon the transferee ceasing to be a wholly-owned subsidiary of such Bondholder or a holding company of the Bondholder who owns the entire issued share capital of such Bondholder, in which case no prior written consent from the Company shall be required |

| | | |
|---|---|---|
| Conversion | : | holder(s) of the Convertible Bonds shall have the right at any time from date of issue of the Convertible Bonds up to 4:00 p.m. on the Maturity Date to convert in whole or in part the outstanding principal amount of the Convertible Bonds in whole multiples of HK$1,000,000 into Conversion Shares, save that if at any time the outstanding principal amount of the Convertible Bonds is less than HK$1,000,000, the whole (but not part only) of the outstanding principal amount of the Convertible Bonds may be converted, provided that any conversion of the Convertible Bonds (i) does not trigger any mandatory offer obligation under Rule 26 of the Takeovers Code on the part of the Bondholder which exercised the conversion rights, representing more than 30% or more (or such other percentage as stated in Rule 26 of the Takeovers Code in effect from time to time) of the then issued share capital of the Company or otherwise pursuant to other provisions of the Takeovers Code; and (ii) does not result in the public float of the Shares being less than 25% (or any given percentage as required by the Listing Rules) of the issued Shares |
| Adjustments to Conversion Price | : | the Conversion Price is subject to adjustments upon the occurrence of subdivision or consolidation of Shares, capitalisation issues, capital distribution, rights issues, issue of securities wholly for cash, alteration of conversion or exchange price of convertible or exchangeable securities, such adjustments shall be determined by approved merchant bank or the auditors of the Company in such manner as they consider appropriate in accordance with the terms and conditions of the Convertible Bonds |
| Early redemption | : | the Company may at any time before the maturity date by serving at least ten (10) days' prior written notice on the Bondholder with the total amount proposed to be redeemed from the Bondholder specified therein, redeem the Convertible Bonds (in whole or in part) at 100% of the principal amount of such Convertible Bonds |
| Voting rights | : | holder(s) of the Convertible Bonds shall not be entitled to attend or vote at any general meeting of the Company |
| Listing | : | the Convertible Bonds will not be listed on the Stock Exchange or any other stock exchange. An application will be made to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares |

Assuming there will be no issue or repurchase of Shares from the Latest Practicable Date, upon the exercise in full of the conversion rights attaching to the Convertible Bonds at the Conversion Price, the Company will allot and issue an aggregate of 195,000,000 Conversion Shares, representing (i) approximately 97.50% of the issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 49.37% of the issued share capital of the Company as enlarged by allotment and issue of the Conversion Shares.

The Conversion Shares will be allotted and issued under the Specific Mandate. The Conversion Shares shall rank equally among themselves and pari passu in all respects with the Shares in issue on the date of allotment and issue of the Conversion Shares.

**THE CONVERSION PRICE**

The Conversion Price, being HK$2.0 per Share, was determined after arm's length negotiations between the Purchaser and the Vendor, which represents:

(a) a discount of approximately 60.78% to the closing price of HK$5.10 per Share as quoted on the Stock Exchange on 12 October 2015, being the Last Trading Day;

(b) a discount of approximately 50.0% to the closing price of HK$4.0 per Share as quoted on the Stock Exchange as at the Latest Practicable Date;

(c) a discount of approximately 58.76% to the average closing price of HK$4.85 per Share as quoted on the Stock Exchange for the last 5 consecutive trading days up to and including Last Trading Day;

(d) a discount of approximately 56.99% to the average closing price of HK$4.65 per Share as quoted on the Stock Exchange for the last 10 consecutive trading days up to and including Last Trading Day;

(e) a premium of approximately 129.89% over the consolidated net assets attributable to equity holders of the Company of approximately HK$0.87 per Share as at 30 September 2015, based on the consolidated net assets according to the Company's interim report and the number of issued Shares as at the date of the Acquisition Announcement; and

(f) a premium of approximately 127.27% over the adjusted consolidated net assets attributable to equity holders of the Company upon reducing the total amount of special cash dividend i.e. HK$50,000,000 declared by the Company on 4 August 2015 of approximately HK$0.88 per Share as at 31 March 2015, based on the consolidated net assets according to the Company's annual report and the number of issued Shares as at the date of the Acquisition Announcement.

The Conversion Price of HK$2.00 per Conversion Share was determined after arm's length negotiations between the Vendor and the Purchaser. Despite that it is noted that the Conversion Price represents a huge discount to the closing price on the Last Trading Day, the Company considers that the Conversion Price is fair and reasonable so far as the Shareholders are concerned upon taken into account the fact that (i) since the listing of the

Shares on the Main Board of the Stock Exchange on 11 December 2013 with an initial public offering price of HK$1.20 per Share, the Share price had remained flat until September 2014 and the upsurge of Share price upon September 2014 was principally due to the change of shareholding ownership of the Company which was initially announced on 20 April 2015; (ii) the Conversion Price represents a huge premium as compared to the net asset value per Share attributable to the Shareholders of approximately HK$0.87 as shown in the unaudited financial statements of the Group for the six months ended 30 September 2015; (iii) the minimal cash level of the Group for the funding of the Acquisition; (iv) the Profit Guarantee provided by the Vendor; and (v) the future prospects of the business of the PRC Company.

## APPLICATION FOR LISTING

The Company will apply to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares to be issued upon the exercise of the conversion rights attached to the Convertible Bonds.

## EFFECT ON THE SHAREHOLDING STRUCTURE

For illustration purposes only, the following table sets out the effects of the issue of the Conversion Shares on the shareholding structure of the Company based on (i) the issued share capital and shareholding structure of the Company as at the Latest Practicable Date; (ii) assuming Completion has taken place and the exercise of conversion rights attaching to the Convertible Bonds at the Conversion Price (assuming the Vendor, together with the parties acting in concert with them, if any, do not hold or control 30% or more of the voting rights of the Company), without taking into account issue of new Shares, if any, after the Latest Practicable Date and prior to Completion; and (iii) assuming Completion has taken place and the exercise in full of conversion rights attaching to the Convertible Bonds at the Conversion Price, without taking into account issue of new Shares, if any, after the Latest Practicable Date and prior to Completion:

| | **(i) As at the Latest Practicable Date** | | **(ii) immediately after the allotment and issue of the Conversion Shares upon the exercise of the conversion rights attaching to the Convertible Bonds (assuming the Vendor, together with the parties acting in concert with them, if any, do not hold or control 30% or more of the voting rights of the Company)** | | **(iii) immediately after the allotment and issue of the Conversion Shares upon the exercise in full of the conversion rights attaching to the Convertible Bonds** *(Note 2)* | |
|---|---|---|---|---|---|---|
| | *No. of Shares* | *%* | *No. of Shares* | *%* | *No. of Shares* | *%* |
| Youth Force *(Note 1)* | 150,000,000 | 75.00 | 150,000,000 | 52.51 | 150,000,000 | 37.97 |
| Public Shareholders | 50,000,000 | 25.00 | 50,000,000 | 17.50 | 50,000,000 | 12.66 |
| Vendor | — | — | 85,675,000 | 29.99 | 195,000,000 | 49.37 |
| **Total** | **200,000,000** | **100.00** | **285,675,000** | **100.00** | **395,000,000** | **100.00** |

*Note:*

(1) As at the Latest Practicable Date, Youth Force is wholly-owned by Mr. Jiang Jianhui.

(2) The shareholding structure is prepared for illustration purpose only, yet, the Company will not issue the Conversion Shares to the Vendor (i) if the aggregate shareholding of the Vendor and its concert parties upon any conversion of the Convertible Bonds exceeds 29.99% or more of the issue share capital of the Company; and/or (ii) the public float of the Shares being less than 25% (or any given percentage as required by the Listing Rules) of the issued Shares of the Company.

## INFORMATION ON THE VENDOR AND THE TARGET COMPANY

The Vendor, a company incorporated in BVI with limited liability, is wholly owned by Ms. Weng Guangmin, being the Guarantor.

As at Latest Practicable Date, the Vendor owns the entire equity interest in the Target Company, a company incorporated in BVI with limited liability. The Target Company owns the entire equity interest in the HK Company, a company incorporated in Hong Kong with limited liability. The HK Company owns the entire equity interest in the WFOE Company, a company established in the PRC with limited liability.

Upon completion of the Business Restructuring, the WFOE Company owns the entire equity interest in the PRC Company. The PRC Company was established in the PRC with limited liability on 21 October 2015, with a registered capital of RMB60 million. The principal businesses of the PRC Company are the development, manufacture and sales of automobiles and automobile engines and parts.

### Signing of the Service Agreement

Pursuant to the Sale and Purchase Agreement, prior to the Completion, the Guarantor shall enter into the Service Agreement with the PRC Company.

Pursuant to the Service Agreement, the Vendor shall appoint the Guarantor to be the PRC Company's director for a term of two years and responsible for the PRC Company's daily business operations.

On 30 December 2015, the Guarantor and the PRC Company has entered into the Service Agreement. Pursuant to the Service Agreement, the Guarantor will be appointed to the PRC Company as an executive director to oversee the daily operations of the PRC Company for a term of 2 years i.e. from 1 January 2016 to 31 December 2017, with a monthly salary of RMB25,000. In addition, during the term of office of the Guarantor and within two years upon the Guarantor has left the position, the Guarantor shall not, without the consent of the PRC Company, get involved in business activities which are competitive to the PRC Company.

**Signing of the Automotive Engine Sales Framework Agreements**

Pursuant to the Sale and Purchase Agreement, prior to the Completion, the PRC Company shall enter into the First Automotive Engine Sales Framework Agreement, Second Automotive Engine Sales Framework Agreement and Third Automotive Engine Sales Framework Agreement, with BAIC Yinxiang Automobile Co., Limited# (北汽銀翔汽車有限公司), ChongQing Mystery Speed Automobile Accessory Limited# (重慶幻速汽車配件有限公司) and ChongQing North Automobile Company Limited# (重慶比速汽車有限公司) ("**ChongQing North Automobile**") respectively, with terms that shall be satisfied by the Purchaser.

On 18 November 2015, the PRC Company has entered into the Automotive Engine Sales Framework Agreements with each of the Automotive Engine Sales Parties respectively.

Set out below are the major terms of each of the Automotive Engine Sales Framework Agreements entered into between the PRC Company and each of the Automotive Engine Sales Parties:

**First Automotive Engine Sales Framework Agreement:**

| | | |
|---|---|---|
| Parties | : | (1) The PRC Company, being the supplier; and<br><br>(2) The 1st Purchaser, being the purchaser |
| Engine models | : | Under the First Automotive Engine Sales Framework Agreement, the PRC Company will supply four types of automobile engine models (1.0T, 1.3T. 1.3L and 1.5L) to the 1st Purchaser. |
| Terms | : | Commencing from the date of signing the First Automotive Engine Sales Framework Agreement and to be expired on 31 December 2020 |
| Order quantity | : | The 1st Purchaser has agreed to place the orders in the amount as listed out below:<br><br>2016: An aggregate of 120,000 set of automobile engines<br>2017: An aggregate of 140,000 set of automobile engines<br>2018: An aggregate of 160,000 set of automobile engines<br>2019: An aggregate of 180,000 set of automobile engines<br>2020: An aggregate of 200,000 set of automobile engines |
| Delivery | : | The PRC Company will be responsible for the delivery method and costs. |

| | | |
|---|---|---|
| Payment terms | : | From the date of signing the First Automotive Engine Sales Framework Agreement to 20 March 2016, the 1st Purchaser shall settle 10% of the total purchase price of the automobile engine orders within a month upon the receipt of the automobile engines and settle the outstanding amount within three (3) months after the PRC Company has issued invoice to the 1st Purchaser by way of cheque of transfer or bank's acceptance bill or domestic letter of credit or commercial acceptance bill or cash or bank telegraphic transfer.<br><br>After 21 March 2016, the 1st Purchaser shall pay the PRC Company in full within three (3) months after the PRC Company has issued invoice to the 1st Purchaser by way of cheque of transfer or bank's acceptance bill or domestic letter of credit or commercial acceptance bill or cash or bank telegraphic transfer. |
| Price negotiation | : | Both parties have the rights to negotiate the automobile engine's price in accordance to the market situation. |
| Liability for breach of contract | : | If the PRC Company cannot deliver the automobile engines to the 1st Purchaser on schedule, the 1st Purchaser has the right to require a compensation of RMB5,000 to RMB10,000 per each batch of order. |

**Second Automotive Engine Sales Framework Agreement:**

| | | |
|---|---|---|
| Parties | : | (1) The PRC Company, being the supplier; and<br><br>(2) The 2nd Purchaser, being the purchaser |
| Engine models | : | Under the Second Automotive Engine Sales Framework Agreement, the PRC Company will supply four types of automobile engine models (1.0T, 1.3T. 1.3L and 1.5L) to the 2nd Purchaser. |
| Terms | : | Commencing from the date of signing the Second Automotive Engine Sales Framework Agreement and to be expired on 31 December 2020 |

| | | |
|---|---|---|
| Order quantity | : | The 2nd Purchaser has agreed to place the orders in the amount as listed out below:<br><br>2016: An aggregate of 45,000 set of automobile engines<br>2017: An aggregate of 52,500 set of automobile engines<br>2018: An aggregate of 60,000 set of automobile engines<br>2019: An aggregate of 67,500 set of automobile engines<br>2020: An aggregate of 75,000 set of automobile engines |
| Delivery | : | The PRC Company will be responsible for the delivery method and costs. |
| Payment terms | : | From the date of signing the Second Automotive Engine Sales Framework Agreement to 20 March 2016, the 2nd Purchaser shall settle 10% of the total purchase price of the automobile engine orders within a month upon the receipt of the automobile engines and settle the outstanding amount within three (3) months after the PRC Company has issued invoice to the 2nd Purchaser by way of cheque of transfer or bank's acceptance bill or domestic letter of credit or commercial acceptance bill or cash or bank telegraphic transfer.<br><br>After 21 March 2016, the 2nd Purchaser shall pay the PRC Company in full within three (3) months after the PRC Company has issued invoice to the 2nd Purchaser by way of cheque of transfer or bank's acceptance bill or domestic letter of credit or commercial acceptance bill or cash or bank telegraphic transfer. |
| Price negotiation | : | Both parties have the rights to negotiate the automobile engine's price in accordance to the market situation. |
| Liability for breach of contract | : | If the PRC Company cannot deliver the automobile engines to the 2nd Purchaser on schedule, the 2nd Purchaser has the right to require a compensation of RMB5,000 to RMB10,000 per each batch of order. |

**Third Automotive Engine Sales Framework Agreement:**

| | | |
|---|---|---|
| Parties | : | (1) The PRC Company, being the supplier; and<br><br>(2) The 3rd Purchaser, being the purchaser |

| | | |
|---|---|---|
| Engine models | : | Under the Third Automotive Engine Sales Framework Agreement, the PRC Company will supply four types of automobile engine models (1.0T, 1.3T. 1.3L and 1.5L) to the 3rd Purchaser. |
| Terms | : | Commencing from the date of signing the Third Automotive Engine Sales Framework Agreement and to be expired on 31 December 2020 |
| Order quantity | : | The 3rd Purchaser has agreed to place the orders in the amount as listed out below:<br><br>2016: An aggregate of 15,000 set of automobile engines<br>2017: An aggregate of 17,500 set of automobile engines<br>2018: An aggregate of 20,000 set of automobile engines<br>2019: An aggregate of 22,500 set of automobile engines<br>2020: An aggregate of 25,000 set of automobile engines |
| Delivery | : | The PRC Company will be responsible for the delivery method and costs. |
| Payment terms | : | From the date of signing the Third Automotive Engine Sales Framework Agreement to 20 March 2016, the 3rd Purchaser shall settle 10% of total purchase price of the automobile engine orders within a month upon the receipt of the automobile engines and settle the outstanding amount within three (3) months after the PRC Company has issued invoice to the 3rd Purchaser by way of cheque of transfer or bank's acceptance bill or domestic letter of credit or commercial acceptance bill or cash or bank telegraphic transfer.<br><br>After 21 March 2016, the 3rd Purchaser shall pay the PRC Company in full within three (3) months after the PRC Company has issued invoice to the 3rd Purchaser by way of cheque of transfer or bank's acceptance bill or domestic letter of credit or commercial acceptance bill or cash or bank telegraphic transfer. |
| Price negotiation | : | Both parties have the rights to negotiate the automobile engine's price in accordance to the market situation. |
| Liability for breach of contract | : | If the PRC Company cannot deliver the automobile engines to the 3rd Purchaser on schedule, the 3rd Purchaser has the right to require a compensation of RMB5,000 to RMB10,000 per each batch of order. |

The order quantities of each of the Automotive Engine Sales Framework Agreements are legally binding to the extent that if any of the parties breached the terms and conditions under the Automotive Engine Sales Framework Agreements, the relevant Automotive Engine Sales Party(ies) or the PRC Company has the right to claim against for all the losses in accordance with the PRC Contract Law and other relevant laws and regulations.

Pursuant to the Automotive Engine Sales Framework Agreements, if any of the Automotive Engine Sales Parties cannot meet the pre-determined automobile engine order quantities as set out in their respective Automotive Engine Sales Framework Agreements, the unfulfilled order quantities can only be deferred to the following calendar year when there is a written consent by the PRC Company. If there is any breach of the provisions of the Automotive Engine Sale Framework Agreements including the provisions regarding the pre-determined automobile engine order quantities by the Automotive Engine Sales Parties, the PRC Company and the relevant Automotive Engine Sales Parties shall negotiate amicably. The relevant Automotive Engine Sales Party shall take measure to rectify the breach to mitigate the loss of the PRC Company within the grace period given by the PRC Company. If the relevant Automotive Engine Sales Party cannot take measure to rectify the breach within the reasonable grace period, it shall be responsible for the liability of the breach. The relevant Automotive Engine Sales Party(ies) shall compensate the loss derived from the breach suffered by the PRC Company. In addition to the rights granted to the PRC Company under the Automotive Engine Sales Framework Agreements, the PRC Company can also have the right to claim against the relevant Automotive Engine Sales Parties for all losses suffered by it in accordance with the PRC Contract Law and other relevant laws and regulations.

