

9 September 2016

*To the Independent Board Committee*

Dear Sirs or Madams,

**MANDATORY UNCONDITIONAL CASH OFFERS BY  
HAITONG INTERNATIONAL SECURITIES COMPANY LIMITED  
FOR AND ON BEHALF OF  
GORGEOUS INVESTMENT GROUP HOLDING CO., LIMITED  
TO ACQUIRE ALL OF THE ISSUED SHARES AND  
ALL OUTSTANDING CONVERTIBLE BONDS OF  
CHINA SMARTER ENERGY GROUP HOLDINGS LIMITED  
(OTHER THAN THOSE SHARES ALREADY OWNED  
AND/OR AGREED TO BE ACQUIRED BY  
GORGEOUS INVESTMENT GROUP HOLDING CO., LIMITED  
AND/OR PARTIES ACTING IN CONCERT WITH IT)**

**INTRODUCTION**

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee in respect of the Offers, details of which are set out in this Composite Document dated 9 September 2016 jointly issued by the Offeror and the Company to the Shareholders and the Bondholders, of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Composite Document unless the context otherwise requires.

On 19 August 2016, the Offeror and Creaton Holdings entered into the Creaton Share Purchase Agreement, pursuant to which Creaton Holdings agreed to sell and the Offeror agreed to acquire the Creaton Shares, being 2,241,446,400 Shares, at total consideration of HK\$739,677,312, equivalent to HK\$0.33 per Share. Completion took place on 25 August 2016. As at the Latest Practicable Date, Creaton Holdings is directly interested in approximately 40.21% of the equity interest in Shanghai Gu Yuan, which in turn holds approximately 75.66% of the equity interest in Shanghai Gorgeous, the sole shareholder of the Offeror. Creaton Holdings is therefore a party acting in concert with the Offeror under the Takeovers Code.

On 19 August 2016, the Offeror and Linkage Group entered into the Linkage Share Purchase Agreement, pursuant to which Linkage Group agreed to sell and the Offeror agreed to acquire the Linkage Group Shares, being 1,040,000,000 Shares, at total consideration of HK\$343,200,000, equivalent to HK\$0.33 per Share. Completion took place on 25 August 2016.

On 19 August 2016, the Offeror and Ms. Cao entered into the Cao Share Purchase Agreement, pursuant to which Ms. Cao agreed to sell and the Offeror agreed to acquire the Cao Shares, being 760,000,000 Shares, at total consideration of HK\$250,800,000, equivalent to HK\$0.33 per Share. Completion took place on 25 August 2016.

Upon completion of the Share Purchase Agreements and as at the Latest Practicable Date, the Offeror and parties acting in concert with it were interested in 4,041,446,400 Shares in aggregate, representing approximately 51.72% of the entire issued share capital of the Company. As at the Latest Practicable Date, the Company has outstanding Convertible Bonds with an aggregate principal amount of US\$50,000,000 convertible into 357,175,650 new Shares, and HIIF (an associated corporation of Haitong International Securities) that is presumed to be a party acting in concert with the Offeror in relation to the Offers holds the HIIF Convertible Bonds in the principal amount of US\$20,000,000. As such, the Offeror is, pursuant to Rule 26.1 and Rule 13.1 of the Takeovers Code, required to make a mandatory unconditional cash offer to acquire all the issued Shares (other than those already owned and/or agreed to be acquired by the Offeror and parties acting in concert with it) and all the outstanding Convertible Bonds.

The Independent Board Committee comprising Mr. Fok Ho Yin, Thomas, Mr. Tsui Ching Hung and Ms. Cheung Oi Man, Amelia (each of them has confirmed that he or she has no direct or indirect interest in the Offers) has been established by the Company pursuant to Rule 2.1 of the Takeovers Code to advise the Qualifying Shareholders and Bondholders in respect of the Offers, as to whether the terms of the Offers are fair and reasonable and as to the acceptance of the Offers. As the Independent Financial Adviser, our role is to give an independent opinion to the Independent Board Committee in this respect and our appointment has been approved by the Independent Board Committee.

As at the Latest Practicable Date, Lego did not have any relationships or interests with the Company that could reasonably be regarded as relevant to the independence of Lego. In the last two years, there was no engagement between the Group and Lego. We are not associated or connected with the Company or the Offeror, their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them. Apart from normal professional fees paid or payable to us in connection with this appointment, no arrangements exist whereby we had received or will receive any fees or benefits from the Company, the Offeror, any of their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them. Accordingly, we are qualified to give independent advice in respect of the Offers.