**Signing of the Factory Leasing Agreement**

Pursuant to the Sale and Purchase Agreement, the Vendor shall procure Chong Qing North Automobile to obtain the property ownership certificate for a factory (the "**Factory**") located in Tuchang Village, Hechuan District, Chongqing City, PRC, with an total area of approximately 20,000 square meters within 6 months after the date of the Sale and Purchase Agreement. The Vendor shall also procure ChongQing North Automobile to enter into the Factory Leasing Agreement (in the form and substance satisfactory to the Purchaser) leasing the Factory to the PRC Company within 3 Business Days after the obtaining of the property ownership certificate of the Factory. The Vendor shall further procure ChongQing North Automobile to allow the PRC Company to use the Factory free of charge before the entering into the Factory Leasing Agreement.

On 23 October 2015, the PRC Company and ChongQing North Automobile has entered into the Factory Leasing Agreement, pursuant to which the PRC Company can use the Factory for a term of 10 years commencing from 1 November 2015 with a rate of RMB10 per square meter (RMB140,400 per month).

During the negotiation process between the PRC Company and ChongQing North Automobile, the PRC Company suggested having a 10 years leasing term for the Factory intends to reduce the risk of relocating the Engine Production Line. It is also advised by the PRC Company that the chance of early termination of the Factory Leasing Agreement is at minimal as ChongQing North Automobile is one of the Automotive Engine Sales Parties and relies on the PRC Company for the supply of automobile engines and an early termination of the Factory Leasing Agreement would disrupt the delivery schedule to ChongQing North Automobile as well. In the event that there is a termination of the Factory Leasing Agreement prior to the end of lease term, there are other premises with similar size and nature available for leasing which situate nearby to the Factory.

In addition, it is advised by the Company that upon Completion, when the business of the PRC Company becomes stable and starts to secure more purchases orders, the Company might negotiate with ChongQing North Automobile for the acquisition of the Factory which can significantly reduce the risk of relocation. However, as at the Latest Practicable Date, no concrete plan on such acquisition is determined.

**Purchase of the Engine Production Line**

On 8 October 2015, the WFOE Company (which was established on 17 June 2010) entered into the Production Line Agreement with Beijing Guangan Xinye Information Consultation Centre# (北京廣安信業信息諮詢中心) in relation to the purchase of the Engine Production Line by the WFOE Company at the consideration of RMB40,000,000.

On 21 October 2015, the WFOE Company has transferred the Engine Production Line to the PRC Company through capital injection and established the PRC Company simultaneously. Hence, the Business Restructuring was also completed on the same day.

**Industry overview**

According to the research report "Automobile Manufacturing in China" published by IBISWorld in 2014, China's automobile manufacturing industry has seen significant growth in recent years, with total revenues having increased 11.3% from 2013 to $559.8 billion in 2014. It has been growing at an annualised rate of 14.2% during the past five years, driven by rising domestic demand across urban and rural areas and increasing exports. With strong support from the Chinese government, this industry is expected to experience steady and substantial growth over the next five years, with annualised revenue 8.8%. IBISWorld predicts that the industry revenue in 2019 will be $852.3 billion. The key drivers for future growth include China's substantial domestic demand, particularly in rural regions, government support, and the development of more foreign markets.

Over the past five years, there has been significant demand for foreign automobiles in China. This was mainly due to the rise in households with higher disposable incomes which in turn has led to a greater demand for luxury imported automobiles. Furthermore, import growth has risen as many joint-venture automobile manufacturers established their own marketing companies for imported automobiles in response to the implementation of regulations on automobile sales and dealers. However, domestic automobile manufacturers have also seen rapid growth as their products are sold at a lower price point: the average price for China's exported automobiles is approximately US$10,000, while the price for imported automobiles is about US$30,000. The profit margin was approximately 10.8% in 2014.

The classification system for automobiles in China was adopted in 2005, with two major categories: passenger vehicles and commercial vehicles. Passenger vehicles are subdivided into four segments: basic-type (or cars), multipurpose vehicles ("**MPVs**"), sport utility vehicles ("**SUVs**") and cross-type vehicles. The automobile engines manufactured from the Engine Production Line are principally for low emission MPVs and SUVs. Commercial vehicles include five segments: commercial passenger vehicles, freight vehicles, non-complete commercial passenger vehicles, non-complete freight vehicles and semi-trailer towing vehicles. The basic vehicle dominated the passenger segment with an estimated market share of 54.6% by automobile sales volume. The market share of MPVs and SUVs is relatively small but has grown rapidly in the past five years.

The market demand of the automobile industry is classified into three segments: household buyers, business fleet purchasers and government fleet purchasers. 78.5% of automobiles were purchased by households, and this proportion is expected to continue increasing in near future. The business fleet segment has grown steadily in recent years as the heightened economic activity requires a large number of passenger vehicles and freight vehicles. This segment has a 16.0% share in the industry in terms of the number of purchased automobiles. The market share of government fleet purchasers has gradually declined to about 5.5% of total sales volume, which is mainly due to the increase in the number of household purchasers and government regulations that impose limits on the number of automobiles local governments can purchase.

**Business model of the Target Group**

Based on the monthly engine order quantities as determined by the PRC Company upon discussion with the respective Automotive Engine Sales Parties, the PRC Company will accordingly enter into various supply contracts with different automobile engine parts suppliers and each of the parts suppliers will deliver the stocks to the PRC Company on the request of the PRC Company in order for the PRC Company to keep a sufficient level of inventory. The components from the suppliers stored in the Factory will be kept at a minimum level as to maintain high flexibility.

Upon receiving all the necessary components for the automobile engines, the workers will commence the assembly of the automobile engines along the Engine Production Line. Every workers along the Engine Production Line will be responsible for their own tasks and there will be no rotation such that the benefits of specialisation can be achieved. It is anticipated that it will be 8 hours per shift with 2 shifts per day at the beginning stage and there will be approximately 150 workers per shift. When the engine orders become significant in future, the PRC Company will start to operate 3 shifts per day to meet the demand accordingly. Majority of the workers are positioned in the production department, with the remaining staff members located in the logistic department, quality control department, testing department and equipment technology department. It is anticipated that with the Engine Production Line functioning with 2 shifts and 3 shifts per day, the maximum production capacity of the Engine Production Line is approximately 228,000 and 342,000 automobile engines per year, respectively.

Provided that if all necessary components from the suppliers are available, each automobile engine can be assembled in 60 minutes.

Once the automobile engines are assembled, they will be sent to the testing department and will be examined carefully before delivering them to the Automotive Engine Sales Parties. The entire testing procedure takes approximately 15 minutes. As the Automotive Engine Sales Parties are also located in close proximity to the Factory, it is expected that the automobile engines will be delivered to them once the assembly and testing of certain quantity of engines have completed, and therefore there is no fixed delivery frequency per day.

As at the Latest Practicable Date, the PRC Company has hired approximately 176 full time staff members and the majority of them will be responsible for the production and assembly of the automobile engines pursuant to the Automotive Engine Sales Framework Agreements. It is expected that the PRC Company will hire an aggregate of 300 full time staff members when the Engine Production Line commences production with 2 shifts per day.

As at the Latest Practicable Date, to the best of the Company's knowledge, information and belief and having made all reasonable enquiries, there are no specific pre-requisites approval/licenses/consents in relation to the Engine Production Line other than those generally applicable to all types of production factories. As at the Latest Practicable Date, save for the completion acceptance of environmental protection facilities and pollutant emission permit (the trial production environmental protection approval and provisional pollutant emission permit for this matter has been issued by the PRC Government department in late December 2015 and the completion acceptance of environmental protection facilities and the formal pollutant emission permit are expected to be obtained in early February 2016) and fire safety design approval (the relevant PRC Government department has approved the fire safety design report of the Factory submitted by ChongQing North Automobile and have issued a document indicating that there will be no legal concern for the PRC Government department to issue the approval for completion of the fire safety construction. It is anticipated by the PRC Company that the approval shall be issued to ChongQing North Automobile in January 2016) remain outstanding, there are no other approval/licenses/consents necessary for the commencement of business of the PRC Company. Upon receiving legal advice from the PRC Lawyer on this matter, the Company is of the view that obtaining the abovementioned consents shall not be an obstacle for the commencement of the operations for the PRC Company business.

The following table sets out the status of the general licenses or approval or certificate required by the PRC Company to commence operations:

| **License/Approval/Certificate** | **Status** |
|---|---|
| Approval certificate and official reply for wholly foreign-owned enterprise established in the PRC | The relevant certificate has been obtained |
| Certificate for business registration | The relevant certificate has been obtained |
| The PRC organisation registration code certificate | The relevant certificate has been obtained |
| National tax registration certificate and local tax registration certificate | The relevant certificate has been obtained |
| Foreign exchange registration for wholly foreign-owned enterprise established in the PRC | The registration has been undertaken |
| License for opening account | The relevant certificate has been obtained |
| Completion acceptance of environmental protection facilities and pollutant emission permit | As at the Latest Practicable Date, the trial production environmental protection approval and provisional pollutant emission permit have been obtained, and the completion acceptance of environmental protection facilities and the formal pollutant emission permit are expected to be obtained in early February 2016 |
| Approval for fire safety design and construction | As at the Latest Practicable Date, the relevant PRC Government department has approved the fire safety design report of the Factory submitted by ChongQing North Automobile and have issued a document indicating that there will be no legal concern for the PRC Government department to issue the approval for completion of the fire safety construction. It is anticipated by the PRC Company that the approval shall be issued to ChongQing North Automobile in January 2016. |

**Revenue model**

The revenue of the PRC Company is derived by the quantity and the selling price of the automobile engines sold to the Automotive Engine Sales Parties under the Automotive Engine Sales Framework Agreements. Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of the PRC Company's business, net of discounts and sales related taxes. The PRC Company recognises revenue from the sale of products when products are delivered to and accepted by the customers. The PRC Company will generally issue invoices upon the receipt of customers' acceptance of the products and the corresponding invoices are recorded on or before the respective month end. At the end of each month, the PRC Company will reconcile the amounts of sales with the customers to ensure the revenue and the corresponding account receivables are properly recorded in that month.

**Capital expenditure**

Save for the cost for maintenance purposes on the fixed assets of the Target Group, it is expected that there are no other capital expenditure.

**The products and target customer**

The principal products of the PRC Company are low-emission gasoline automobile engines. As at the Latest Practicable Date, the Engine Production Line of the PRC Company manufactures four types of automotive engine i.e. 1.0T, 1.3T, 1.3L, 1.5L and the PRC Company has secured three customers as at the Latest Practicable Date. Pursuant to the quantity orders under the Automotive Engine Sales Framework Agreements, the PRC Company expects that the production capacity of the Engine Production Line will be utilised efficiently and it is anticipated that once the production starts to operates smoothly i.e. after 6 months, the PRC Company will start to seek for new customers.

The size of a car's engine is measured in cubic centimeters and the sizes are generally rounded up and given in litres if the size is above 1,000cc (a litre). The measurement relates to how much volume the pistons inside the engine displace with each stoke. Normally, a larger size engine will be more powerful than a smaller sized one. The four types of automobile engines manufactured by the PRC Company i.e. 1.0T, 1.3T, 1.3L and 1.5L represent different sizes and natures of automobile engines, with the number 1.0, 1.3, 1.5 represent the size of 1,000cc, 1,300cc and 1,500cc, respectively. The 1.3L and 1.5L engines are classified as the traditional engines and both 1.0T and 1.3T are automobile engines that are turbocharged. Engines require air pressure to burn fuel and generate power and turbocharged engines are able to pump extra air into the engine to deliver more power. Comparing an engine with a turbocharger and one without which produces the same amount of power, the engine with the turbo will use less fuel as the actual engine size will be smaller. Regardless of the nature of the engines mentioned above, they are classified as low emission automobile engines and designed for low emission vehicles which have achieved great popularity in the country.

The target customer of the PRC Company is the low-emission automobile manufacturer and the PRC Company is expanding it's network within the PRC automobile industry on a continual basis in order to tie with the expansion plan in near future. In the event that additional customers are procured in the future, the PRC Company will expand the production capacity accordingly in order to meet the anticipated automobile engine quantity demand.

To mitigate the risk of over reliance on the existing customers, the PRC Company on one hand will further strengthen relationships with the existing customers through providing excellent after sales customer services and to maintain a prompt delivery schedule, on the other hand will continue to enhance the research and development capabilities and technology of the PRC Company to offer better products, to increase the performance/price ratio advantage of the products to differentiate from competitors. In addition, it is understood that as the PRC Company specialises in producing automobile engines, the production costs and time needed for the PRC Company are less as compared to other automobile manufacturers which produce their own engines and therefore, it is considered that it will be an unique competitive advantage to the PRC Company.

**Key suppliers**

The Target Group sources raw material and engine components used in its production from external suppliers and there are approximately 200 automobile parts suppliers and below are the information of the major suppliers:

| Supplier name | Supplying products | Expected cost for the supplying productions for the year 2016 *(RMB)* | Expected contribution to the overall supply for the year 2016 |
|---|---|---|---|
| ChongQing Huang Transmission Equipment Co., Ltd. # (重慶洲煌傳動設備有限公司) | Transmission system (變速器) | 260,556,923 | 20.67% |
| Dazhou Jinheng Mechanical Co., Ltd. # (達洲市金恒機械有限責任公司) | Cylinder band (氣缸體) | 110,307,692 | 8.75% |
| ChongQing Jian Mechanical Co., Ltd. # (重慶之安機械有限公司) | Cylinder cover (氣缸蓋) | 103,230,769 | 8.19% |
| Wuxi Honghu Muffler Co., Ltd. (無錫紅湖消聲器有限公司) | Exhaust manifold assembly (排氣歧管總成) | 99,060,000 | 7.86% |
| Chongqing Zichao Auto Parts Co., Ltd. # (重慶紫朝汽車配件有限公司) | Engine harness assembly (發動機線束總成) | 42,923,076 | 3.41% |
| Tianjin Huide Air Intake Manifold Co., Ltd. (天津惠德汽車進氣系統有限公司) | Intake manifold assembly (進氣歧管總成) | 42,000,000 | 3.33% |
| Neijiang Jinhong Crankshaft Co., Ltd. (內江金鴻曲軸有限公司) | Crankshaft (曲軸) | 31,846,153 | 2.53% |
| | **Total:** | **689,924,613** | **54.74%** |

There are approximately 180 raw material and engine components in relation to the automobile engine production in total. The PRC Company has already entered and will continue to enter into supply contracts with the suppliers whose' raw material or engine components are considered to be exclusive, unique and/or critical to the Engine Production

Line. For those raw material and engine components which are more generic or replaceable in nature, the PRC Company has sourced several of these suppliers as substitution if any of the suppliers has not performed its obligation appropriately.

Major terms of the supplier contracts include the price per unit, duration of contract and time to delivery. The supplier contracts are subject to renegotiation on an annual basis.

The management of the PRC Company will monitor closely to the inventory level of each of the raw material and engine components to avoid any delay or suspension of the Engine Production Line.

**Key management of the Target Group**

The following are the biographies of the senior management team of the PRC Company:

*General management*

Mr. Wu Chujiang (吳處強) ("**Mr. Wu**"), has served as the general manager of the PRC Company since October 2015 and Mr. Wu has been engaged in the design and production of engine for 11 years. Prior to that, Mr. Wu has worked in several companies which are related to machinery and transportation industry. Mr. Wu obtained his legal profession and transportation management graduation certificate in Guizhou University and Mr. Wu has subsequently obtained the title of senior engineer in December 2010.

*Technical issue department*

Mr. Su Hong (蘇宏) ("**Mr. Su**"), has served as the minister of the product development department of the PRC Company since October 2015. From September 2009 to September 2012 and October 2012 to September 2015, Mr. Su served as the product engineer and the deputy director of product development department of Chongqing Changan Automobile Power Research Institute (重慶長安汽車動力研究院產品所), respectively. Mr. Su obtained a bachelor's degree in power machinery and automation in Xi'an Jiaotong University in 2003 and a master's degree in machinery design, manufacturing and automation in Chongqing University in 2009.

*Finance department*

Mr. Li Zuochuan (李佐川) ("**Mr. Li**"), has served as the minister of the finance department of the PRC Company since October 2015. From October 2009 to September 2015, Mr. Li served as the deputy minister of Changan Suzuki Automobile Co. Ltd. (長安鈴木汽車公司). From June 2008 to August 2009, Mr. Li served as the audit supervisor of Chongqing Kang Hua Certified Public Accountants (重慶康華會計師事務所). Mr. Li obtained a bachelor's degree of accounting and management (accounting) in June 2008.

*Quality control department*

Mr. Chen Jun (陳俊) ("**Mr. Chen**"), has served as the minister of the quality control department of the PRC Company since October 2015. From April 2014 to September 2015, Mr. Chen served as the deputy minister and engineer of the quality control department of Chang'an Automobile Group Co., Ltd. (長安汽車股份有限公司). From May 2010 to March 2014, Mr. Chen served as a quality control engineer of Chongqing Guangda Industrial Co., Ltd. (重慶光大產業有限公司). From July 2008 to August 2010, Mr. Chen served as a quality control engineer of Chong Qing Sami Rubber Products Co., Ltd.# (重慶薩米橡塑製品有限公司)

*Sales department*

Mr. Luo Wen (羅文) ("**Mr. Luo**"), has served as the minister of the sales department of the PRC Company since October 2015. From January 2008 to October 2015, Mr. Luo served as the regional sales manager of Chong Qing DongFeng Automobile Co., Ltd.# (重慶東風小康).

As at the Latest Practicable Date, the PRC Company has hired approximately 176 full time staff members and the majority of them will be responsible for the production and assembly of the automobile engines pursuant to the Automotive Engine Sales Framework Agreements. It is expected that the PRC Company will hire an aggregate of 300 full time staff members when the Engine Production Line commences production with 2 shifts per day.

**Rules and regulations governing the PRC automobile engine industry**

There are no specific rules and regulations governing the industry which the PRC Company operates, however the PRC Company has to comply with standard laws and regulations which are generally applicable to business operations in PRC, including incorporation, operations and management of the WFOE Company, product quality and consumer rights, foreign trade, custom, anti-unfair competition, production safety, consumer rights, labour, social insurance law and housing provident administrative regulations, foreign exchange, enterprise income tax, income tax on share transfer, value-added tax, PRC custom duties, withholding tax on dividends and environmental protection and intellectual property.

**Competition**

The automotive engine industry in PRC is highly competitive and the competitors consist of local automotive engine manufacturers as well as large foreign-invested automotive engine manufacturers in China. Although the industry has high entry barriers, such as technology requirements, equipment requirements and customer recognition, the competition among existing market players is intense in terms of product quality, pricing, performance, reliability, timeliness of delivery, product development capabilities, customer service and overall management. It is believed the key factors for the success in the industry include relationships with automobile manufacturers, brand recognition, customer services, operating management, cost control, sales expertise, attraction and retention of talent and pricing strategy. We consider that given the Chinese government's recent announcement to relax a series of restrictions on small cars provided another impetus for the rapid development of more fuel-efficient cars and the Chinese car companies have quickly earned the international reputation for producing reliable and aesthetically pleasing cars at low price, the demand for low-emission local automobiles will remain positive and hence will encourage the development of local engine suppliers such as the Target Company, as local automotive manufacturers in general prefer to source engines from local engine manufacturers. In comparison, global automotive manufacturers in China generally prefer sourcing engines from their captive brand suppliers.

## RISK FACTORS

### General economic conditions causing a material shrinkage in automotive sales and manufacture could have a material adverse effect on the Target Company's business, results of operations and financial condition

The Target Company's business is directly related to automotive sales and production, which are highly cyclical and depend on, among other things, general economic conditions and consumer spending. Additionally, purchaser spending on vehicles can be affected by several factors, including employment levels, changes in discretionary income due to the pace of wage growth and changes in income tax rates, fuel costs, the availability and cost of consumer financing, vehicle replacement cycles and concerns about the global economy. As the volume of vehicle production fluctuates, the demand for the Target Company's products also fluctuates.

### Reliance on limited number of customers

The Target Company's sales are currently concentrated among three customers and the loss or consolidation of any one of these customers could reduce the Target Company's revenues and have a material adverse effect on the Target Company's business, results of operations and financial condition. Despite the fact that the terms pursuant of the Automotive Engine Sales Framework Agreements are legally binding, there is possibility that any of the Automotive Engine Sales Parties, in worst circumstances, would file bankruptcy. For example, General Motors and Chrysler received United States government assistance during the economic downturn and Chrysler ultimately filed for Chapter 11 bankruptcy on April 30, 2009 and General Motors ultimately filed for Chapter 11 bankruptcy on June 1, 2009. The bankruptcy, loss or consolidation of any one of the Target Company's customers, or a significant decrease in business from one or more of these customers, could materially and adversely affect the Target Company's business, results of operations and financial condition.

Despite that the raw materials and engine components contracts entered into between the PRC Company and the respective suppliers are also legally binding, there are no specific quantities requirement under the supplier contracts as the PRC Company only intends to maintain a sufficient inventory level from time to time. The supplier contracts only highlight the price per unit, duration of contract and time to delivery which are also subject to renegotiation on an annual basis, therefore in the event that any of the Automotive Engine Sales Parties does not perform their obligation accordingly, the risk that the PRC

Company suffer from the loss on the pre-ordered raw materials and engine components is limited to a certain extent. In addition, according to the payment terms under the supplier contracts, the PRC Company shall pay the respective suppliers after the 90th day when the supplier's invoice has been received by the PRC Company. Given that (i) the Automotive Engine Sales Parties shall settle the total purchase price of the automobile engine orders within three (3) months after the PRC Company has issued invoice to the respective Automotive Engine Sales Parties; and (ii) the Group has cash level of approximately HK$23.40 million as at 30 September 2015 according to the interim report of the Company, therefore it is considered that the PRC Company has sufficient funding to settle the procurement costs for the raw materials and/or engine components. The Board will monitor closely to the payment schedule of both Automotive Engine Sales Parties and the suppliers upon Completion.

Given that (i) the underlying Profit Guarantee and Compensation Formulae under the Sale and Purchase Agreement; (ii) the favourable policy supported by the PRC Government in relation to the products manufactured by the PRC Company; and (iii) the limited downside of the transaction (as safeguarded by the legally binding position of the Automotive Engine Sales Framework Agreements and the annual renegotiation basis of the supplier contracts), the Board is of the view that entering into the Sale and Purchase Agreement (as amended and supplemented by the Supplemental S&P Agreements) is fair and reasonable and in the interest of the minority Shareholders and the Company as a whole.

**Government policies on the purchases and ownership of motor vehicles may negatively affect the Target Company's business and growth prospects**

Government policies on motor vehicle purchases and ownership may negatively affect the Target Company's business and growth prospects because of their influence on consumer behaviour. For example, pursuant to the Notice on the Discontinuation of the Reduction of Purchase Tax for Passenger Vehicle with Emission On or Below 1.6 Litres (關於1.6升及以下排量乘用車車輛購置稅減徵政策到期停止執行的通知) promulgated by the PRC Ministry of Finance and the State Administration of Taxation on 27 December 2010 and effective on 1 January 2011, the PRC Government discontinued the reduction of automobile purchase tax rate applicable to passenger vehicles with emission on or below 1.6 litres, and the automobile purchase tax rate for such motor vehicles has been increased to 10% from 7.5% in 2010. If the PRC Government increases automobile purchase and consumption tax rates or impose an automobile luxury tax or other additional restrictions or taxes, the Target Company's business, financial condition, results of operations and growth prospects could be materially and adversely affected. Furthermore, additional policies implement by the PRC Government to curb urban traffic congestion may restrict the ability or motivation of potential vehicle purchasers and in turn reduce customer demand for automobiles. Should similar ordinances be adopted in any cities where the Target Company's customers operate, or if existing regulations become stricter, could materially and adversely affect the Target Company's business, results of operations and financial condition.

**Higher fuel prices and stricter emission standards may reduce the demand for automobiles and hence the Target Company's products**

The increase of price of gasoline may induce potential consumers to give up their incentive to purchase their own vehicles and instead opting for alternatives to automobiles, such as public transportation or bicycles, which may adversely affect the Target Company's sales of vehicles' engines. In addition, if the PRC Government implements stricter emission standards for automobiles sold in the PRC, which may indirectly increase the market price of the automobile sold in PRC, the demand for motor vehicles may decline and the Target Company's business, financial conditions, results of operations and growth prospects could be negatively affected.

**The Target Company's business is subject to risks associated with volatility in the prices of raw materials, parts and components required for the manufacture of the Target Company's products**

The Target Company rely on various types of raw materials, parts and components for the manufacture of the automobile engines. The future costs of raw materials, parts and components may be affected by many factors, such as market demand, changes in suppliers' manufacturing capacity, availability of substitute materials, general economic conditions etc. If the Target Company fail to manage the prices fluctuation of the abovementioned components or fail to pass the increased cost to the Target Company's customers in time, the Target Company's business, financial conditions, results of operations and growth prospects could be negatively affected.

**The Target Company could fail to obtain sufficient amounts of raw materials, parts or components that meet the Target Company's quality standards and/or at commercially acceptable prices**

The Target Company uses a wide variety of raw materials, parts and components in the Target Company's production and there is no certainty that the Target Company will not experience any shortage in the supply of these raw materials, parts and components in the future, or if any of the Target Company's suppliers suddenly unwilling or unable to provide the Target Company with sufficient amount of raw materials, parts and components that is required for production and the Target Company are unable to seek for other suppliers with similar quality and prices, the Target Company could not meet the delivery schedule to the Target Company's customers, the Target Company's business, financial conditions, results of operations and growth prospects could be negatively affected.

**Any failure to maintain an effective quality control and testing system could affect the quality of the Target Company's products**

The quality of the Target Company's automobile engine is crucial to the success of the Target Company's business and this significantly relies on the effectiveness of the Target Company's quality control and testing system, which depends on several factors, including the design of the system, the training program, and the capability of the Target Company's workers. Any substantial failure or deterioration of the Target Company's quality control and testing system could result in the production of defective or inferior products or delays in the delivery of the Target Company's products which could damage the Target Company's reputation. In addition, if the Target Company's products do not meet the specifications and requirements agreed with by the Target Company's customers, or if any of the Target Company's products are defective which result in the Target Company's customers suffering losses, the Target Company may be subject to product liability claims and litigations and this could negatively affect the Target Company's business, financial conditions, results of operations and growth prospects.

**Heavy reliance on a single production site**

The production of the automobile engines of the PRC Company is principally based in the Factory.

Any natural or other disasters, such as floods, fires, earthquakes and typhoons, may cause significant damage to the production base, which could be costly and time consuming to reinstate and could disrupt the operations. The Target Company may incur additional costs and may experience a disruption in the supply of the automobile engines until appropriate production facilities become available and operational. Any disruption or delay in the Target Company's production could have an adverse impact on the Target Company's ability to produce sufficient amount of automobile engines, which in turn could impair the ability to meet the demand of the Target Company's customers. In addition, in the event that the Target Company are not able to renew the existing lease, or that the lease is terminated for any reason prior to their expiration, the Target Company will need to relocate to alternative premises. In such cases, the Target Company's business, financial condition and results of operations could be materially and adversely affected.

**Financial information of the Target Group**

The Target Company was incorporated in BVI on 22 September 2015 and the Target Company acquired the HK Company in early October 2015, therefore the Target Group has not incurred any turnover, profit or loss after tax yet.

Set out below is the summary of the net assets and total assets extracted from the consolidated financial statements of the Target Group for the period ended 8 October 2015:

| | **As at 8 October 2015** *HK$* |
|---|---:|
| Net assets | 8 |
| Total assets | 49,703,419 |

## REASONS FOR AND BENEFITS OF THE ACQUISITION

The Company, a company incorporated in the Cayman Islands with limited liability and the issued shares of which are listed on Main Board of the Stock Exchange, is an investment holding company. The Group is principally engaged in civil engineering works as well as building construction and maintenance in Hong Kong.

As disclosed in the composite and offer document jointly issued by the Company and Youth Force (the "**Offeror**") dated 20 July 2015, the Offeror would conduct a review on the financial position and the operations of the Group and would explore other business opportunities and consider whether any asset disposals, asset acquisitions, business rationalisation, business divestment, fund raising, restructuring of the business and/or business diversification would be appropriate to enhance the long-term growth potential of the Group.

Whilst the Group maintains its core business in these areas, the Board continuously explores different investment opportunities and is of the view that the Acquisition presents an excellent opportunity for the Group to expand its business portfolio into the PRC automobile sector. The Target Group will contribute to the consolidated cash flow and income of the Group immediately following Completion.

Upon Completion, it is expected that the Board will appoint an executive Director who possesses relevant experience in automotive industry and could help overseeing the operations of the automotive engine business and is also independent from the Vendor and its connected persons under the Listing Rules. As at the Latest Practicable Date, the Company has yet selected any suitable candidate for the position.

The State Council of the PRC released an announcement on "No Restriction on New Energy Cars by the State Council of the People's Republic of China" (國務院：新能源車不得限行購), which emphasised that from 1 October 2015 to 31 December 2016, the PRC government would implement a 50 percent purchase tax cut on passenger vehicles which are under 1,600cc displacement in mainland China. With a lower taxation on purchasing cars, this encourages residents to acquire their vehicles thus stimulating the demand on automobiles and hence will have a positive impact on the automotive engine business segment in general.

The drop in the international oil price since 2014 has caused a sharp decrease in petrol oil price and is expected to remain at a relatively low level in the near future. The Board believes that under a low oil price environment, the cost of driving would be substantially reduced and the Board believes that it would strongly encourage the PRC residents, in particular the citizens in rural area, to purchase their own vehicles for daily transportation purpose.

In addition, (i) pursuant to the Sale and Purchase Agreement (as amended and supplemented by the Supplemental S&P Agreements dated 20 November 2015 and 15 January 2016 respectively), the Guarantor and the Vendor have provided a Profit Guarantee over a period of twenty-four (24) full calendar months following Completion, and if the Profit Guarantee cannot be achieved, the Vendor shall make a Compensation; (ii) the multiple factor of 3 times of the shortfall under the Compensation Formulae significantly limit the downside risk facing by the Group; (iii) pursuant to the Automotive Engine Sales Framework Agreements, the supply of automotive engines shall be under terms of five (5) years (i.e. up to 2020); and (iv) the Guarantor has been appointed as a director of the PRC Company for the provision of advice for the daily operations of the

PRC Company. The Board therefore considers that downside risk of the Group with respect to the Acquisition is limited, the prospect of the Target Company is positive and is capable of generating promising return to the Group in near future.

In consideration of the Profit Guarantee and the future prospects of the Target Company as mentioned above, the Board considers that the terms of the Sale and Purchase Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

## FINANCIAL EFFECT OF THE ACQUISITION

Upon completion of the Acquisition, the Target Company will become an indirect wholly-owned subsidiary of the Company. Its results, assets and liabilities will therefore be consolidated into the financial statements of the Group. Set out in Appendix III to this circular is the unaudited pro forma financial information of the Enlarged Group which illustrates the financial effects of the Acquisition on the assets and liabilities of the Group assuming the Acquisition has been completed on 30 September 2015.

Based on the unaudited pro forma financial information of the Enlarged Group in Appendix III to this circular, upon Completion and assuming the Acquisition has been completed on 30 September 2015, the total assets of the Group would increase approximately from HK$250,951,000 to approximately HK$1,439,187,000 and its total liabilities would increase approximately from HK$77,009,000 to approximately HK$929,800,000.

It is also expected that the earnings of the Enlarged Group will increase as a result of the Acquisition.

It should be noted that the above financial effects of the Acquisition are for illustration purpose only. The exact financial effects are dependent on the consolidated net assets value of the Target Group on the date of Completion and also subject to the review by the Company's auditors.

## IMPLICATIONS UNDER THE LISTING RULES

As one or more the applicable percentage ratios of the Acquisition exceed 25% but are lower than 100%, the Acquisition constitutes a major transaction on the part of the Company under Chapter 14 of the Listing Rules. Therefore, the Acquisition will be subject to the reporting, announcement and the Shareholders' approval requirements under Chapter 14 of the Listing Rules.

The EGM will be convened and held for the purposes of considering and, if thought fit, approving the Acquisition. The voting in relation to the Acquisition at the EGM will be conducted by poll whereby any Shareholders and their close associates (as defined under the Listing Rules) who have a material interest in the Acquisition shall abstain from voting on the resolutions in relation to the Acquisition to be proposed at the EGM.

To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, no Shareholder and his/her/its close associates (as defined under the Listing Rules) has a material interest in the Acquisition. As such, no Shareholder is required to abstain from voting under the Listing Rules if the Company is to convene a EGM for the approval of the Acquisition.

**Completion of the Acquisition is subject to the satisfaction and/or waiver of the conditions precedent under the Sale and Purchase Agreement and therefore may or may not proceed. Shareholders and potential investors are advised to exercise caution when dealing in the securities of the Company.**

## EGM

The Directors have resolved to convene the EGM to consider and, if thought fit, to approve the Acquisition by the Shareholders.

The notice of EGM is set out on pages 101 to 103 of this circular. A proxy form for use by the Shareholders at the EGM is enclosed herewith. Whether or not you are able to attend the EGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and deposit the same at the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish and in such event, the form of proxy shall be deemed to be revoked.

## RECOMMENDATION

The Directors consider that the Acquisition is fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Acquisition.

## ADDITIONAL INFORMATION

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

The English text of this circular, the notice of the EGM and the form of proxy for use at the EGM shall prevail over the Chinese text in case of inconsistency.

Yours faithfully,
By Order of the Board
**Excel Development (Holdings) Limited**
**Wong Hin Shek**
*Chairman*

# *The Chinese names have been translated into English for reference only*

## 1. FINANCIAL SUMMARY OF THE GROUP

The Company commenced the listing of its Shares on the Main Board of the Stock Exchange on 11 December 2013. The financial information of the Group for the years ended 31 March 2014 and 2015 and for the six-month period ended 30 September 2015 have been published in the annual/interim reports per below:

(i) the financial information of the Group for the six-month period ended 30 September 2015 is disclosed in the interim report of the Company for the six-month period ended 30 September 2015 published on 3 December 2015, from pages 4 to 22;

http://www.hkexnews.hk/listedco/listconews/SEHK/2015/1203/LTN20151203941.pdf

(ii) the financial information of the Group for the year ended 31 March 2015 is disclosed in the annual report of the Company for the year ended 31 March 2015 published on 27 July 2015, from pages 49 to 115;

http://www.hkexnews.hk/listedco/listconews/SEHK/2015/0727/LTN20150727043.pdf

(iii) the financial information of the Group for the year ended 31 March 2014 are disclosed in the annual report of the Company for the year ended 31 March 2014 published on 11 July 2014, from pages 51 to 116; and

http://www.hkexnews.hk/listedco/listconews/SEHK/2014/0711/LTN20140711232.pdf

All of which have been published on the websites of the Company (www.excelengco.com) and the Stock Exchange (http://www.hkexnews.hk).

## 2. STATEMENT OF INDEBTEDNESS

### Indebtedness Statement

*Borrowings*

At the close of business on 30 November 2015, being the latest practicable date for the purpose of this indebtedness statement, the Enlarged Group had outstanding borrowings of HK$6,058,000.

*Contingent liabilities*

As at 30 November 2015, the guarantees given by the Enlarged Group to certain banks in respect of performance bonds in favour of certain contract customers amounted to HK$20,014,000. As at 30 November 2015, the Enlarged Group has given guarantees in favour of certain banks to the extent of HK$100,000,000 in respect of banking facilities granted by those banks to the Enlarged Group.

*Pledge of Assets*

As at 30 November 2015, the Enlarged Group's accounts receivable with aggregate carrying amount of approximately HK$15,337,000 was pledged to certain banks to secure the general banking facilities granted to the Enlarged Group.