## **BASIS OF OUR OPINION**

In formulating our opinion and advice, we have relied on (i) the information and facts contained or referred to in the Composite Document; (ii) the information and facts supplied by the Group and its advisers; (iii) the opinions expressed by and the representations of the Directors and the management of the Group; and (iv) our review of the relevant public information. We have assumed that all the information provided and representations and opinions expressed to us or contained or referred to in the Composite Document were true, accurate and complete in all material respects at the time they were made and up to the Latest Practicable Date and may be relied upon. We have also sought and received confirmation from the Directors that no material facts have been withheld or omitted from the information provided and opinions expressed to us by them and that all information or representations regarding the Group and the Offers provided to us by the Group, the Directors and the management of the Group are true, accurate, complete and not misleading in all material respects at the time they were made and up to the Latest Practicable Date. The Company will notify the Shareholders and the Bondholders of any material changes during the Offer Period as soon as possible. The Shareholders and Bondholders will also be informed by us as soon as practicable should there be any material changes to our opinion after the Latest Practicable Date throughout the Offer Period. We have also relied on the responsibility statements made by the directors of the Company and the Offeror contained in the Composite Document. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors, the management of the Group, the advisers of the Company and/or the Offeror (where applicable).

We consider that we have reviewed the sufficient information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Composite Document so as to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information provided, representations made or opinion expressed by the Directors and the management of the Group, nor have we conducted any form of in-depth investigation into the business, affairs, operations, financial position or future prospects of any member of the Group or the Offeror or any of their respective subsidiaries or associates.

## **PRINCIPAL TERMS OF THE OFFERS**

Haitong International Securities is making the Offers for and on behalf of the Offeror in compliance with the Takeovers Code on the following basis:

### **The Share Offer**

For each Offer Share . . . . . HK\$0.33 in cash

The Offer Price of HK\$0.33 for each Share under the Share Offer is equal to the price for each of the Sale Shares acquired by the Offeror pursuant to the Share Purchase Agreements. The Share Offer is extended to all Shareholders other than the Offeror and parties acting in concert with it in accordance with the Takeovers Code.

As at the Latest Practicable Date, there are 7,814,351,360 Shares in issue. Other than the Convertible Bonds, the Company did not, as at the Latest Practicable Date have, and is not expected to issue any securities, options, warrants or derivatives which are convertible into or which confer rights to require the issue of Shares.

Based on the Offer Price of HK\$0.33 per Offer Share, the entire issued share capital of the Company is valued at approximately HK\$2,578,735,948.80. Assuming none of the outstanding Convertible Bonds are converted into new Shares, based on 3,772,904,960 Shares (representing the Shares not already owned and/or agreed to be acquired by the Offeror and/or parties acting in concert with it) and the Offer Price of HK\$0.33 per Offer Share, the Share Offer is valued at HK\$1,245,058,636.80.

### **The CB Offer**

For every US\$1,000,000 face value of the Convertible Bonds . . . . . HK\$2,357,359.29 in cash

The Convertible Bonds will be acquired fully paid and free from all liens, charges, options, equities, encumbrances or other third party rights of any nature and together with all rights now or hereafter attaching or accruing to them on or after the date on which the CB Offer is made, that is, the date of the posting of the Composite Document.

The CB Offer will not apply to any Convertible Bonds which are or have been converted into Shares prior to the date on which the Offers close.

The offer price for the Convertible Bonds is determined in accordance with Practice Note 6 to the Takeovers Code as the “see-through” consideration for the Convertible Bonds, being the maximum number of Shares into which the Convertible Bonds is convertible (being 357,175,650 Shares) multiplied by the Offer Price (of HK\$0.33 per Offer Share). As at the Latest Practicable Date, HIIF (an associated corporation of Haitong International Securities) holds the HIIF Convertible Bonds in the principal amount of US\$20,000,000. Based on the outstanding Convertible Bonds in the principal amount of US\$50,000,000, the CB Offer is valued at approximately HK\$117,867,964.50.

The Offers are unconditional in all respects. Acceptance of the Offers will be irrevocable and not capable of being withdrawn, except as permitted under the Takeovers Code.

Provided that valid acceptance forms and the relevant certificate(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) are complete and in good order and have been received by the Registrar, the Qualifying Shareholders will sell their tendered Shares to the Offeror free from all encumbrances and together with all rights attaching thereto, including, without limitation, the rights to receive in full all dividends and other distributions, if any, recommended, declared, made or paid by reference to a record date on or after the date on which the Share Offer is made, that is, the date of the posting of the Composite Document.

Acceptance of the CB Offer by any Bondholders will be deemed to constitute a warranty by such person that all Convertible Bonds sold by such person under the CB Offer are free from all encumbrances whatsoever.

Further details of the Offers including, among others, the expected timetable and the terms and procedures of acceptance of the Offers, are set out in the sections headed “Expected Timetable”, “Letter from Haitong International Securities” and Appendix I to the Composite Document and the Form of Share Offer Acceptance and the Form of CB Offer Acceptance.

## PRINCIPAL FACTORS AND REASONS CONSIDERED

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

### 1. Information and historical financial performance of the Group

#### 1.1 Principal business of the Group

The Company was incorporated in Bermuda as an exempted company with limited liability. The Group is principally engaged in clean energy business, investment business and fur business.