Save as aforesaid and apart from intra-group liabilities, as at the close of business on 30 November 2015, the Enlarged Group did not have any outstanding mortgages, charges, debentures, loan capital, bank overdrafts, loans or other similar indebtedness, liabilities under acceptance (other than normal trade bills) or acceptance credits, debt securities (whether issued and outstanding or authorised or otherwise created but unissued), guarantees or other material contingent liabilities.

The Directors confirmed that, save as disclosed above, there had not been any material changes to the indebtedness and contingent liabilities of the Enlarged Group since 30 November 2015.

## 3. WORKING CAPITAL

Taking into account the expected completion of the Acquisition and based on the financial resources available to the Enlarged Group, including internally generated funds and available banking facilities of the Enlarged Group, the Directors after due and careful consideration are of the opinion that the Enlarged Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the date of publication of this circular, in the absence of unforeseeable circumstances.

## 4. MATERIAL ADVERSE CHANGE

As disclosed in the interim report of the Company for the six months ended 30 September 2015 ("**2015 Interim Report**"), the Group recorded loss attributable to the shareholders of the Company of approximately HK$2.2 million for the six months ended 30 September 2015 as compared to the profit attributable to the shareholders of the Company of approximately HK$12.1 million for the same period in 2014.

As disclosed in the 2015 Interim Report, the main reasons of the loss are: (i) the Group was not awarded with new significant contracts from the public sector since August 2014; and (ii) significant increase in construction costs including materials, staff and labour cost in civil engineering projects were recorded during the six months ended 30 September 2015 as compared to the corresponding period in 2014.

Save as disclosed above, as at the Latest Practicable Date, the Directors confirm that there had been no other material adverse change in the financial or trading position of the Group since 31 March 2015, being the date to which the latest published audited consolidated accounts of the Group were made up.

## 5. BUSINESS REVIEW AND FINANCIAL AND TRADING PROSPECTS

As disclosed in the Company's annual report for the year ended 31 March 2015, according to the Hong Kong Government's Budget 2015/16, it is estimated that capital expenditure for 2015/16 will be HK$86.5 billion, including HK$70 billion on capital works. Capital works expenditure is expected to maintain at relatively high levels in the next few years. In view of the increasing public expenditure on infrastructure by Hong Kong Government in the forthcoming years, we believe that the civil engineering construction industry has significant market potential and promising prospects. To further strengthen our Group's business growth, we will continue to tender for new waterworks, roads and drainage works, slope and other civil engineering construction works offered by various departments of the Hong Kong Government and private organisation.

While the outlook for the construction industry in Hong Kong looks promising in the long run, there remain challenges that are unlikely to dissipate in the near future. They include continuously rising labour wages and cost of construction materials and shortage of skilled labour. In addition, the sluggish progress of deliberation in Legislative Council, which has resulted in the mounting of backlog of funding proposals, also delays in the rolling out of public infrastructure works in Hong Kong. The business and profitability of our Group may be affected if such delay continues.

Following the change of control of the shareholding of the Company on 10 August 2015, Youth Force (the "**Offeror**"), which is wholly-owned by Mr. JIANG Jianhui became the controlling Shareholder and as disclosed in the composite document, following the close of the offer, the Offeror intends to continue the existing principal businesses of the Group. The Offeror would conduct a review on the financial position and the operations of the Group and would explore other business opportunities and consider whether any asset disposals, asset acquisitions, business rationalisation, business divestment, fund raising, restructuring of the business and/or business diversification would be appropriate to enhance the long-term growth potential of the Group. Subject to the results of the review, and should suitable investment or business opportunities arise, the Offeror may consider taking up such opportunities with an objective to increasing the Group's profitability in the future and therefore enhancing the value of the Shareholders in the long term. Should, after detailed review of the financial position and the operations of the Group, any other suitable investment opportunities be identified, the Offeror may also consider having the Group acquire assets and/or businesses whether from the Offeror (or its associates) or any other third parties, as and when appropriate, in order to enhance the growth of the Group.

Upon Completion, the Enlarged Group intend to maintain its existing business operations and the Board will continue to explore different investment opportunities and is of the view that the production and sales of automotive engines business represents an excellent opportunity for the Enlarged Group to expand its business portfolio into the automobile sector. In addition, the Enlarged Group will seize any opportunity to develop the automotive engines business as the Board is positive about the industry. The Board believes that the acquisition of the PRC Company is on the right track to diversify its business, which would mitigate operating risks and maximise returns to the shareholders of the Company.

As at the Latest Practicable Date, the Company has not entered into any agreement or arrangement and do not have any current intention of, understanding or negotiation with any third parties in respect of any acquisitions, disposals, termination or scaling down of the Group's existing businesses or assets. The scale of the Group's existing businesses in future will depend on the performance of such businesses and the environment of the civil engineering works and building construction and maintenance market. The Company will review such factors periodically.

*The following is the text of a report received from the Target Company's reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong, prepared for the purpose of incorporation in this Circular.*

22nd Floor
CITIC Tower
1 Tim Mei Avenue, Central
Hong Kong

19 January 2016

*The Directors*
*Excel Development (Holdings) Limited*

Dear Sirs,

We set out below our report on the financial information of Well Surplus Enterprises Limited (the "**Target Company**") and its subsidiaries (hereinafter collectively referred to as the "**Target Group**") comprising the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Target Group for the period from 22 September 2015 (date of incorporation) to 31 October 2015 (the "**Relevant Period**"), and the consolidated statement of financial position of the Target Group as at 31 October 2015, together with the notes thereto (the "**Financial Information**"), prepared on the basis of presentation set out in note 2.1 of Section II below, for inclusion in the circular of Excel Development (Holdings) Limited (the "**Company**") dated 19 January 2016 (the "**Circular**") in connection with, amongst other matters, the proposed acquisition of the entire issued capital of the Target Company and the shareholder's loan in the Target Group by the Company (the "**Acquisition**").

The Target Company was incorporated in the British Virgin Islands (the "**BVI**") as a company with limited liability on 22 September 2015. The principal activity of the Target Company is investment holding and the details of the principal activities of the subsidiaries of the Target Company are set out in note 1 of Section II below.

As at the date of this report, no statutory financial statements have been prepared for the Target Company, as it is not subject to statutory audit requirements under the relevant rules and regulations in its jurisdiction of incorporation.

As at the date of this report, the Target Company has direct and indirect interests in the subsidiaries as set out in note 1 of Section II below. All companies now comprising the Target Group have adopted 31 December as their financial year end date. The statutory financial statements of the companies now comprising the Target Group were prepared in accordance with the relevant accounting principles applicable to these companies in the jurisdictions in which they were incorporated and/or established.

For the purpose of this report, the sole director of the Target Company has prepared the consolidated financial statements of the Target Group (the "**Underlying Financial Statements**") in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**"), which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"). The Underlying Financial Statements for the period from 22 September 2015 (date of incorporation) to 31 October 2015 were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Financial Information set out in this report has been prepared from the Underlying Financial Statements with no adjustments made thereon.

**Director's responsibility**

The sole director of the Target Company is responsible for the preparation of the Underlying Financial Statements and the Financial Information that give a true and fair view in accordance with HKFRSs, and for such internal control as the sole director of the Target Company determines is necessary to enable the preparation of the Underlying Financial Statements and the Financial Information that are free from material misstatement, whether due to fraud or error.

**Reporting accountants' responsibility**

It is our responsibility to form an independent opinion on the Financial Information and to report our opinion thereon to you.

For the purpose of this report, we have carried out procedures on the Financial Information in accordance with Auditing Guideline 3.340 *Prospectuses and the Reporting Accountant* issued by the HKICPA.

**Opinion in respect of the Financial Information**

In our opinion, for the purpose of this report and on the basis of presentation set out in note 2.1 of Section II below, the Financial Information gives a true and fair view of the financial position of the Target Group as at 31 October 2015 and of the consolidated financial performance and cash flows of the Target Group for the Relevant Period.

## I. FINANCIAL INFORMATION

## (A) CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

| | *Notes* | **Period from 22 September 2015 (date of incorporation) to 31 October 2015** *HK$* |
|---|---|---|
| Administrative expenses | | (109,809) |
| Other expense | 10 | (197,580) |
| LOSS BEFORE TAX | 5 | (307,389) |
| Income tax expense | 6 | — |
| LOSS AND TOTAL COMPREHENSIVE LOSS FOR THE PERIOD ATTRIBUTABLE TO THE SOLE EQUITY OWNER OF THE PARENT | | (307,389) |

## (B) CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | *Notes* | **At 31 October 2015** *HK$* |
|---|---|---|
| NON-CURRENT ASSET | | |
| Property, plant and equipment | 9 | 48,696,000 |
| CURRENT ASSET | | |
| Cash and cash equivalents | 11 | 700,021 |
| CURRENT LIABILITIES | | |
| Due to Ms. Weng | 12 | 48,696,000 |
| Due to Power Expert | 12 | 999,992 |
| Other payables and accruals | 13 | 7,410 |
| Total current liabilities | | 49,703,402 |
| NET CURRENT LIABILITIES | | (49,003,381) |
| Net liabilities | | (307,381) |
| DEFICIENCY IN ASSETS | | |
| **Equity attributable to the sole equity owner of the parent** | | |
| Share capital | 14 | 8 |
| Accumulated loss | | (307,389) |
| Total deficiency in assets | | (307,381) |

## (C) CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | | Attributable to the sole equity owner of the Target Company | | |
|---|---|---|---|---|
| | | Share capital | Accumulated loss | Total deficiency in assets |
| | *Note* | *HK$* | *HK$* | *HK$* |
| At 22 September 2015 (date of incorporation) | | — | — | — |
| Share issued on incorporation | 14 | 8 | — | 8 |
| Loss and total comprehensive loss for the period | | — | (307,389) | (307,389) |
| At 31 October 2015 | | 8 | (307,389) | (307,381) |

## (D) CONSOLIDATED STATEMENT OF CASH FLOWS

| | Notes | Period from 22 September 2015 (date of incorporation) to 31 October 2015 HK$ |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Loss before tax | | (307,389) |
| Adjustment for: | | |
| Transaction costs for acquisition of subsidiaries | 10 | 197,580 |
| Net cash used in operating activities | | (109,809) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Acquisition of subsidiaries | 10 | 809,830 |
| Purchase of items of property, plant and equipment | 9 | (48,696,000) |
| Net cash used in investing activities | | (47,886,170) |
| CASH FLOWS FROM FINANCING ACTIVITY | | |
| Increase in an amount due to Ms. Weng | | 48,696,000 |
| Net cash from financing activity | | 48,696,000 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | 700,021 |
| Cash and cash equivalents at beginning of period | | — |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | 11 | 700,021 |

## II. NOTES TO FINANCIAL INFORMATION

### 1. CORPORATE AND GROUP INFORMATION

The Target Company is a limited liability company incorporated in the BVI on 22 September 2015. The registered office and the principal place of business of the Target Company is located at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, BVI.

The Target Company is an investment holding company. During the Relevant Period, on 8 October 2015, the Target Company acquired the entire equity interest in Smart Source Corporation Limited ("**Smart Source**") and its subsidiary, Lianyungang Signality and Information Consulting Services Co., Ltd (連雲港訊利信息諮詢服務有限公司) ("**Lianyungang**"), from Pacific Plywood Holdings Limited, an independent third party. Further details of this acquisition are set out in note 10 to the Financial Information. On 21 October 2015, Lianyungang established a wholly-owned subsidiary, Chongqing Bisu Yunbo Power Technology Co., Ltd. (重慶比速雲博動力科技有限公司) ("**Chongqing Bisu Yunbo**"), in the People's Republic of China (the "**PRC**") which will be engaged in the development, production and sales of automotive engines.

In the opinion of the sole director, Power Expert Global Limited ("**Power Expert**"), a company incorporated in the BVI with limited liability and wholly owned by Ms. Weng Guangmin ("**Ms. Weng**"), is the immediate and ultimate holding company of the Target Company.

As at the date of this report, the Target Company had direct and indirect interests in its subsidiaries, all of which are private limited liability companies (or, if incorporated outside Hong Kong, have substantially similar characteristics to a private company incorporated in Hong Kong), the particulars of which are set out below:

| Company name | Place and date of incorporation/ registration and place of operations | Issued share capital/registered capital | Percentage of equity attributable to the Target Company Direct | Indirect | Principal activities |
|---|---|---|---|---|---|
| Smart Source* | Hong Kong 29 April 2010 | Ordinary HK$1 | 100 | — | Investment holding |
| Lianyungang# 連雲港訊利信息諮詢服務有限公司* | The PRC/ Mainland China 17 June 2010 | HK$780,000 | — | 100 | Information consultancy, billboard production and installation |
| Chongqing Bisu Yunbo# 重慶比速雲博動力科技有限公司* | The PRC/ Mainland China 21 October 2015 | Renminbi ("RMB") 60,000,000 | — | 100 | Development, production and sales of automotive engines |

\# The English names of these companies represent the best effort made by management of the Target Company to directly translate their Chinese names as they do not register any English names.

* No audited financial statements have been prepared for these entities for the Relevant Period.

### 2.1. BASIS OF PRESENTATION

As at 31 October 2015, the Target Group had net current liabilities of HK$49,003,381 and a deficiency in assets of HK$307,381. The Target Group finances its operations by obtaining funding from its shareholder, credit terms from suppliers, and an interest-bearing borrowings from a third party.

Ms. Weng, the sole director and ultimate shareholder of the Target Company, and Power Expert have undertaken not to demand repayment of the amount due to her by the Target Group until such time as the Target Group is in a position to repay such amount without impairing its liquidity position. The Company has also agreed to provide continual financial support and adequate funds to the Target Group to meet its liabilities as and when they fall due after the completion of the Acquisition.

Moreover, on 4 November 2015, the Target Group obtained a two-year term loan of RMB5 million (equivalent to approximately HK$6 million) from ChongQing Yueyuanrui Trading Co., Ltd. (重慶月源瑞商貿有限公司) ("**CQ Yueyuanrui**"), an independent third party, as working capital.

The sole director of the Target Company is of the opinion that, taken into account the funding from her, Power Expert and the Company, the new loan of RMB5 million from CQ Yueyuanrui and internal financial resources of the Target Group, the Target Group has sufficient working capital for its present requirements. Hence, the Financial Information have been prepared on a going concern basis.

## 2.2 BASIS OF PREPARATION

The Financial Information has been prepared from the Underlying Financial Statements of the Target Group. The Underlying Financial Statements have been prepared in accordance with HKFRSs (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations) issued by the HKICPA and accounting principles generally accepted in Hong Kong.

The Financial Information has been prepared under the historical cost convention and is presented in Hong Kong dollars ("**HK$**"), and all values are rounded to the nearest dollar except when otherwise indicated.

### Basis of consolidation

The Financial Information includes the financial statements of the Target Company and its subsidiaries for the period from 22 September 2015 (date of incorporation of the Target Company) to 31 October 2015. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Target Company. Control is achieved when the Target Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Target Group the current ability to direct the relevant activities of the investee).

When the Target Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Target Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Target Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Target Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Target Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the sole equity owner of the parent of the Target Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Target Group are eliminated in full on consolidation.

The Target Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described in the accounting policy for subsidiaries above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Target Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Target Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Target Group had directly disposed of the related assets or liabilities.

## 2.3 ISSUED BUT NOT YET EFFECTIVE HKFRSs

The Target Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in the Financial Information.

| | |
|---|---|
| HKFRS 9 | *Financial Instruments*[2] |
| Amendments to HKFRS 10 and HKAS 28 (2011) | *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[1] |
| Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011) | *Investment Entities: Applying the Consolidation Exception*[1] |
| Amendments to HKFRS 11 | *Accounting for Acquisitions of Interests in Joint Operations*[1] |
| HKFRS 14 | *Regulatory Deferral Accounts*[3] |
| HKFRS 15 | *Revenue from Contracts with Customers*[2] |
| Amendments to HKAS 1 | *Disclosure Initiative*[1] |
| Amendments to HKAS 16 and HKAS 38 | *Clarification of Acceptable Methods of Depreciation and Amortisation*[1] |
| Amendments to HKAS 16 and HKAS 41 | *Agriculture: Bearer Plants*[1] |
| Amendments to HKAS 27 (2011) | *Equity Method in Separate Financial Statements*[1] |
| *Annual Improvements 2012–2014 Cycle* | Amendments to a number of HKFRSs[1] |

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

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

3 Effective for an entity that first adopts HKFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Target Group

Further information about those HKFRSs that are expected to be applicable to the Target Group is as follows:

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Target Group expects to adopt HKFRS 9 from 1 January 2018. The Target Group expects that the adoption of HKFRS 9 will have an impact on the classification and measurement of the Target Group's financial assets. Further information about the impact will be available nearer the implementation date of the standard.

Amendments to HKFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value. The amendments to HKFRS 10 also clarify that only a subsidiary that is not an investment entity itself and provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. Consequential amendments were made to HKFRS 12 to require an investment entity that prepares financial statements in which all of its subsidiaries are measured at fair value through profit or loss in accordance with HKFRS 9 to present the disclosures in respect of investment entities in accordance with HKFRS 12. HKAS 28 (2011) was also amended to allow an investor that is not itself an investment entity, and has an interest in an investment entity associate or joint venture, to retain the fair value measurement applied by the investment entity associate or joint venture to the interests in its subsidiaries. The amendments are not expected to have any impact on the Target Group as the Target Company is not an investment entity as defined in HKFRS 10.

The amendments to HKFRS 11 require that an acquirer of an interest in a joint operation in which the activity of the joint operation constitutes a business must apply the relevant principles for business combinations in HKFRS 3. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to HKFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation. The amendments are not expected to have any impact on the financial position or performance of the Target Group upon adoption on 1 January 2016.

HKFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. The Target Group expects to adopt HKFRS 15 upon the effective date and is currently assessing the impact of HKFRS 15 upon adoption.

The HKAS 16 and HKAS 41 Amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will be within the scope of HKAS 16 instead of HKAS 41. After initial recognition, bearer plants will be measured under HKAS 16 at accumulated cost before maturity. After the bearer plants mature, they will be measured either using the cost model or revaluation model in accordance with HKAS 16. The amendments also require that produce growing on the bearer plants will remain in the scope of HKAS 41 and is measured at fair value less costs to sell. Government grants relating to bearer plants will now be accounted for in accordance with HKAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*. The Target Group expects to adopt the amendments from 1 January 2016. The amendments are not expected to have any impact on the Target Group as the Target Group does not have any bearer plants.