Set out below is the revenue breakdown of the Group by business segment for each of the two financial years ended 31 March 2015 and 2016:

	(audited)			
	For the year ended 31 March			
	2015	%	2016	%
	HK\$'000		HK\$'000	
	(Restated)			
<i>Continuing Operations</i>				
Clean energy business				
– Clean energy	14,356	7.1	115,095	45.5
Investment business				
– Trading in securities	178,369	88.1	130,088	51.4
– Investments	1,560	0.8	1,560	0.6
Fur business				
– Trading of fur garment	8,125	4.0	6,414	2.5
– Trading of fur skin	—	—	—	—
<i>Discontinued operation</i>				
– Mine	—	—	—	—
Total	<u>202,410</u>	<u>100.0</u>	<u>253,157</u>	<u>100.0</u>

#### **Clean energy business**

The Group has been engaging in the provision of clean energy business including solar energy and renewable energy since 2014. The Group has successfully acquired a 100MW solar plant in Jinchang, Gansu Province, which is the main revenue contributor in the clean energy business segment of the Group for the year ended 31 March 2016. The Group is in the process to build more solar energy plants in China.

The revenue contributed by the clean energy business increased from approximately 7.1% of the total revenue for the year ended 31 March 2015 to 45.5% of the total revenue for the year ended 31 March 2016. As at 31 March 2016, the segment assets of this sector was approximately HK\$1,939.6 million, representing approximately 66.1% of the total consolidated asset of the Group.

***Investment business***

The Group is engaged in share investment. The revenue from the investment business accounting for approximately 88.9% and 52.0% of the total revenue for the two years ended 31 March 2015 and 2016 respectively. As at 31 March 2016, the segment assets of this sector was approximately HK\$675.7 million, representing approximately 23.0% of the total consolidated asset of the Group.

***Fur business***

The Group is also engaged in trading of fur garment in Hong Kong. As at 31 March 2016, the segment assets of this sector was approximately HK\$5.9 million, representing approximately 0.2% of the total consolidated asset of the Group.

***Mining business***

The Group held the mining rights in the vanadium mine through 陝西久權礦業有限公司 (Shaanxi Jiuquan Mining Company Limited), (“Shaanxi Jiuquan”), an indirect-owned subsidiary of the Company. As the global metal price dropped significantly, the book value of the vanadium mining right of the Group recorded as HK\$0 as at 30 September 2015 and the Group discontinued the mining operation in September 2015. Subsequently, the Group had completed the disposal of its 100% equity interest (with relevant shareholder’s loan) in the indirect holding company of Shaanxi Jiuquan to an independent third party for a cash consideration of HK\$1 million in June 2016.

## 1.2 Financial performance of the Group

The following table is a summary of the audited financial information of the Group for the two years ended 31 March 2016, as extracted from the annual report (“2016 Annual Report”) of the Company for the year ended 31 March 2016.

	For the year ended	
	31 March	
	2015	2016
	HK\$'000	HK\$'000
	(Restated)	
	(Note 1)	
<i>Continuing operations</i>		
Revenue		
– Sale of electricity	14,356	115,095
– Sale of fur garment	8,125	6,414
– Net realised and unrealised gains on trading securities	178,251	130,072
– Dividend income from unlisted available-for-sale financial assets	1,560	1,560
– Dividend income from listed financial assets at fair value through profit or loss	118	16
Total	<u>202,410</u>	<u>253,157</u>
Gross profit	196,275	249,101
Gain on bargain purchase of subsidiaries	292,080	1,685
Administrative and operating expenses	(57,830)	(184,776)
Profit/(Loss) before tax from continuing operations	378,244	(97,584)
Profit/(Loss) after tax from continuing operations	373,419	(96,462)
<i>Discontinued operation</i>		
Revenue		
(Loss) for the year from a discontinued operation	<u>(502,342)</u>	<u>(223,618)</u>
<b>(Loss) for the year</b>	<b><u>(128,923)</u></b>	<b><u>(320,080)</u></b>



	<b>As at</b>	<b>As at</b>
	<b>31 March</b>	<b>31 March</b>
	<b>2015</b>	<b>2016</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets	2,041,159	1,771,714
Current assets	625,435	1,160,842
Current liabilities	42,459	97,924
Non-current liabilities	1,672,804	1,317,480
Net current asset	582,976	1,062,918
Net asset attributable to owners of the Company	906,607	1,518,119
	<b>For the year ended</b>	
	<b>31 March</b>	
	<b>2015</b>	<b>2016</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Restated)	
Net cash (used in) operating activities	(198,690)	(162,937)
Net cash (used in) investing activities	(312,932)	(197,676)
Net cash generated from financing activities	636,199	521,875

*Note:*

1. During the year ended 31 March 2016, the Group has classified the mining business as discontinued operation. The audited consolidated financial results of the Group for the year ended 31 March 2015 were restated in the 2016 Annual Report to re-present the mining business as discontinued operation.

As illustrated in the tables above, the revenue of the Group amounted to approximately HK\$253.2 million for the year ended 31 March 2016, representing an increase of approximately 25.1% as compared to the prior year. According to the 2016 Annual Report, the increase in turnover was mainly attributable to the significant increase in revenue generated from clean energy business from approximately HK\$14.4 million for the year ended 31 March 2015 to HK\$115.1 million for the year ended 31 March 2016, as a result of booking of full year revenue from Jinchang Jintai Photovoltaic Company Limited, a wholly owned subsidiary, in Gansu Province for 100MW photovoltaic power generation project, where such acquisition was completed on 17 February 2015. The revenue from sales of fur garment decreased by approximately 21.1% from approximately HK\$8.1 million for the year ended 31

March 2015 to HK\$6.4 million for the year ended 31 March 2016. According to the 2016 Annual Report, the increase in loss in this business segment was mainly due to more marketing costs incurred and decrease in sales as a result of fierce competition in the market and the drop in consumption in luxury items, and the Group was reviewing the trading operations and considered the possibility of selling or winding down this sector of business.

Despite the increase in revenue, the net loss of the Group increased by approximately 148.3% from approximately HK\$128.9 million for the year ended 31 March 2015 to approximately HK\$320.1 million for the year ended 31 March 2016. According to the 2016 Annual Report, the increase in net loss of the Group was mainly due to (i) the significant impairment loss of the vanadium mining right; (ii) increase in operating and administrative expenses due to increase in depreciation, amortization of intangible assets, staff salaries and rental expenses; (iii) increase in financial cost due to issuance of the US\$80 million convertible bonds during the year; and (iv) significant decrease in gain on bargain purchase of subsidiaries for the year ended 31 March 2016 as compared to prior year mainly due to significant amount of gain recognised due to acquisition of 100% equity interest of Randar International Limited in the year ended 31 March 2015.

As at 31 March 2016, the net current asset of the Group amounted to approximately HK\$1,062.9 million, representing an increase of approximately 82.3% as compared to the net current asset of approximately HK\$583.0 million as at 31 March 2015. Such increase was mainly attributable to (i) the increase in prepayments, deposits and other receivables of approximately HK\$222.5 million principally due to the increase in deposits for acquisitions; and (ii) time deposit and cash and bank balance of approximately HK\$156.7 million principally due to the increase in net proceeds from issue of convertible bonds. The net asset attributable to owners amounted to approximately HK\$1,518.1 million as at 31 March 2016, representing an increase of approximately 67.5% as compared to the net asset attributable to owners of approximately HK\$906.6 million as at 31 March 2015. The increase was mainly attributable to the increase in net current asset as detailed above and the decreased in non-current liabilities of approximately HK\$355.3 million from approximately HK\$1,672.8 million as at 31 March 2015 to approximately HK\$1,317.5 million as at 31 March 2016 principally due to conversion of convertible bonds during the year ended 31 March 2016.

Given that the Group was loss making, the Group continued to record negative cash flow from operating activities amounted to approximately HK\$198.7 million and HK\$162.9 million for the year ended 31 March 2015 and 2016 respectively. The net cash used in investing activities amounted to approximately HK\$312.9 million and HK\$197.7 million for the year ended 31 March 2015 and 2016 respectively. On the other hand, the Group recorded positive cash flow from financing activities of approximately HK\$636.2 million and HK\$521.9 million for the year ended 31 March 2015 and 2016 which mainly contributed by net proceeds from issue of convertible bonds. Excluding the net proceeds from issue of convertible bonds, the Group would have recorded negative cash flow of approximately HK\$573.7 million and HK\$461.0 million for the year ended 31 March 2015 and 2016 respectively. In light of the continuous net cash outflow, in the event that the Group fails to improve its profitability and cash flow, the Group might not have sufficient working capital in the long run.

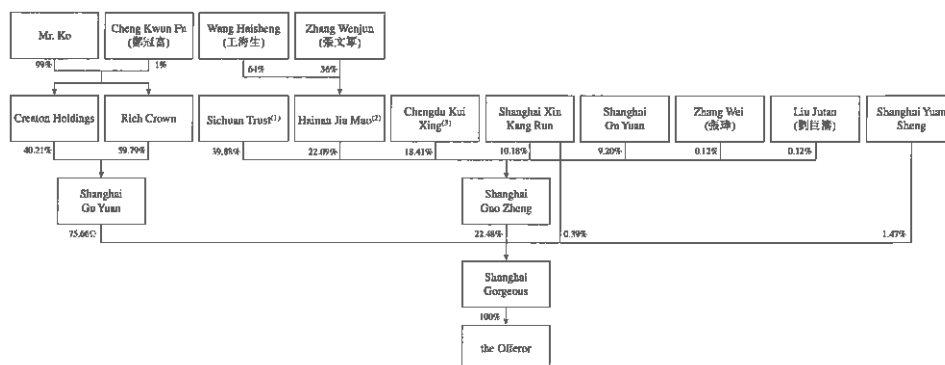
According to the 2016 Annual Report, the Group is in the process to develop more solar energy plants in China. During the year ended 31 March 2016, the Company acquired 100% equity interest in Shanghai Xin Lan Electric Company Limited\* 上海昕嵐電力有限公司 which holds directly and indirectly three distributed solar power projects and have also entered into several framework agreements in order to develop the solar energy business. In light of the preferential policies encouraging the clean energy promulgated by the PRC government, the management of the Company believes that the financial performance of the Group may improve by developing the clean energy business segment. Nonetheless, Shareholders should bear in mind that the Group may or may not be able to successfully develop the clean energy business given that the business segment is new to the Group and that the development plan may or may not lead to the turnaround of the Group's financial position.