Amendments to HKAS 1 include narrow-focus improvements in respect of the presentation and disclosure in financial statements in five areas, including materiality, disaggregation and subtotals, notes structure, disclosure of accounting policies and presentation of items of other comprehensive income arising from equity accounted investments. The amendments further encourage entities to apply professional judgement in determining what information to disclose and how to structure the disclosure in the financial statements. The Target Group expects to adopt the amendments from 1 January 2016.

Amendments to HKAS 16 and HKAS 38 clarify the principle in HKAS 16 and HKAS 38 that revenue reflects a pattern of economic benefits that are generated from operating business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are to be applied prospectively. The amendments are not expected to have any impact on the financial position or performance of the Target Group upon adoption on 1 January 2016 as the Target Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Fair value measurement**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

| | | |
|---|---|---|
| Level 1 | — | based on quoted prices (unadjusted) in active markets for identical assets or liabilities |
| Level 2 | — | based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly |
| Level 3 | — | based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable |

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Target Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

**Impairment of non-financial assets**

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

**Related parties**

A party is considered to be related to the Target Group if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Target Group;

(ii) has significant influence over the Target Group; or

(iii) is a member of the key management personnel of the Target Group or of a parent of the Target Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Target Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Target Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of the employees of either the Target Group or an entity related to the Target Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

**Property, plant and equipment and depreciation**

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Target Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The annual rate used for machinery is 10%.

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents machinery in the process of installation, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of installation and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

**Financial instruments**

*Financial assets*

The Target Group's financial assets include cash and cash equivalents which are classified and accounted for as loans and receivables. Financial assets are recognised on the trade date.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recorded at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest rate method, less impairment allowances. Any changes in their value are recognised in profit or loss.

Derecognition of financial assets occurs when the rights to receive cash flows from the financial assets expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

An assessment for impairment is undertaken at least at the end of each reporting period whether or not there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment loss on loans and receivables is recognised when there is objective evidence that the Target Company will not be able to collect all the amounts due to it in accordance with the original terms of the receivables. The amount of the impairment loss is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows.

*Financial liabilities*

The Target Group's financial liabilities include an amount due to Ms. Weng, an amount due to Power Expert and other payables and accruals. Financial liabilities are recognised when the Target Group becomes a party to the contractual provisions of the instrument.

Financial liabilities are initially recognised at fair value, net of transaction costs incurred and subsequently measured at amortised cost using the effective interest rate method. Financial liabilities are derecognised when the obligation specified in the contract is discharged or cancelled, or expires.

**Offsetting of financial instruments**

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise and settle the liabilities simultaneously.

**Cash and cash equivalents**

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand, deposits held at call with banks, and other short term highly liquid investments with original maturity of three months or less when acquired, less bank overdrafts.

**Income tax**

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Target Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Tax rates enacted or substantively enacted by the end of the reporting period are used to determine the deferred tax.

Deferred tax liabilities are provided in full while deferred tax assets are recognises to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

**Foreign currencies**

The Financial Information is presented in HK$, which is the Target Company's functional and presentation currency. Each entity in the Target Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Target Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currency of PRC subsidiaries is currency other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Target Group in HK$ at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into HK$ at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of PRC entities are translated into HK$ at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of PRC entities which arise throughout the year are translated into HK$ at the weighted average exchange rates for the year.

## 4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Target Group's financial statements requires management to make estimates and assumptions that affect the reported amounts of expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

**Estimation uncertainty**

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

*Useful lives and impairment of property, plant and equipment*

The Target Group's management determines the estimated useful lives and related depreciation charges for its items of property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of items of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and its competitor's actions. Management will increase the depreciation charge where useful lives are less than previously estimates, or it will write off or write down technically obsolete assets that have been abandoned.

The carrying value of an item of property, plant and equipment is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable in accordance with the accounting policy as disclosed in the relevant part of this section. The recoverable amount of an item of property, plant and equipment is calculated as the higher of its fair value less costs to sell and value in use, the calculations of which involve the use of estimates.

**5. LOSS BEFORE TAX**

The Target Group's loss before tax is arrived at after charging:

| | Period from 22 September 2015 (date of incorporation) to 31 October 2015 |
|---|---|
| | *HK$* |
| Auditors' remuneration | — |
| Director's remuneration | — |

**6. INCOME TAX**

Pursuant to the rules and regulations of the BVI, the Target Company is not subject to any income tax in the BVI. No provision for Hong Kong profits tax or PRC corporate income tax has been made as the Target Group did not generate any assessable profits arising in Hong Kong and Mainland China during the Relevant Period.

A reconciliation of the tax credit applicable to loss before tax at the statutory rates to the tax expense at the effective tax rates is as follows:

| | Period from 22 September 2015 (date of incorporation) to 31 October 2015 |
|---|---|
| | *HK$* |
| Loss before tax | (307,389) |
| Tax at the statutory tax rates of different jurisdictions | (60,053) |
| Expenses not deductible for tax | 60,053 |
| Tax position | — |

**7. DIVIDEND**

No dividend has been paid or declared by the Target Company since its incorporation.

**8. EARNINGS PER SHARE ATTRIBUTABLE TO THE SOLE EQUITY OWNER OF THE TARGET COMPANY**

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful.

## 9. PROPERTY, PLANT AND EQUIPMENT

| | Construction in progress *HK$* |
|---|---|
| At 22 September 2015 (date of incorporation): | |
| Cost | — |
| Accumulated depreciation | — |
| Net carrying amount | — |
| At 22 September 2015 (date of incorporation), net of accumulated depreciation | — |
| Additions | 48,696,000 |
| At 31 October 2015, net of accumulated depreciation | 48,696,000 |
| At 31 October 2015: | |
| Cost | 48,696,000 |
| Accumulated depreciation | — |
| Net carrying amount | 48,696,000 |

## 10. ACQUISITION OF SUBSIDIARIES

On 8 October 2015, the Target Company acquired the entire equity interest in Smart Source and its subsidiary, Lianyungang, from Pacific Plywood Holdings Limited for a consideration of HK$1,000,000. Smart Source and Lianyungang were dormant companies with no business activities carried out since their incorporation or establishment. The acquisition was completed on the same date.

The carrying amounts of the assets and liabilities of Smart Source and Lianyungang as at the date of acquisition were as follows:

| | Carrying amount on acquisition *HK$* |
|---|---|
| Cash and bank balances | 809,830 |
| Other payables | (7,410) |
| Net assets | 802,420 |
| Transaction costs charged to profit or loss included in "Other expense" | 197,580 |
| Satisfied by the amount due to Power Expert | 1,000,000 |

## 11. CASH AND CASH EQUIVALENTS

| | 31 October 2015 *HK$* |
|---|---|
| Cash and bank balances | 700,021 |

At 31 October 2015, the cash and bank balances of the Group denominated in RMB amounted to HK$253,866. The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Target Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents approximate to their fair values.

## 12. BALANCES WITH POWER EXPERT AND MS. WENG

The amounts are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of these balances approximate to their fair values. Ms. Weng and Power Expert have undertaken not to demand repayment of the amount due to her by the Target Group until such time as the Target Group is in a position to repay such amount without impairing its liquidity position.

## 13. OTHER PAYABLES AND ACCRUALS

| | 31 October 2015 *HK$* |
|---|---|
| Other payables *(Note)* | 5,950 |
| Accruals | 1,460 |
| | 7,410 |

*Note:* Other payables are non-interest-bearing and there are generally no credit terms. The carrying amounts of the above other payables approximate to their fair values.

## 14. SHARE CAPITAL

The Target Company was incorporated with initial authorised share capital of US$50,000 divided into 50,000 shares of a par value of US$1 each. On the date of incorporation, one ordinary share of US$1 (equivalent to HK$8) was allotted and issued by the Target Company.

## 15. OPERATING LEASE ARRANGEMENT

### As lessee

On 23 October 2015, the Target Group entered into a factory leasing agreement with ChongQing North Automobile Company Limited (重慶比速汽車有限公司)("**ChongQing North Automobile**") pursuant to which the Target Group agreed to lease the factory (the "**Factory**") from ChongQing North Automobile at a monthly rental of RMB140,400 (equivalent to HK$172,229) starting from 1 November 2015. The lease for the factory is negotiated for a term of ten years.

At 31 October 2015, the Target Group had total future minimum lease payments under a non-cancellable operating lease falling due as follows:

| | *HK$* |
|---|---|
| Within one year | 1,377,829 |

## 16. FINANCIAL INSTRUMENTS BY CATEGORY

All financial assets and liabilities of the Target Group as at the end of the Relevant Period are loans and receivables, and financial liabilities at amortised cost, respectively.

## 17. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts of the Target Group's financial instruments reasonably approximate to their fair values.

Management has assessed that the fair values of cash and cash equivalents, an amount due to Power Expert, an amount due to Ms. Weng and financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

## 18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Target Group's principal financial instruments include other payables and accruals, cash and bank balances and balances with Power Expert and Ms. Weng.

The main risk arising from the Target Group's financial instruments is liquidity risk. The sole director reviews and agrees policies for managing this risk and is summarised below.

### Liquidity risk

The Target Group's policy is to monitor regularly the current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash in short and long term. The Target Group's funding requirements are generally met by the advances from Ms. Weng and Power Expert which have undertaken not to demand repayment of the amount due by the Target Group until such time when the Target Group is in a position to repay such amount without impairing its liquidity position. Thus, the Target Group, liquidity risk is minimised.

**Capital management**

The Target Group manages its capital to ensure that entities in the Target Group will be able to continue as a going concern while maximising the return to its sole equity owner through the optimisation of the debt and equity balance.

The capital structure of the Target Group consists of net debt, which includes advances from Ms. Weng net of bank balances and cash and equity attributable to the sole equity owner of the Target Group, comprising paid-in capital and accumulated loss.

The sole director of the Target Group reviews the capital structure on a regular basis. As part of this review, the sole director of the Target Group considers the cost of capital and the risks associated with each class of capital, and take appropriate actions to balance the overall capital structure of the Target Group.

## III. EVENTS AFTER THE RELEVANT PERIOD

Pursuant to the sale and purchase agreement entered into between Future Marvel Limited, a wholly-owned subsidiary of the Company, Ms. Weng and Power Expert, dated 12 October 2015, in connection with the Acquisition (the "**Sale and Purchase Agreement**"), the Target Group has entered into the following agreements subsequent to the Relevant Period:

(i) On 30 December 2015, the Target Group entered into a service agreement (the "**Service Agreement**") with Ms. Weng, the sole director and ultimate shareholder of the Target Group, pursuant to which the Target Group has agreed to appoint Ms. Weng as the director of Chongqing Bisu Yunbo for a term of two years and Ms. Weng will be responsible for the daily business operation of Chongqing Bisu Yunbo.

(ii) On 18 November 2015, the Target Group entered into three separate automotive engine sales framework agreements ("**Automotive Engine Sales Framework Agreements**") with BAIC Yinxiang Automobile Co., Limited (北汽銀翔汽車有限公司), ChongQing Mystery Speed Automobile Accessory Limited (重慶幻速汽車配件有限公司) and ChongQing North Automobile (collectively, the "**Automotive Engine Sales Parties**"), independent third parties, respectively, pursuant to which the Automotive Engine Sales Parties have agreed to procure pre-agreed quantities of engines at pre-agreed prices, as stipulated in the Automotive Engine Sales Framework Agreements, from the Target Group as long as the pre-agreed quantities are within the production capacity of the production lines of the Target Group from 2016 to 2020.

(iii) On 1 November 2015, the Target Group entered into a property management agreement with ChongQing YinXiang Property Management Co. Limited (重慶銀翔物業管理有限公司) ("**ChongQing YinXiang Property Management**") pursuant to which ChongQing YinXiang Property Management has agreed to provide management services, including maintenance of public facilities and building infrastructure within the Factory, to the Target Group at a monthly rate of RMB140,400 (equivalent to HK$172,228) from 1 November 2015 to 31 October 2025.

Further details of the Sale and Purchase Agreement, the Service Agreement and the Automotive Engine Sales Framework Agreements are set out in the section headed "Letter From the Board" in the Circular.

## IV. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Group or any of its subsidiaries in respect of any period subsequent to 31 October 2015.

Yours faithfully,

**Ernst & Young**
*Certified Public Accountants*
Hong Kong

This unaudited pro forma consolidated statement of financial position (the "**Unaudited Pro Forma Financial Information**") has been prepared for the purpose of providing shareholders of the Company with information about the impact of the Acquisition by illustrating how the Acquisition might have affected the financial position of the Group as at 30 September 2015, had the completion of the Acquisition taken place on 30 September 2015.

The Unaudited Pro Forma Financial Information has been prepared based on a number of assumptions, estimates and uncertainties. Accordingly, the Unaudited Pro Forma Financial Information does not purport to describe the actual financial position of the Enlarged Group that would have been attained had the Acquisition been completed on 30 September 2015. Neither does the Unaudited Pro Forma Financial Information purports to predict the future financial position of the Enlarged Group.

This Unaudited Pro Forma Financial Information has been prepared for illustrative purposes only and because of its nature, it may not give a true picture of the financial position of the Enlarged Group following the completion of the Acquisition.

| | **The Group as at 30 September 2015** | **The Target Group as at 31 October 2015** | **Pro forma adjustments** | | **Pro forma Enlarged Group** |
|---|---|---|---|---|---|
| | (Unaudited) | (Audited) | (Unaudited) | | (Unaudited) |
| | *HK$'000* | *HK$'000* | *HK$'000* | *Notes* | *HK$'000* |
| NON-CURRENT ASSETS | | | | | |
| Property, plant and equipment | 6,142 | 48,696 | | | 54,838 |
| Deposit paid for plant and equipment | 705 | — | | | 705 |
| Goodwill | | | 445,845 | 2(a) | 445,845 |
| Intangible assets | | | 692,995 | 2(a) | 692,995 |
| Investment in a joint venture | — | — | | | — |
| Total non-current assets | 6,847 | 48,696 | | | 1,194,383 |
| CURRENT ASSETS | | | | | |
| Gross amount due from customers for contract work | 33,800 | — | | | 33,800 |
| Due from Power Expert | — | — | | | — |
| Accounts receivable | 167,261 | — | | | 167,261 |
| Tax recoverable | 4,085 | — | | | 4,085 |
| Prepayments, deposits and other receivables | 15,559 | — | | | 15,559 |
| Cash and cash equivalents | 23,399 | 700 | | | 24,099 |
| Total current assets | 244,104 | 700 | | | 244,804 |

| | The Group as at 30 September 2015 (Unaudited) *HK$'000* | The Target Group as at 31 October 2015 (Audited) *HK$'000* | Pro forma adjustments (Unaudited) *HK$'000* | *Notes* | Pro forma Enlarged Group (Unaudited) *HK$'000* |
|---|---|---|---|---|---|
| CURRENT LIABILITIES | | | | | |
| Accounts payable | 47,016 | — | | | 47,016 |
| Accruals of costs for contract works | 21,184 | — | | | 21,184 |
| Due to a shareholder | 6,549 | — | | | 6,549 |
| Due to Ms. Weng | — | 48,696 | (48,696) | 2(b) | — |
| Due to Power Expert | — | 1,000 | (1,000) | 2(b) | — |
| Other payables and accruals | 2,250 | 7 | 4,653 | 2(d) | 6,910 |
| Total current liabilities | 76,999 | 49,703 | | | 81,659 |
| NET CURRENT ASSETS/ (LIABILITIES) | 167,105 | (49,003) | | | 163,145 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | 173,952 | (307) | | | 1,357,528 |
| NON-CURRENT LIABILITIES | | | | | |
| Promissory notes | — | — | 414,993 | 2(a) | 414,993 |
| Convertible bonds | | | 329,189 | 2(a) | 329,189 |
| Deferred tax liabilities | 10 | — | 103,949 | 2(a) | 103,959 |
| Total non-current liabilities | 10 | — | | | 848,141 |
| Net assets/(liabilities) | 173,942 | (307) | | | 509,387 |
| EQUITY/(DEFICIENCY OF ASSETS) | | | | | |
| **Equity attributable to owners of the parent** | | | | | |
| Issued capital | 2,000 | — | — | 2(c) | 2,000 |
| Equity component of convertible bonds | — | — | 340,098 | 2(a) | 340,098 |
| Reserves | 171,942 | (307) | 307 | 2(c) | 167,289 |
| | | | (4,653) | 2(d) | |
| Total equity/(deficiency of assets) | 173,942 | (307) | | | 509,387 |

*Notes:*

**1. Basis of preparation**

This Unaudited Pro Forma Financial Information has been prepared in accordance with Rule 4.29 of the Listing Rules and based upon: (i) the unaudited consolidated statement of financial position of the Group as of 30 September 2015, which has been extracted from the interim report of the Company for the six months ended 30 September 2015 dated 27 November 2015; and (ii) the audited consolidated statement of financial position of the Target Group as of 31 October 2015, which has been extracted from the accountants' report on the Target Group included in Appendix II to this circular; and adjusted in accordance with the pro forma adjustments described in note 2 below, as if the Acquisition had been completed on 30 September 2015.

This Unaudited Pro Forma Financial Information has been prepared in a manner consistent with both the format and accounting policies adopted by the Company in its unaudited consolidated financial statements for the six months ended 30 September 2015.

**2. Notes to the pro forma adjustments**

(a) Under Hong Kong Financial Reporting Standard 3 (Revised) *Business Combinations* ("HKFRS 3") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), the Group will apply the acquisition method to account for the Acquisition in its consolidated financial statements.

In accordance with the Sale and Purchase Agreement, the Consideration for the Acquisition of HK$800,000,000 is to be satisfied as to:

1. HK$410,000,000 by way of issue of the Promissory Notes;

2. HK$390,000,000 by way of issue of Convertible Bonds at an initial conversion price of HK$2.0 per Conversion Share; and

3. Contingent consideration arrangement.

For the purpose of this Unaudited Pro Forma Financial Information, the Directors have assumed that the Promissory Notes and the Convertible Bonds were issued on 30 September 2015 and the consolidated statement of financial position of the Target Group as at 31 October 2015 approximated to those as at 30 September 2015, the completion date for the purpose of preparing the Unaudited Pro Forma Financial Information.

For the purpose of this Unaudited Pro Forma Financial Information, the Directors have engaged Jones Lang LaSalle Corporate Appraisal and Advisory Limited ("**JLL**"), an independent professional valuer, to measure the fair value of each of the identified assets and liabilities of the Target Group and the fair value of the Consideration as at 30 September 2015.

The fair values of the identifiable assets and liabilities of the Target and the fair values of the Consideration, as extracted from the valuation reports prepared by JLL, and the goodwill so arising from the Acquisition are as follow:

| | | Carrying value | Fair value |
|---|---|---|---|
| | *Notes* | *HK$'000* | *HK$'000* |
| Property, plant and equipment | | 48,696 | 48,696 |
| Intangible assets | (i) | — | 692,995 |
| Cash and cash equivalents | | 700 | 700 |
| Other payables and accruals | | (7) | (7) |
| Due to Ms. Weng | 2(b) | (48,696) | — |
| Due to Power Expert | 2(b) | (1,000) | — |
| Deferred tax liabilities | | — | (103,949) |
| | | | 638,435 |
| Goodwill | | | 445,845 |
| | | | 1,084,280 |

Satisfied by:

| | | Face value | Fair value |
|---|---|---|---|
| | | *HK$'000* | *HK$'000* |
| Promissory Notes | (ii) | 410,000 | 414,993 |
| Convertible Bonds | (iii) | 390,000 | 669,287 |
| Contingent consideration | (iv) | — | — |
| | | 800,000 | 1,084,280 |

(i) In accordance with HKFRS 3, at the acquisition date, the acquirer shall classify or designate the identifiable assets acquired and liabilities assumed as necessary to apply other HKFRSs subsequently. HKAS 38 *Intangible Assets* requires an intangible asset to be identifiable to distinguish it from goodwill. Goodwill recognised in a business combination is an asset representing the future economic benefit arising from other assets acquired in a business combination that is not individually identified and separately recognised. Any intangible item acquired in a business combination is recognised as an asset separately from goodwill when it is identifiable and could be measured reliably. If the amount cannot be recognised as an intangible asset, it forms part of the amount recognised as goodwill at the acquisition date.

For the purpose of this Unaudited Pro Forma Financial Information, the Directors considered that the Automotive Engine Sales Framework Agreements are intangible items that are separately identifiable and could be measured reliably. The fair value of the Automotive Engine Sales Framework Agreements of approximately HK$692,995,000 at 30 September 2015 is extracted from the valuation report prepared by Jones Lang.

The fair value of the intangible asset was determined by JLL using an income approach known as Multi-Period Excess Earnings Method ("MPEEM"). Key parameters to the MPEEM include parameters adopted in the financial forecast prepared by the Company underlying in the valuation report in Appendix IV in this circular.

According to the Group's accounting policy, the cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Upon Completion, the Directors confirmed that they will adopt consistent accounting policies, principal assumptions and valuation method in relation to the recognition of intangible assets in accordance with the requirement of HKAS 38.

The reporting accountants (who are the auditors' of the Company) have conducted their engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 *Assurance Engagements to Report on the Compilation of Unaudited Pro Forma Financial Information Included in a Prospectus* and considered that the recognition of intangible assets is consistent with the Company's applicable financial reporting framework and its accounting policies under that framework. However, the reporting accountants did not perform an audit or review of the financial information used in financial forecast prepared by the Company.

(ii) The Directors have engaged JLL to determine the fair value of the Promissory Notes to be recognised, in accordance with HKFRS 13 *Fair Value Measurement* issued by the HKICPA. In preparing the Unaudited Pro Forma Financial Information, the fair value of the Promissory Notes is approximately HK$414,993,000 which reflected its fair value at 30 September 2015 as if the Promissory Notes was issued on that date. The fair value of the Promissory Notes was determined using the Discounted Cash Flow Method and the Binomial Option Pricing Model after considering the terms and conditions of the Promissory Notes and stated in the valuation report issued by JLL. Key valuation parameters to the Discounted Cash Flow Method and the Binomial Option Pricing Model include discount rates and volatility.

(iii) The Directors have engaged JLL to determine the fair value of the Convertible Bonds to be recognised, in accordance with HKFRS 13 issued by the HKICPA. In preparing the Unaudited Pro Forma Financial Information, the fair values of the liability component and equity component of the Convertible Bonds are approximately HK$329,189,000 and HK$340,098,000 respectively, which reflected their fair values at 30 September 2015 as if the Convertible Bonds were issued on that date. The fair values of the liability component and equity component of the Convertible Bonds were determined using the Discounted Cash Flow Method and the Binomial Option Pricing Model after considering the terms and conditions of the Convertible Bonds and stated in the valuation report issued by JLL. Key valuation parameters to the Discounted Cash Flow Method and the Binomial Option Pricing Model include discount rates, volatility, spot share price and conversion price.

(iv) The contingent consideration arrangement represents the Profit Guarantee made pursuant to the Sales and Purchase Agreements. For the purpose of this Unaudited Pro Forma Financial Information, the Directors assumed that the net profits after tax of the Target Group for the "1st Profit Guaranteed Period" and the "2nd Profit Guaranteed Period" (as defined in page 9 of this circular) would not be less than the Profit Guarantee. As such, the fair value of the contingent consideration as at 30 September 2015 is estimated to be nil based on the valuation carried out by JLL using the probabilistic method.

Since the valuation of the Promissory Notes and Convertible Bonds are highly sensitive to the movement of the Company's share price and other market inputs, the Consideration to be recognised upon the Completion can be substantially different from the hypothetical fair value at 30 September 2015 and may have an impact on the goodwill as set out above.

According to the Group's accounting policy, after initial recognition, goodwill will be measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill is, from the acquisition date, allocated to one of the Group's cash generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Further, according to the Group's accounting policy, impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash generating units) to which goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss will be recognised. An impairment loss recognised for goodwill will not be reversed in a subsequent period.

For the purpose of this Unaudited Pro Forma Financial Information, the Directors considered that there is no impairment in the value of intangible assets and goodwill based on their assessment performed in accordance with Hong Kong Accounting Standard 36 — *Impairment of Asset* with reference to the business valuation of 100% equity interest in the Target Group as at 31 October 2015 carried out by JLL as set out in Appendix IV to this circular. Upon Completion, the Company will adopt consistent accounting policies and principal assumptions as used in this Unaudited Pro Forma Financial Information to assess the impairment of the Enlarged Group's intangible assets and goodwill during the preparation of consolidated financial statements of the Enlarged Group for subsequent reporting periods.

Since the fair values of the Consideration and the carrying amounts of the identifiable net assets of the Target Group as at the Completion Date may be materially different from their respective values used in the preparation of the Unaudited Pro Forma Financial Information, the final amounts of the assets, liabilities and goodwill to be recognised in connection with the Acquisition may be materially different from the estimated amounts as shown above.

(b) This adjustment represents the assignment of the Sale Loan, being loans from Ms. Weng and Power Expert, to the Target Group at Completion.

(c) This adjustment represents the elimination of the share capital and pre-acquisition reserves of the Target Group.

(d) This adjustment represents the estimated direct legal and professional costs related to the Acquisition for, among others, the preparation of this Circular, which amounts to approximately HK$4,653,000.

*The following is the text of a report, prepared for the sole purpose of incorporation in this circular and received from Ernst & Young, Certified Public Accountants, Hong Kong.*

22/F CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

19 January 2016

**INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT IN THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION**

*The Board of Directors*
*Excel Development (Holdings) Limited*

Dear Sirs,

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Excel Development (Holdings) Limited (the "**Company**") and its subsidiaries (hereinafter collectively referred to as the "**Group**") by the directors of the Company (the "**Directors**") for illustrative purpose only. The pro forma financial information consists of the unaudited pro forma consolidated statement of financial position of the Group as at 30 September 2015 and the related notes set out in Appendix III to the circular dated 19 January 2016 (the "**Circular**") issued by the Company (the "**Unaudited Pro Forma Financial Information**") in connection with the proposed acquisition of the entire share capital of Well Surplus Enterprises Limited and its subsidiaries (the "**Target Group**") and the rights under the shareholder's loan owing by the Target Group at completion (the "**Acquisition**"). The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described in notes 1 and 2 in Appendix III to the Circular.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the Acquisition on the Group's financial position as at 30 September 2015 as if the Acquisition had taken place at 30 September 2015. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's unaudited consolidated financial statements for the six months ended 30 September 2015 as set out in the interim report of the Company dated 27 November 2015. Information about the Target Group's financial position has been extracted by the Directors from the financial information of the Target Group for the period from 22 September 2015 to 31 October 2015 (on which accountants' report has been published in Appendix II to the Circular).

## DIRECTORS' RESPONSIBILITY FOR THE PRO FORMA FINANCIAL INFORMATION

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline 7 ("**AG**") *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**").

## OUR INDEPENDENCE AND QUALITY CONTROL

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

## REPORTING ACCOUNTANTS' RESPONSIBILITIES

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus* issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information, in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of the Unaudited Pro Forma Financial Information included in the Circular is solely to illustrate the impact of the Acquisition on unadjusted financial information of the Group as if the Acquisition had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the transaction would have been as presented.

A reasonable assurance engagement to report on whether the Unaudited Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Unaudited Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and

- The Unaudited Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the transaction in respect of which the Unaudited Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Unaudited Pro Forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## OPINION

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly complied on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,

**Ernst & Young**
*Certified Public Accountants*
Hong Kong

仲量聯行

Jones Lang LaSalle Corporate Appraisal and Advisory Limited
6/F Three Pacific Place
1 Queen's Road, Hong Kong
tel +852 2169 6000 fax +852 2169 6001

19 January 2016

*The Board of Directors*
*Excel Development (Holdings) Ltd*
21st Floor, 1 Duddell Street
Central, Hong Kong

Dear Sirs,

In accordance with the instructions received from Excel Development (Holdings) Ltd (the "**Company**"), we have undertaken a valuation exercise which requires Jones Lang LaSalle Corporate Appraisal and Advisory Limited to express an independent opinion on the market value of 100 percent Equity Interest in Well Surplus Enterprises Limited (the "**Subject**") as at 31 October 2015 (the "**Valuation Date**"). The report which follows is dated 19 January 2016 (the "**Report Date**").

The purpose of this valuation is to express an independent opinion of the market value of the equity interest in the Subject as at 31 October 2015 for transaction reference.

Our valuation was carried out on a market value basis. Market value is defined as "*the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion*".

## INTRODUCTION

According to our discussion with the Company, Well Surplus Enterprise Limited (the "**Subject**") is a company incorporated in the British Virgin Islands with limited liability. The Subject indirectly holds 100% of Lianyungang Signality and Information Consulting Services Co. Ltd., a wholly foreign-owned enterprise established in the PRC (the "**WFOE Company**"). On 8 October 2015, the WFOE Company agreed to purchase an Engine Production line, in which its wholly owned subsidiary, 重慶比速雲博動力科技有限公司 (translated as "Chongqing Bisu Yunbo Power Technology Co., Ltd." and henceforth referred to as the "**PRC Company**"), would operate in Chongqing City, PRC. As at the Valuation Date, the PRC Company has not officially begun operations, however as at 18 November 2015, the PRC Company has entered into 3 sales contracts. The counterparty to the three sales contracts is as follows: BAIC Yinxiang Automobile Co. Limited, ChongQing Mystery Speed Automobile Accessory Limited, and ChongQing North Automobile Company Limited. All three contracts have specified the number of units to be purchased from 2016–2020, in addition to the price per unit as shown below. All information provided in the table below has been extracted from the three sales contracts.

| Customer | Engine Model | Price per unit *(RMB)* | Units in 2016 | Units in 2017 | Units in 2018 | Units in 2019 | Units in 2020 |
|---|---|---|---|---|---|---|---|
| BAIC Yinxiang | 1.0T | 13,000 | 2,002 | 2,334 | 2,668 | 3,002 | 3,336 |
| BAIC Yinxiang | 1.3T | 14,500 | 666 | 783 | 891 | 1000 | 1109 |
| BAIC Yinxiang | 1.3L | 8,140 | 666 | 778 | 891 | 1000 | 1109 |
| BAIC Yinxiang | 1.5L | 9,950 | 116,666 | 136,105 | 155,550 | 174,998 | 194,446 |
| ChongQing Mystery | 1.0T | 13,000 | 749 | 870 | 1,000 | 1,129 | 1,251 |
| ChongQing Mystery | 1.3T | 14,500 | 251 | 295 | 334 | 379 | 417 |
| ChongQing Mystery | 1.3L | 8,140 | 251 | 293 | 334 | 379 | 417 |
| ChongQing Mystery | 1.5L | 9,950 | 43,749 | 51,042 | 58,332 | 65,613 | 72,915 |
| ChongQing North | 1.0T | 13,000 | 249 | 287 | 332 | 376 | 415 |
| ChongQing North | 1.3T | 14,500 | 83 | 96 | 110 | 126 | 138 |
| ChongQing North | 1.3L | 8,140 | 83 | 95 | 110 | 126 | 138 |
| ChongQing North | 1.5L | 9,950 | 14,585 | 17,022 | 19,448 | 21,872 | 24,309 |

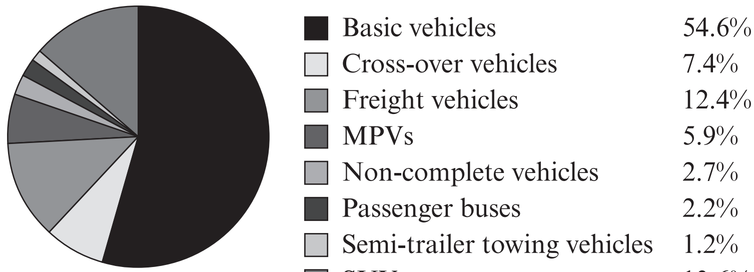
## INDUSTRY OVERVIEW

China's Automobile Manufacturing industry has seen significant growth in recent years, with total revenues having increased 11.3% from 2013 to $559.8 billion in 2014. It has been growing at an annualised rate of 14.2% during the past five years, driven by rising domestic demand across urban and rural areas and increasing exports. With strong support from the Chinese government, this industry is expected to experience steady and substantial growth over the next five years, with annualised revenue increases of 8.8%. IBISWorld predicts that the industry revenue in 2019 will be $852.3 billion. The key drivers for future growth include China's substantial domestic demand, particularly in rural regions, government support, and the development of more foreign markets.

Over the past five years, there has been significant demand for foreign automobiles in China. This was mainly due to the rise in households with higher disposable incomes which in turn has led to a greater demand for luxury imported automobiles. Furthermore, import growth has risen as many joint-venture automobile manufacturers established their own marketing companies for imported automobiles in response to the implementation of regulations on automobile sales and dealers. However, domestic automobile manufacturers have also seen rapid growth as their products are sold at a lower price point: the average price for China's exported automobiles is approximately US$10,000, while the price for imported automobiles is about US$30,000. The profit margin was approximately 10.8% in 2014.

The classification system for automobiles in China was adopted in 2005, with two major categories: passenger vehicles and commercial vehicles. Passenger vehicles are subdivided into four segments: basic-type (or cars), multipurpose vehicles (MPVs), sport utility vehicles (SUVs) and cross-type vehicles. Commercial vehicles include five segments: commercial passenger vehicles, freight vehicles, non-complete commercial passenger vehicles, non-complete freight vehicles and semi-trailer towing vehicles. The basic vehicle dominated the passenger segment with an estimated market share of 54.6% by automobile sales volume. The market share of MPVs and SUVs is relatively small but has grown rapidly in the past five years.

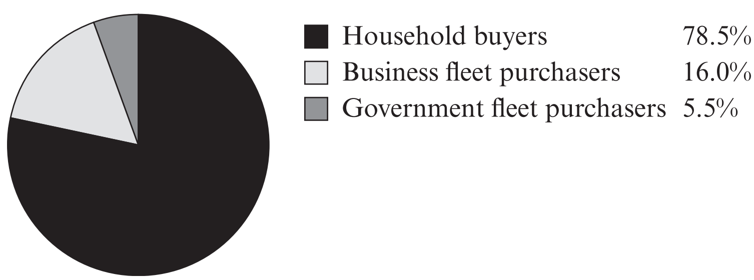
**Products and services segmentation (2015)**




*Source: ISISWORLD*

The market demand of the automobile industry is classified into three segments: household buyers, business fleet purchasers and government fleet purchasers. 78.5% of automobiles were purchased by households, and this proportion is expected to continue increasing in near future. The business fleet segment has grown steadily in recent years as the heightened economic activity requires a large number of passenger vehicles and freight vehicles. This segment has a 16.0% share in the industry in terms of the number of purchased automobiles. The market share of government fleet purchasers has gradually declined to about 5.5% of total sales volume, which is mainly due to the increase in the number of household purchasers and government regulations that impose limits on the number of automobiles local governments can purchase.

**Major market segmentation (2015)**




*Source: ISISWORLD*

## VALUATION METHODOLOGY

In arriving at our assessed value, we have considered three generally accepted approaches, namely, the market approach, cost approach and income approach.

***The Market Approach*** considers prices recently paid for similar assets, with adjustments made to market prices to reflect condition and utility of the appraised assets relative to the market comparative. Assets for which there is an established used market may be valued by this approach.

***Cost Approach*** considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets, with allowance for accrued depreciation or obsolescence present, whether arising from physical, functional or economic causes. The cost approach can sometimes provide an indication of value for assets without a known used market.

***Income Approach*** is the conversion of expected periodic benefits of ownership into an indication of value. It is based on the principle that an informed buyer would pay no more for the project than an amount equal to the present worth of anticipated future benefits (income) from the same or a substantially similar project with a similar risk profile.