## **2. Information on the Offeror and its intentions regarding the Group**

### ***2.1 Information on the Offeror***

The Offeror is an investment holding company incorporated in the British Virgin Islands with limited liability. It is a direct wholly-owned subsidiary of Shanghai Gorgeous, a company established under the laws of the PRC, which is ultimately controlled by Mr. Ko.

Shanghai Gorgeous is an investment holding company incorporated in Shanghai, the PRC with limited liability and is held as to approximately 75.66% by Shanghai Gu Yuan, 22.48% by Shanghai Guo Zheng, 1.47% by Shanghai Yuan Sheng and 0.39% by Shanghai Xin Kang Run, respectively. Set out below is the shareholding structure of the Offeror:



Shanghai Gu Yuan is a company incorporated in Shanghai, the PRC with limited liability and is held as to approximately 59.79% by Rich Crown. The remaining approximately 40.21% equity interest in Shanghai Gu Yuan is held by Creton Holdings. Creton Holdings is therefore a party acting in concert with the Offeror under the Takeovers Code. Shanghai Gu Yuan is principally engaged in real estate development.

Rich Crown is an investment holding company incorporated in Hong Kong with limited liability. Each of Rich Crown and Creton Holdings is held by Mr. Ko as to 99% and Mr. Cheng Kwun Fu, another individual shareholder as to 1%, respectively.

## 2.2 Intention of the Offeror regarding the Group

### (a) Business of the Company

As set out in the “Letter from Haitong International Securities” of the Composite Document, following the close of the Offers, it is the intention of the Offeror that the Group will continue with its existing principal activities. The Offeror will, following the close of the Offers, conduct a review on the business activities and financial position of the Group to formulate business plans and strategies for the future business development of the Group. The Offeror will also consider any suitable acquisition opportunities to expand the Group’s clean energy businesses and broaden its income stream. As at the Latest Practicable Date, the Offeror has no definitive plans for any acquisition or disposal of assets and/or business of the Group.

Save for the Offeror's intention regarding the Group as set out above and the proposed nomination of Mr. Ko to the Board as further described below, the Offeror has no intention to (i) discontinue the employment of any employees of the Group; or (ii) redeploy the fixed assets of the Company other than those in its ordinary and usual course of business.

*(b) Maintain listing of the Company*

The Offeror intends to maintain the listing of the Shares on the Stock Exchange following the close of the Offers. The Stock Exchange has stated that if, at the close of the Offers, less than the minimum prescribed percentage applicable to the Company, being 25% of the issued Shares, are held by the public, or if the Stock Exchange believes that (a) a false market exists or may exist in the trading of the Shares; or (b) that there are insufficient Shares in public hands to maintain an orderly market, the Stock Exchange will consider exercising its discretion to suspend dealings in the Shares. Each of the Offeror and Mr. Ko, being the new Director to be appointed to the Board, has jointly and severally undertaken to the Stock Exchange on terms required under the Listing Rules to take appropriate steps as soon as possible following the close of the Offers to ensure that sufficient public float exists in the Shares.

*(c) Proposed nomination of Mr. Ko as an executive Director*

The Offeror proposes to nominate Mr. Ko as an executive Director with effect from the earliest time permitted under the Takeovers Code or any other later time as it thinks appropriate. If, following the appointment of Mr. Ko as an executive Director, the number of independent non-executive Directors falls below the minimum requirement under Rule 3.10 of the Listing Rules, the Company will identify and appoint a suitable candidate as an additional independent non-executive Director as soon as practicable and in any event within three months from the appointment of Mr. Ko.

In light of that, among other things, (i) as disclosed in the 2016 Annual Report, the Company intended to focus in the clean energy business in the future, which recorded a segment loss in the year ended 31 March 2016 and it is uncertain as to whether the development of such business by the Company can lead to a turnaround of the financial results of the Company; and (ii) the Offeror will review the financial position and operation of the Group and explore and consider any other investment and business opportunities which may arise in the market from time to time, but it is uncertain as to whether the investment and business opportunities to be identified by the Offeror may provide good return or be successful in the future, we are of the view that the future prospects of the Group are uncertain.