Given the nature of a newly established business, there are substantial limitations for the Market Approach and the Cost Approach for valuing the underlying assets. Firstly, the market approach requires market transactions of comparable assets as an indication of value. However, the Market Approach requires operational information in order to arrive at an indication of value. Secondly, the Cost Approach does not directly incorporate information about the economic benefits contributed by the subject business.

In view of the above, we have adopted the Income Approach for the valuation. Under this method, value depends on the present worth of future economic benefits to be derived from the projected sales income. Indications of value have been developed by discounting projected future net cash flows available for payment of owners' interest to their present worth at discount rates which in our opinion are appropriate for the risks of the business. In considering the appropriate discount rate to be applied, we have taken into account a number of factors including the current cost of financing and the relevant risks inherent in the business.

**BASIS OF OPINION**

We have conducted our valuation with reference to the International Financial Reporting Standards issued by the International Accounting Standards Board and in accordance with the International Valuation Standards issued by the International Valuation Standards Council. The valuation procedures employed include a review of legal status and economic condition of the Subject and an assessment of key assumptions, estimates, and representations made by the proprietor. All matters essential to the proper understanding of the valuation are disclosed in this valuation report.

The following factors form an integral part of our basis of opinion:

- The economic outlook in general;
- The nature of business and history of the operation concerned;
- The financial condition of the Subject;
- Market-driven investment returns of companies engaged in similar lines of business;

- Financial and business risk of the business including continuity of income;
- Consideration and analysis on the micro and macro economy affecting the subject assets;
- Analysis on tactical planning, management standard and synergy of the subject assets; and
- Assessment of the leverage and liquidity of the subject assets.

We planned and performed our valuation so as to obtain all the information and explanations that we considered necessary in order to provide us with sufficient evidence to express our opinion on the Subject.

## VALUATION ASSUMPTIONS

In determining the value of the equity interest in the Subject, we make the following key assumptions:

- In order to realise the growth potential of the business and maintain a competitive edge, additional manpower, equipment and facilities are necessary to be employed. For this valuation exercise, we have assumed that the facilities and systems proposed are sufficient for future expansion;
- We have assumed that there will be no material change in the existing political, legal, technological, fiscal or economic conditions, which might adversely affect the business of the Subject;
- We have assumed that the operational and contractual terms stipulated in the relevant contracts and agreements will be honored;
- We have been provided with copies of the operating licenses and company incorporation documents. We have assumed such information to be reliable and legitimate. We have relied to a considerable extent on such information provided in arriving at our opinion of value;
- We have assumed the accuracy of the financial and operational information such as management accounts, contractual agreements and manufacturing capabilities, provided to us by the Company relied to a considerable extent on such information in arriving at our opinion of value;
- We have assumed the capital structure of the Subject will not change; and
- We have assumed that there are no hidden or unexpected conditions associated with the assets valued that might adversely affect the reported value. Further, we assume no responsibility for changes in market conditions after the Valuation Date.

## MAJOR ASSUMPTIONS

### Forecast Period

With reference to the financial forecast provided by the Company, the forecast period for this valuation exercise is 5 years from 1 January 2016 to 31 December 2020. The forecast period was assumed to be 5 years as term of the three signed sales contracts is 5 years. Beyond this forecast period, we have assumed a terminal growth rate of 3%, which is assumed to be equal to the long-term inflation rate in China.

### Revenue

With reference to the financial forecast provided by the Company, the revenue forecast figures are based on the three sales contracts which specifies the price and number of units of each engine model signed between Chongqing Bisu Yunbo Power Technology Co. Ltd. and BAIC Yinxiang Automobile Co. Limited, ChongQing Mystery Speed Automobile Accessory Limited, and ChongQing North Automobile Company Limited, for details, please refer to the table in the Introduction section. The revenue for the period 2015 to 2020 is shown as follows:

| *(RMB)* | **2016** | **2017** | **2018** | **2019** | **2020** |
|---|---|---|---|---|---|
| Revenue | 1,540,883,000 | 1,797,702,921 | 2,054,514,570 | 2,311,354,459 | 2,568,137,302 |

### Cost of sales

With reference to the financial forecast provided by the Company, the cost of sales (excluding depreciation) for the period 2015 to 2020 based on signed supplier contracts is shown as follows:

| *(RMB)* | **2016** | **2017** | **2018** | **2019** | **2020** |
|---|---|---|---|---|---|
| Cost of Sales | 1,316,006,945 | 1,539,759,445 | 1,773,108,444 | 2,022,109,394 | 2,264,882,129 |

Major terms of the supplier contracts include the price per unit, duration of contract and time to delivery. We further understand that the contracts are subject to renegotiation on an annual basis. There are currently 366 supplier parts that range from RMB0.06–1,600.00 per item, with an average cost RMB57.43. The payment terms of the contracts specifies that the Company must pay for the PRC Company after 90 days when supplier's invoice has been received.

**Operating expenses**

With reference to the financial forecast provided by the Company, the operating expenses (including marketing expenses, management expenses, and finance expenses but excluding depreciation) for the period 2015 to 2020 is shown as follows:

| *(RMB)* | **2016** | **2017** | **2018** | **2019** | **2020** |
|---|---|---|---|---|---|
| Marketing Expenses | 9,205,806 | 9,971,961 | 14,457,857 | 17,697,372 | 21,467,011 |
| Management Expenses | 14,654,894 | 16,966,738 | 25,062,876 | 30,974,752 | 37,692,770 |
| Finance Expenses | 262,000 | 262,000 | 12,000 | 12,000 | 12,000 |

The main components of the Marketing Expenses include employee wages and after-sales service charges. For Management Expenses, the largest allocations are to employee wages and research and development expenses. Finance Expenses include the interest on a bank loan and bank charges.

**Depreciation, amortisation and CAPEX**

With reference to the financial forecast provided by the Company, the CAPEX, amortisation and depreciation for the period 2015 to 2020 is shown as follows:

| *(RMB)* | **2016** | **2017** | **2018** | **2019** | **2020** |
|---|---|---|---|---|---|
| Depreciation | 4,653,740 | 5,180,999 | 5,777,395 | 6,405,963 | 6,823,416 |
| Capital Expenditure | 4,186,177 | 4,653,740 | 5,180,999 | 5,777,395 | 6,454,256 |

The useful life of the production line machinery is 10 years and all other fixed assets have an average useful life of approximately 4 years. The nature of the capital expenditure forecast is assumed to be for maintenance purposes and is assumed to be based on the depreciation schedule of the Subject's existing fixed assets.

**Change in working capital**

With reference to the turnover ratios of comparable companies as selected based on criteria listed in the Discount Rate section of this report, the estimation on working capital from the period of 2015 to 2020 is shown as the following table:

| *(RMB)* | **2016** | **2017** | **2018** | **2019** | **2020** |
|---|---|---|---|---|---|
| Change in Working Capital | 23,325,562 | 22,025,173 | 75,402,775 | 92,253,079 | 118,975,195 |

**Income tax**

According to the management, the Company is subject to 15% income tax rate from 2016 to 2020 and 25% thereafter.

## DISCOUNT RATE

In applying the DCF method to estimate the value of the Subject, it is necessary to determine an appropriate Weighted Average Cost of Capital ("**WACC**") in order to determine the discount rate for value in use valuation. WACC is the weighted average of the estimated rate of return required by equity and debt holders for an investment of this type. WACC relates to perceived risks. Risk factors relevant to our selection of an appropriate discount rate include:

1. Interest rate risk, which measures variability of returns, caused by changes in the general level of interest rates.

2. Purchasing power risk, which measures loss of purchasing power over time due to inflation.

3. Market risk, which measures the effects of the general market on the price behavior of securities.

4. Business risk, which measures the uncertainty inherent in projections of operating income.

5. Exchange rate risk, which measures the possible influence on the value of the investment due to changes in exchange rates.

Consideration of risk also involves elements such as quality of management, degree of liquidity, and other factors affecting the rate of return acceptable to a given investor in a specific investment. An adjustment to risk is a discount rate increment to compensate for the extent of risk which is believed to be inherent in the investment.

### Weighted Average Cost of Capital

WACC is calculated by multiplying the cost of each capital component by its weight and then summing all subtotals:

$$WACC = \frac{E}{V} \times R_e + \frac{D}{V} \times R_d \times (1 - T_c)$$

Where:

$R_e$ = Required return on equity
$R_d$ = Required return on debt
E = Fair value of the firm's equity
D = Fair value of the firm's debt
V = E + D
E/V = Percentage of equity financing
D/V = Percentage of debt financing
$T_c$ = Corporate tax rate

**Required Return on Equity Capital**

We have used Capital Assets Pricing Model (the "**CAPM**") to estimate the required return on equity capital.

The CAPM is a fundamental tenet of modern portfolio theory which is a generally accepted basis for marketplace valuations of equity capital. The CAPM technique is widely accepted in the investment and financial analysis communities for the purpose of estimating a company's required return on equity capital.

The equation of CAPM is shown as follows:

*Required Return on Equity*
*= Risk free rate + Nominal Beta(β) × Market Premium + Specific Risk (ε)*

The required return on equity of a company represents the total rate of return investors expect to earn, through a combination of dividends and capital appreciation, as a reward for risk taking.

**Parameters for CAPM**

In determining the equity discount rates for the Company, the following parameters have been used:

| **Parameters** | **31 Oct 2015** | **Remarks** |
|---|---|---|
| Risk free rate | 3.08% | *Long term (10 year[1]) China fixed rate government bond (Source: Bloomberg)* |
| Market risk premium | 9.49% | *Long-term expected China market risk premium (Source: Bloomberg)* |
| Relevered Beta | 0.88 | *Beta of comparable companies selected based on HK-listed auto-part manufacturers operated in PRC* |
| Size Premium | 8.94% | *Duff & Phelps, "2015 Valuation Handbook"[2]* |
| Specific Risk Premium | 4.00% | *Risk associated with start-up companies[3]* |
| Cost of equity | 24.37% | *Calculated based on CAPM formula* |

1 Damodaran, Aswath *What is the riskfree rate? A Search for the Basic Building Block*. Stern School of Business, New York University, December 2008, page 9–10. http://people.stern.nyu.edu/adamodar/pdfiles/papers/riskfreerate.pdf

2 The size premium referenced from Duff & Phelps is based on the CRSP Deciles Size Premia Study that has been published in the Morningstar/Ibbotson SBBI Valuation Yearbook since 1999. The CRSP Deciles Size Premia study examines the relationship between size and return.

3 We have applied a Specific Risk Premium of 4% based on our past experience to reflect the risk of a new start-up company, lack of liquidity relative to the publicly listed comparable companies used, uncertainty of sales after the 5 year sales contract period and also to factor in that the company has not started full-scale operations.

Comparable companies were selected through a Bloomberg equity search with the following criteria:

1) Hong Kong listed company

2) Auto-part manufacturing

The results were further filtered to only include companies involved with the manufacturing or assembly of car motors and engines. The three comparable companies satisfying the above criteria are Huazhong In-Vehicle Holdings Co Ltd (6830 HK Equity), Xinchen China Power Holdings Ltd (1148 HK Equity) and Wuling Motors Holdings Ltd (305 HK Equity) (the "**Comparable Companies**").

**WACC**

The application of CAPM and WACC as outlined above yielded the following discount rates, which we believe to be fair and reasonable required return for the Company.

| **Parameters** | **31 Oct 2015** | **Remarks** |
|---|---|---|
| D/E ratio | 65.33% | *Debt to equity ratio of the selected comparable companies* |
| Cost of debt | 4.90% | *5-year borrowing rate published by People's Bank of China* |
| Income tax rate | 25% | *Long term income tax rate of the Company* |
| After-tax WACC | 16.19% | |

**EQUITY VALUE**

The estimated 100% equity value of the Subject derived from the DCF model is HKD1,099 million.

**LIMITING CONDITIONS**

The conclusion of value is based on accepted valuation procedures and practices that rely substantially on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained. Further, while the assumptions and other relevant factors are considered by us to be reasonable, they are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the Company and Jones Lang LaSalle Corporate Appraisal and Advisory Limited.

We do not intend to express any opinion on matters which require legal or other specialised expertise or knowledge, beyond what is customarily employed by valuers. Our conclusions assume continuation of prudent management of the Subject over whatever period of time that is reasonable and necessary to maintain the character and integrity of the assets valued.

The report is issued subject to our Limiting Conditions as attached.

Based on the results of our investigations and analyses, we are of the opinion that as at 31 October 2015 the market value of 100% equity interest in the Subject is reasonably stated at the amount of HK$1,099 million.

Yours faithfully,
For and on behalf of
**Jones Lang LaSalle**
**Corporate Appraisal and Advisory Limited**

**Simon M.K. Chan**
*Regional Director*

*Note:* Simon M.K. Chan is a CPA Fellow member of the Hong Kong Institute of Certified Public Accountants, a CPA Fellow member of CPA Australia and a Certified Valuation Analyst, who has extensive experience in valuation and corporate advisory business. He has provided a wide range of valuation and advisory services to numerous listed and private companies in different industries, including the automobile industry, in Mainland China and Hong Kong for over 20 years.

## LIMITING CONDITIONS

1. In the preparation of our reports, we relied on the accuracy, completeness and reasonableness of the financial information, forecast, assumptions and other data provided to us by the Company/engagement parties and/or its representatives. We did not carry out any work in the nature of an audit and neither are we required to express an audit or viability opinion. We take no responsibility for the accuracy of such information. The responsibility for determining expected values rests solely with the Company/engagement parties and our reports were only used as part of the Company's/engagement parties' analysis in reaching their conclusion of value.

2. We have explained as part of our service engagement procedure that it is the director's responsibility to ensure proper books of accounts are maintained, and the financial information and forecast give a true and fair view and have been prepared in accordance with the relevant standards and companies ordinance.

3. Public information and industry and statistical information have been obtained from sources we deem to be reputable; however we make no representation as to the accuracy or completeness of such information, and have accepted the information without any verification.

4. The management and the Board of the Company has reviewed and agreed on the report and confirmed that the basis, assumptions, calculations and results are appropriate and reasonable.

5. Jones Lang LaSalle Corporate Appraisal and Advisory Limited shall not be required to give testimony or attendance in court or to any government agency by reason of this exercise, with reference to the project described herein. Should there be any kind of subsequent services required, the corresponding expenses and time costs will be reimbursed from you. Such kind of additional work may incur without prior notification to you.

6. No opinion is intended to be expressed for matters which require legal or other specialised expertise or knowledge, beyond what is customarily employed by valuers.

7. The use of and/or the validity of the report is subject to the terms of engagement letter/ proposal and the full settlement of the fees and all the expenses.

8. Our conclusions assume continuation of prudent management policies over whatever period of time that is considered to be necessary in order to maintain the character and integrity of the assets valued.

9. We assume that there are no hidden or unexpected conditions associated with the subject matter under review that might adversely affect the reported review result. Further, we assume no responsibility for changes in market conditions, government policy or other conditions after the Valuation/Reference Date. We cannot provide assurance on the achievability of the results forecasted by the Company/engagement

parties because events and circumstances frequently do not occur as expected; difference between actual and expected results may be material; and achievement of the forecasted results is dependent on actions, plans and assumptions of management.

10. The values expressed herein are valid only for the purpose stated in the report and in the engagement letter or proposal as of the Valuation/Reference Date. The report should not be otherwise be referred to or quoted, in whole or in part, in any form of communication, or distributed in whole or in part or copied to any their party without our prior written consent. We shall not under any circumstances whatsoever be liable to any third party except where we specifically agreed in writing to accept such liability.

11. This report is confidential to the client and the calculation of values expressed herein is valid only for the purpose stated in the engagement letter/or proposal as of the Valuation/Reference Date. In accordance with our standard practice, we must state that this report and exercise is for the use only by the party to whom it is addressed and no responsibility is accepted with respect to any third party for the whole or any part of its contents.

12. Where a distinct and definite representation has been made to us by party/parties interested in the assets valued, we are entitled to rely on that representation without further investigation into the veracity of the representation if such investigation is beyond the scope of normal scenario analysis work.

13. You agree to indemnify and hold us and our personnel harmless against and from any and all losses, claims, actions, damages, expenses or liabilities, including reasonable attorney's fees, to which we may become subjects in connection with this engagement. Our maximum liability relating to services rendered under this engagement (regardless of form of action, whether in contract, negligence or otherwise) shall be limited to the charges paid to us for the portion of its services or work products giving rise to liability. In no event shall we be liable for consequential, special, incidental or punitive loss, damage or expense (including without limitation, lost profits, opportunity costs, etc.), even if it has been advised of their possible existence.

14. We are not environmental consultants or auditors, and we take no responsibility for any actual or potential environmental liabilities exist, and the effect on the value of the asset is encouraged to obtain a professional environmental assessment. We do not conduct or provide environmental assessments and have not performed one for the subject property.

15. This exercise is premised in part on the historical financial information and future forecast provided by the management of the Company/engagement parties. We have assumed the accuracy and reasonableness of the information provided and relied to a considerable extent on such information in arriving at our calculation of value. Since projections relate to the future, there will usually be differences between projections and actual results and in some cases, and those variances may be material. Accordingly, to the extent any of the above mentioned information requires adjustments; the resulting value may differ significantly.

16. Actual transactions involving the subject assets/business might be concluded at a higher or lower value, depending upon the circumstances of the transaction and the business, and the knowledge and motivation of the buyers and sellers at that time.

17. This report and the conclusion of values arrived at herein are for the exclusive use of our client for the sole and specific purposes as noted herein. Furthermore, the report and conclusion of values are not intended by the author, and should not be construed by the reader, to be investment advice in any manner whatsoever. The conclusion of values represents the consideration based on information furnished by the Company/ engagement parties and other sources.