### 3. The Offer Price

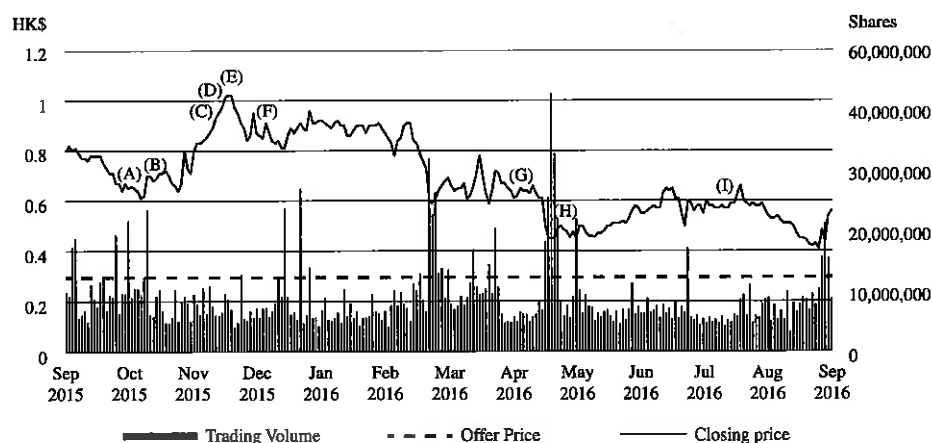
#### *Comparison of value*

The Offer Price of HK\$0.33 per Offer Share represents:

- (i) a discount of approximately 35.29% over the closing price of HK\$0.51 per Share as quoted on the Stock Exchange on 18 August 2016, being the Last Trading Day;
- (ii) a discount of approximately 36.29% over the average closing price of HK\$0.518 per Share as quoted on the Stock Exchange for the five consecutive trading days immediately prior to and including the Last Trading Day;
- (iii) a discount of approximately 38.20% over the average closing price of HK\$0.534 per Share as quoted on the Stock Exchange for the 10 consecutive trading days immediately prior to and including the Last Trading Day;
- (iv) a discount of approximately 42.00% over the average closing price of HK\$0.569 per Share as quoted on the Stock Exchange for the 30 consecutive trading days immediately prior to and including the Last Trading Day;
- (v) a discount of approximately 41.07% to the closing price of HK\$0.560 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- (vi) a premium of approximately 73.68% over the audited consolidated net assets per Share of approximately HK\$0.19 as at 31 March 2016 (being the date to which the latest audited consolidated annual results of the Group were made up), calculated based on the Group's audited consolidated net assets attributable to the Shareholders of approximately HK\$1,518,119,000 as at 31 March 2016 and 7,814,351,360 Shares in issue as at the Latest Practicable Date.

### Historical performance of Share price

We have reviewed the daily closing price of the Shares during the period commencing from 8 September 2015 up to and including the Latest Practicable Date (the “**Review Period**”), being the approximate one-year period before the Latest Practicable Date. The comparison of closing price of the Shares during the Review Period and the Offer Price are illustrated as follows:



Source: Website of the Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk))

	Date(s) of announcement	Description of the event
(A)	5 October 2015	Announcement regarding certain unaudited financial information of the Group for the six months ended 30 September 2015
(B)	15 October 2015	Entered into a non-legally-binding heads of terms in respect of the possible formation of a joint venture
(C)	2 November 2015	Lapse of a major acquisition
(D)	4 November 2015	Profit warning announcement
(E)	27 November 2015	Unaudited interim results of the Group for the six months ended 30 September 2015

	<b>Date(s) of announcement</b>	<b>Description of the event</b>
(F)	11 December 2015	The entering into by the Group of a non-legally binding letter of intent in relation to an acquisition of a PRC company operating solar power station project
(G)	1 April 2016	Announcement regarding certain unaudited financial information of the Group for the year ended 31 March 2016
(H)	28 April 2016	The entering into of a conditional sale and purchase agreement by a company wholly owned by an executive Director with Creaton Holdings Limited, a party acting in concert with the Offeror in connection with disposal of 18.06% of the Shares
(I)	27 July 2016	Repurchase of convertible bonds with principal amount of US\$30 million

During the Review Period, the daily closing price of the Shares as quoted on the Stock Exchange ranged from HK\$0.41 to HK\$1.02. The Offer Price hence represents a discount of approximately 19.5% to the lowest closing price and a discount of approximately 67.6% to the highest closing price of the Shares. Based on the chart above, it is also noted that the Offer Price lies below the range of the closing prices of the Shares for the entire Review Period. However, Qualifying Shareholders should note that there are no guarantees that the trading price of the Shares will sustain at a level higher than the Offer Price during and after the Offer Period.



*Historical trading volume and liquidity of the Shares*

In assessing the fairness of the Offer Price, we have further assessed the average daily trading volume of the Shares in each month below, and the respective percentages of the Shares' average trading volume as compared to (i) the total number of issued Shares of the Company as at the Latest Practicable Date and (ii) the total number of issued Shares held by the public as at the Latest Practicable Date are shown as below:

	Number of trading days	Average daily trading volume (the "Average Volume") Shares	% of the Average Volume to total number of issued Shares held by the public as at the Latest Practicable Date (Note 1) %	% of the Average Volume to total number of issued Shares as at the Latest Practicable Date (Note 2) %
<b>2015</b>				
September	20	10,610,723	0.28	0.14
October	20	12,288,995	0.33	0.16
November	21	9,111,790	0.24	0.12
December	22	10,608,932	0.28	0.14
<b>2016</b>				
January	20	7,512,056	0.20	0.10
February	18	11,040,963	0.29	0.14
March	21	14,821,072	0.39	0.19
April	20	14,052,646	0.37	0.18
May	21	9,083,810	0.24	0.12
June	21	8,915,883	0.24	0.11
July	20	7,150,068	0.19	0.09
August	22	8,716,109	0.23	0.11
September (up to and including the Latest Practicable Date)	4	18,367,133	0.49	0.24

Source: Website of the Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk))

Notes:

1. Based on 3,772,904,960 Shares held by the public as at the Latest Practicable Date.
2. Based on 7,814,351,360 Shares in issue as at the Latest Practicable Date.

From the above table, we noted that trading in the Shares had been inactive during the Review Period. The Shares' monthly average daily trading volume had been below 0.5% of the total number of issued Shares held by the public as at the Latest Practicable Date.

Having regard that the overall trading liquidity of the Shares was relatively low during the Review Period, the Qualifying Shareholders should note that if they wish to realise their investments in the Company, especially those with bulk quantities of Shares, they might not be able to dispose the Shares in the market without exerting a downward pressure on the market price of the Shares in short term. Therefore, we anticipate that the Qualifying Shareholders may have difficulties in selling a significant number of Shares in the open market within a short period of time if the same trading pattern of the Shares persists during and shortly after the Offer Period. In such circumstance, the Offers represents an exit opportunity for the Qualifying Shareholders to realize their investment in the Company at the Offer Price, should they wish to do so.

Nonetheless, if any Qualifying Shareholders who would like to realise their investments in the Shares are able to dispose of their Shares in the open market and/or identify potential purchaser(s) to acquire their Shares at a price higher than the Offer Price, those Qualifying Shareholders may consider not accepting the Share Offer but selling their Shares in the open market and/or to such potential purchaser(s), as they wish to do so and as they think fit having regard to their own circumstances, in case the net proceeds from the sale of their Shares would exceed the net amount receivable under the Share Offer.

Furthermore, those Qualifying Shareholders who, after reading the 2016 Annual Report and the Composite Document, are optimistic about the future financial performance of the Group after the Offers, may, having regard to their own circumstances, consider retaining all or any part of their Shares.

Accordingly, Qualifying Shareholders should closely monitor the market price and liquidity of the Shares during the Offer Period and carefully consider the relevant risks and uncertainties based on their individual risk preference and tolerance level. Those Qualifying Shareholders who decide to retain part or all of their investments in the Shares should also carefully monitor the financial performance of the Group as well as the intentions of the Offeror in relation to the Company in the future, and the potential difficulties they may encounter in disposing of their investments in the Shares after the close of the Offers.

### *Comparison with comparable companies*

Price-to-earnings ratio (“P/E”) and price-to-book ratio (“P/B”) are the most commonly used benchmarks for valuation of companies. Particularly, for companies that generate recurring revenue and income, P/E analysis is the most appropriate approach for valuation. However, as the Group is loss-making for the two years ended 31 March 2016, the P/E is therefore not applicable. Therefore, for the purpose of our analysis, we have adopted P/B analysis to assess the fairness and reasonableness of the terms of the Offers.

We tried to take into consideration companies (i) which primarily engaged in solar energy power generation representing over 50% of their revenue derived from this business for the latest financial year; (ii) whose shares are listed on the Stock Exchange, based on the fact that (a) the Group has planned to focus its resources on its clean energy business, especially the solar energy power generation business in the future; (b) the Group has invested substantial amount and entered into several framework agreements in order to develop the solar energy business; and (c) the segment assets of the clean energy sector was approximately HK\$1,939.6 million, representing approximately 66.1% of the total consolidated asset of the Group. However, to the best of our knowledge, we could not identify any listed company in Hong Kong which satisfies both of the described criteria. In this regard, as the Group’s planned emphasis on its clean energy business, the reportable segment assets that the Company possessed for the clean energy business are essential towards the development of the business in terms of the revenue to be generated. As a result, we have extended our search to companies with over 50% of their assets related to solar energy power related business for the latest financial year, with shares listed on the Main Board or Growth Enterprise Market of the Stock Exchange.