*The following is the text of a letter from Veda Capital Limited, prepared for the purpose of inclusion in this circular.*

VEDA | CAPITAL
智 略 資 本

The Board of Directors
Excel Development (Holdings) Limited
21st Floor
1 Duddell Street
Central
Hong Kong

19 January 2016

Dear Sirs,

We refer to the valuation report (the "**Valuation Report**") prepared by Jones Lang LaSalle Corporate Appraisal and Advisory Limited ("**Jones Lang**") and dated 19 January 2016 in respect of the entire equity interest in Well Surplus Enterprises Limited (the "**Target Company**") and its subsidiaries (collectively, the "**Target Group**") as at 31 October 2015 is based. The Valuation Report is prepared based on the discounted future estimated cash flows and is regarded as a profit forecast (the "**Profit Forecast**") under Rule 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"). The Valuation Report is included in Appendix IV to the circular of Excel Development (Holdings) Limited dated 19 January 2016 (the "**Circular**"). Unless otherwise stated, capitalised terms used in this report should have the same meanings as those defined in the Circular.

We have reviewed the Profit Forecast upon which the Valuation Report has been made for which you as the Directors are responsible and discussed with you and Jones Lang the information and documents provided by you which formed part of the bases and assumptions upon which the Profit Forecast has been prepared. We have also considered the letter from Ernst & Young dated 19 January 2016 addressed to yourselves as set out in Appendix VI to the Circular regarding the calculations upon which the Profit Forecast has been made. We noted that in the opinion of Ernst & Young that the discounted future estimated cash flows, so far as the arithmetical accuracy of the calculations is concerned, have been properly compiled, in all material respects, in accordance with the bases and assumptions adopted by the Directors. The Profit Forecast is based on a number of bases and assumptions pertaining to the businesses of the Target Company. As the relevant bases and assumptions are about future events which may or may not occur, the actual financial performance of the businesses of the Target Company may or may not achieve as expected and the variation may be material.

On the basis of the foregoing and without giving any opinion on the reasonableness of the valuation methods, bases and assumptions adopted by Jones Lang on the Valuation Report, for which Jones Lang and the Company are responsible, we are of the opinion that the Profit Forecast upon which the Valuation Report has been made, for which you as the Directors are solely responsible, have been made after due and careful enquiry by you. Our opinion has been given for the sole purpose of compliance with Rule 14.62(3) of the Listing Rules and for no other purpose.

Yours faithfully,
For and on behalf of
**Veda Capital Limited**

**Julisa Fong**
*Managing Director*

22nd Floor
CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

19 January 2016

*The Board of Directors*
*Excel Development (Holdings) Limited*

Dear Sirs,

**COMFORT LETTER ON CALCULATIONS OF THE DISCOUNTED FUTURE ESTIMATED CASH FLOWS IN CONNECTION WITH THE VALUATION OF EQUITY INTEREST IN WELL SURPLUS ENTERPRISES LIMITED AND ITS SUBSIDIARIES**

We have checked the arithmetical accuracy of the calculations of the discounted future estimated cash flows on which the valuation prepared by Jones Lang LaSalle Corporate Appraisal and Advisory Limited dated 19 January 2016, in respect of the entire equity interest in Well Surplus Enterprises Limited (the "**Target Company**") and its subsidiaries (collectively, the "**Target Group**") as at 31 October 2015 (the "**Valuation**") is based. The Valuation based on the discounted future estimated cash flows is regarded as a profit forecast under paragraph 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and will be included in the circular dated 19 January 2016 issued by Excel Development (Holdings) Limited (the "**Company**") in connection with the proposed acquisition of the entire share capital of the Target Company and the rights under the shareholder's loan owing by the Target Group at completion (the "**Circular**").

**DIRECTORS' RESPONSIBILITY FOR THE DISCOUNTED FUTURE ESTIMATED CASH FLOWS**

The directors of the Company (the "**Directors**") are responsible for the preparation of the discounted future estimated cash flows in accordance with the bases and assumptions determined by the directors and set out in the Circular (the "**Assumptions**"). This responsibility includes carrying out appropriate procedures relevant to the preparation of the discounted future estimated cash flows for the Valuation and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

**REPORTING ACCOUNTANTS' RESPONSIBILITY**

It is our responsibility to draw a conclusion, based on our work on the arithmetical accuracy of the calculations of the discounted future estimated cash flows on which the Valuation is based and to present our conclusion solely to you, as a body, for the purpose of the requirement under paragraph 14.62(2) of the Listing Rules and for no other purpose.

We are not reporting on the appropriateness and validity of the Assumptions on which the Valuation are based and our work does not constitute any valuation of the Target Group. The Valuation does not involve the adoption of accounting policies. The Assumptions used in the preparation of the Valuation include hypothetical assumptions about future events and management actions that may or may not occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Valuation and the variation may be material. We have not reviewed, considered or conducted any work on the completeness, reasonableness and the validity of the Assumptions and thus express no opinion whatsoever thereon. Our work is more limited than for a reasonable assurance engagement, and therefore less assurance is obtained than in a reasonable assurance engagement. We also accept no responsibility to any other person in respect of, arising out of, or in connection with our work.

**BASIS OF CONCLUSION**

We conducted our work in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of checking the arithmetical accuracy of the calculations of the discounted future estimated cash flows on which the Valuation is based which is prepared based on the Assumptions made by the Directors. Our work has been undertaken solely to assist the Directors in evaluating whether the discounted future estimated cash flows on which the Valuation is based, so far as the arithmetical accuracy of the calculations is concerned, has been properly compiled in accordance with the Assumptions made by the Directors. Our work does not constitute any valuation of the Target Group.

**CONCLUSION**

Based on the foregoing, nothing has come to our attention that causes us to believe that the discounted future estimated cash flows, so far as the calculations are concerned, have not been properly compiled, in all material respects, in accordance with the Assumptions.

Yours faithfully,

**Ernst & Young**
*Certified Public Accountants*
Hong Kong

## 1. RESPONSIBILITY STATEMENT

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

## 2. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date and immediately following Completion (assuming the full conversion of the Convertible Bonds) are as follows:

| | | |
|---|---|---|
| *Authorised share capital:* | | *HK$* |
| 500,000,000 | Shares of HK$0.01 each | 5,000,000.00 |
| *Issued fully paid and credited as fully paid:* | | *HK$* |
| 200,000,000 | Shares in issue as at the Latest Practicable Date | 2,000,000.00 |
| 195,000,000 | Conversion Shares to be issued upon full conversion of the Convertible Bonds | 1,950,000.00 |
| **395,000,000 Shares** | | **3,950,000.00** |

All the Conversion Shares to be issued will rank pari passu in all respects with each other. The Conversion Shares to be issued will be listed on the Stock Exchange. No Shares have been issued since 31 March 2015, being the date on which the latest audited financial statements of the Company were made up.

No part of the share capital or any other securities of the Company is listed or dealt in on any stock exchange other than the Stock Exchange and no application is being made or is currently proposed or sought for the Shares or the Conversion Shares or any other securities of the Company to be listed or dealt in on any other stock exchange.

As at the Latest Practicable Date, the Company had no outstanding warrants, options or convertible or exchangeable securities.

## 3. DISCLOSURE OF INTERESTS BY DIRECTORS AND CHIEF EXECUTIVES IN THE COMPANY

As at the Latest Practicable Date, none of the Directors or the chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of the SFO), which (a) were required to be notified to the Company and the Stock Exchange pursuant to

Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken or deemed to have taken under such provisions of the SFO); or (b) were required pursuant to section 352 of the SFO to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in the Listing Rules to be notified to the Company and the Stock Exchange.

## 4. DISCLOSURE OF INTERESTS BY SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS

As at the Latest Practicable Date, so far as any Directors are aware, the interests or short positions owned by the following parties (other than the Directors or chief executives of the Company) in the Shares or underlying shares of the Company which were required to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO or which were required to be recorded in the register of the Company required to be kept under section 336 of the SFO were as follows:

| Name | Capacity/ Nature of interest | Number of Shares | Percentage of the total issued share capital of the Company |
|---|---|---|---|
| Youth Force | Beneficial owner | 150,000,000 | 75% |
| Mr. JIANG Jianhui | Interest of controlled corporation | 150,000,000 | 75% |

Save as disclosed above and as at the Latest Practicable Date, the Directors are not aware of any interests or short positions owned by any persons (other than the Directors or chief executives of the Company) in the Shares or underlying shares of the Company which were required to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO or which were required to be recorded in the register of the Company required to be kept under section 336 of the SFO.

## 5. DIRECTORS' INTERESTS IN CONTRACTS OR ARRANGEMENTS

As at the Latest Practicable Date, there is no contract or arrangement entered into by a related party subsisting in which a Director is materially interested and significant in relation to the business of the Company.

As at the Latest Practicable Date, none of the Directors or proposed Directors or expert has, directly or indirectly, any interest in any assets which have since 31 March 2015 (being the date to which the latest published audited accounts of the Company were made up) been acquired or disposed of by or leased to any member of the Company, or were proposed to be acquired or disposed of by or leased to any member of the Company.

## 6. LITIGATION

As at the Latest Practicable Date, none of the members of the Enlarged Group was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened against any member of the Enlarged Group.

## 7. DIRECTORS' COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors, controlling Shareholders or their respective associates had any interests in businesses which competed or might compete with the businesses of the Enlarged Group or had any other conflict of interests with the Enlarged Group.

## 8. DIRECTORS' SERVICE CONTRACTS

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

## 9. EXPERTS AND CONSENTS

The following is the qualifications of the experts who have given opinions or advice, which is contained in this circular:

| Name | Qualification |
|---|---|
| Jones Lang | Independent Valuer |
| Ernst & Young | Certified Public Accountants |
| Veda Capital Limited | A licensed corporation to carry on type 6 (advising on corporate finance) regulated activity under the SFO |
| Hills & Co. | PRC qualified lawyer |

As at the Latest Practicable Date, each of the above experts had given and had not withdrawn its written consent to the issue of this circular with the inclusion herein of their letters or their names in the form and context in which they appear.

As at the Latest Practicable Date, each of the above experts did not have any shareholding in any member of the Enlarged Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Enlarged Group.

As at the Latest Practicable Date, each of the above experts did not have any interest, either directly or indirectly, in any assets which had been since 31 March 2015 (being the date to which the latest published audited financial statements of the Company were made up) acquired or disposed of by or leased to any member of the Enlarged Group, or were proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

## 10. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by the Enlarged Group or any of its subsidiaries within the two years immediately preceding the date of this circular and are or may be material:

(a) the non-disclosure and confidentiality agreement dated 18 May 2015 entered into between the Company and the Offeror under which the Offeror agrees to hold certain confidential information provided by the Company pursuant to the memorandum of understanding dated 13 May 2015 entered into between the Offeror and Profit Chain Investments Limited ("**Profit Chain**") regarding the acquisition of the 150,000,000 Shares by the Offeror from the Profit Chain in accordance with the terms of the sale and purchase agreement dated 5 June 2015 in the strictest confidence;

(b) the agreement for the sale and purchase of the entire issued share capital of Top Integration Limited and all the right title benefit and interest of and in the loan due and owing by Top Integration Limited dated 3 June 2015 entered into between Best Trader International Limited, a direct wholly-owned subsidiary of the Company and Chan Hon Wing;

(c) the First Automotive Engine Sales Framework Agreement;

(d) the Second Automotive Engine Sales Framework Agreement;

(e) the Third Automotive Engine Sales Framework Agreement;

(f) the Factory Leasing Agreement;

(g) the Production Line Agreement;

(h) the Service Agreement;

(i) the Sale and Purchase Agreement; and

(j) the Supplemental S&P Agreements.

## 11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the head office and principal place of business of the Company at 21st Floor, 1 Duddell Street, Central, Hong Kong during normal business hours from the date of this circular up to and including the date of the EGM (except Saturdays and public holidays):

(a) the amended and restated memorandum of association and articles of association of the Company;

(b) the annual reports of the Company for the financial years ended 31 March 2014 and 2015;

(c) the interim report of the Company for the six-month period ended 30 September 2015;

(d) the accountants' report on the Target Group as set out in Appendix II to this circular;

(e) the report on the unaudited pro forma financial statements on the Enlarged Group as set out in Appendix III to this circular;

(f) the valuation report on the Target Company as set out in Appendix IV to this circular;

(g) the letter from Veda Capital Limited in relation to the valuation of the Target Company as set out in Appendix V to this circular;

(h) the letter from Ernst & Young in relation to the valuation of the Target Company as set out in Appendix VI to this circular;

(i) the material contracts referred to in the paragraph headed "10. MATERIAL CONTRACTS" in this appendix;

(j) the legal opinion issued by Hills & Co.;

(k) the written consents from the experts as referred to in the paragraph headed "Experts and Consents" in this appendix; and

(l) this circular.

## 12. MISCELLANEOUS

(a) The secretary of the Company is Ms. Wong Po Ling, Pauline ("**Ms. Wong**") who is a member of the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Accountants in England and Wales. She is also a member of the Institute of Chartered Secretaries and Administrator, the Hong Kong Institute of Chartered Secretaries and the Taxation Institute of Hong Kong. Ms. Wong has over 15 years of experience in financial management, mergers and acquisitions and corporate governance matters.

(b) The registered office of the Company is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

(c) The Hong Kong branch share registrar and transfer office of the Company is Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(d) The English language text of this circular shall prevail over the Chinese language in case of inconsistency.

# EXCEL DEVELOPMENT (HOLDINGS) LIMITED
# 怡益控股有限公司

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1372)**

## NOTICE OF EXTRAORDINARY GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that the extraordinary general meeting ("**EGM**") of Excel Development (Holdings) Limited ("**Company**") will be held on Thursday, 4 February 2016 at 11:00 a.m. at 8th Floor, Gloucester Tower, The Landmark, 15 Queen's Road Central, Hong Kong to consider and, if thought fit, pass the following resolution as an ordinary resolution.

### ORDINARY RESOLUTION

"**THAT:**

(a) the sale and purchase agreement dated 12 October 2015 (as amended and supplemented by the supplemental agreements dated 20 November 2015 and 15 January 2016 respectively) (the "**Agreement**") entered into among Future Marvel Limited as the purchaser (the "**Purchaser**"), Power Expert Global Limited as the vendor (the "**Vendor**"), and Ms. Weng Guangmin as the guarantor, in relation to the acquisition of the (i) entire issued share capital in Well Surplus Enterprises Limited (the "**Target Company**"); and (ii) all obligations, liabilities and debts owing by the Target Company to the Vendor at the completion (the "**Completion**") of the Agreement whether actual, contingent or deferred and irrespective of whether or not the same is due and payable on Completion at the total consideration of HK$800,000,000, of which HK$410,000,000 shall be satisfied by the Purchaser by procuring the Company to issue 10% interest bearing promissory notes in the aggregate principal amount of HK$410,000,000 (the "**Promissory Notes**") to the Vendor (or its nominee(s)); and HK$390,000,000 shall be satisfied by the Purchaser by procuring the Company to issue the convertible bonds (the "**Convertible Bonds**") in the aggregate principal amount of HK$390,000,000 entitling the holder(s) thereof to convert the principal amount into ordinary shares of HK$0.01 each in the share capital of the Company (the "**Conversion Shares**") at the initial conversion price of HK$2.0 per Conversion Share (subject to adjustment), to the Vendor (or its nominee(s)), (a copy of the Agreement has been produced to this meeting marked "**A**" and signed by the chairman of the meeting for the purpose of identification), and the transactions contemplated thereunder, be and are hereby approved, confirmed and ratified;

(b) subject to the fulfillment or waiver of the conditions precedent set out in the Agreement, the issue of the Convertible Bonds in the aggregate principal amount of HK$390,000,000 by the Company to the Vendor (or its nominee(s)) in accordance with the terms and conditions of the Agreement and all transactions contemplated thereunder be and is hereby approved, confirmed and ratified;

(c) subject to the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of, and permission to deal in, the Conversion Shares to be allotted and issued, the directors (the "**Directors**") of the Company be and are hereby granted a specific mandate (the "**Specific Mandate**") to allot and issue the Conversion Shares to be allotted and issued upon the exercise of the conversion rights attaching to the Convertible Bonds at the initial conversion price of HK$2.0 per Conversion Share (subject to adjustment) pursuant to the conditions of the Convertible Bonds. The Specific Mandate is in addition to, and shall not prejudice nor revoke any existing or such other general or special mandates which may from time to time be granted to the Directors prior to passing of this resolution;

(d) the issue of the Promissory Notes in the aggregate principal amount of HK$410,000,000 by the Company to the Vendor (or its nominee(s)) to settle part of the consideration payable by the Purchaser in accordance with the terms and conditions of the Agreement and all transactions contemplated thereunder be and is hereby approved, confirmed and ratified; and

(e) any one Director be and is hereby authorised to sign and execute such documents, including under seal where applicable, and do all such acts and things, as he considers necessary, desirable or expedient in connection with the implementation of or giving effect to the Agreement and the transactions contemplated thereunder."

Yours faithfully,
By Order of the Board
**Excel Development (Holdings) Limited**
**Wong Hin Shek**
*Chairman*

Hong Kong, 19 January 2016

*Registered office:*
Cricket Square, Hutchins Drive
PO Box 2681
Grand Cayman
KY1-1111
Cayman Islands

*Head office and principal place of business in Hong Kong:*
21st Floor
1 Duddell Street
Central
Hong Kong

**Notes:**

(1) A member of the Company entitled to attend and vote at the EGM convened by the above notice is entitled to appoint one or if he/she is the holder of two or more shares, more than one proxy to attend and, subject to the provisions of the memorandum of association and articles of association of the Company, to vote on his/her behalf. A proxy need not be a member of the Company but must be present in person at the EGM to represent the member. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.

(2) In order to be valid, the form of proxy must be deposited together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority, at the office of the Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not less than 48 hours before the time appointed for holding the meeting or adjourned meeting. Completion and return of the form of proxy will not preclude a member of the Company from attending and voting in person at the EGM or any adjournment thereof, should he so wish.

(3) Completion and return of an instrument appointing a proxy will not preclude a member of the Company from attending and voting in person at the meeting and/or any adjournment thereof and in such event, the instrument appointing a proxy shall be deemed to be revoked.

(4) As required under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the above resolution will be decided by way of poll.

*As at the date of this notice, the executive Directors are Mr. Wong Hin Shek and Mr. Xing Bin; and the independent non-executive Directors are Ms. Chu Yin Yin, Georgiana, Mr. Yip Tai Him and Mr. Chan Kai Wing.*