We have identified a total of four companies listed on the Stock Exchange (the “Comparable Companies”) which form an exhaustive list based on the foresaid criteria, that primarily engaged in solar energy related business. The PB Ratio of the Comparable Companies and the PB Ratio of the Company with reference to the Offer Price are listed as follows:

Company name	Stock code	Principal business	Market capitalisation (HK\$ million) (Note 1)	P/B (times) (Note 2)
GCL New Energy Holdings Ltd.	0451.HK	Development, construction, operation and management of solar farms, as well as manufacturing and selling of printed circuit boards	8,201.70	2.88
United Photovoltaics Group Ltd	0686.HK	Development, investment, operation and management of solar power plants	3,629.48	1.46
Shunfeng International Clean Energy Ltd	1165.HK	Manufacturing and sales of solar cells, solar modules and solar wafers and solar power generation business	4,400.43	0.57
GCL-Poly Energy Holdings Ltd	3800.HK	Manufacturing of polysilicon and wafers for the solar industry; development, investment, management and operation of environmentally friendly power plants and solar projects; and trading of coal	21,003.95	1.14
	<b>Average</b>			<b>1.51</b>
	<b>Median</b>			<b>1.30</b>
	<b>Maximum</b>			<b>2.88</b>
	<b>Minimum</b>			<b>0.57</b>
The Company	1004.HK	Principally engaged in clean energy business, investment business and fur business	2,578.74	1.70 (Note 3)

Source: Website of the Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk))

**Notes:**

1. The market capitalisation is calculated based on the share price and number of issued shares of the respective companies as at the Latest Practicable Date.
2. The P/B Ratio of the Comparable Companies are calculated based on their respective market capitalisation divided by the audited consolidated net assets attributable to equity shareholders as disclosed in their respective latest published annual reports or interim reports, and translated into HK\$ at an exchange rate of RMB0.857=HK\$1 (if applicable).

3. The implied P/B Ratio of the Company is calculated based on the Offer Price of HK\$0.33 and the audited net assets attributable to equity shareholders of the Company per Share based on the audited consolidated statement of financial position of the Company as at 31 March 2016 and the number of Shares in issue as at the Latest Practicable Date.

As shown above, the Comparable Companies were trading at P/B ranging from approximately 0.57 times to approximately 2.88 times (the “**Market Range**”). The implied P/B of the Company (based on the Offer Price) of approximately 1.70 times is thus within the aforesaid Market Range, and is higher than the average and median of the Comparable Companies, which we consider to be fair and reasonable so far as the Qualifying Shareholders are concerned and aligned with the market as compared with the Comparable Companies.

### **THE CB OFFER**

As at the Latest Practicable Date, the Group has outstanding Convertible Bonds with an aggregate principal amount of US\$50,000,000 and carrying 6% interest rate per annum payable semi-annually in arrear. The Bondholders have the right to convert the outstanding Convertible Bonds into Shares credited as fully paid at any time from the issue date up to the date which is 7 days prior to the maturity date on 30 July 2018 and convertible into 357,175,650 new Shares at the prevailing conversion price of HK\$1.0891.

The offer price for the Convertible Bonds is HK\$2,357,359.29 for every US\$1,000,000 face value of the Convertible Bonds, determined in accordance with Practice Note 6 to the Takeovers Code as the “see-through” consideration for the Convertible Bonds, being the maximum number of Shares into which the Convertible Bonds is convertible (being 357,175,650 Shares) multiplied by the Offer Price (of HK\$0.33 per Offer Share). Based on (i) the conversion price of the Convertible Bonds at HK\$1.0891 represents a premium of approximately 230.0% over the Offer Price of HK\$0.33 per Offer Share which indicated that the gross proceed from accepting the CB Offer would be less than the face value of the Convertible Bonds; and (ii) the closing price as at the Latest Practicable Date of HK\$0.560 per Share implies the current market value for every US\$1,000,000 face value of the Convertible Bonds is approximately HK\$4,000,000, represents a premium of approximately 69.70% over the offer price under the CB Offer of HK\$2,357,359.29 for every US\$1,000,000 face value of the Convertible Bonds, we consider the offer price under the CB Offer is not fair and reasonable to the Bondholders and recommend them to consider not accepting the CB Offer.

## RECOMMENDATION

We have considered the principal factors discussed above and, in particular, the following in arriving at our opinion:

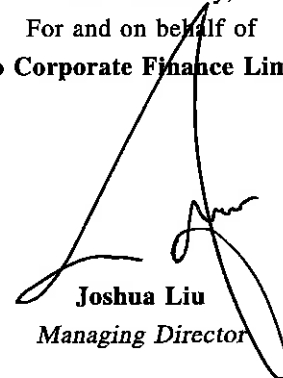
- (a) the Offer Price represents a premium of approximately 73.68% over the audited consolidated net asset per Share of approximately HK\$0.19 as at 31 March 2016;
- (b) the continuous loss making and net operating cash outflow of the Group during the year ended 2015 and 2016;
- (c) although the Offer Price lies below the range of the closing prices of the Shares for the entire Review Period, it is uncertain whether the trading price of the Shares could be sustained at a level higher than the Offer Price during and after the Offer Period;
- (d) the Group is still in the process of developing the clean energy business and yet results remain uncertain;
- (e) the trading liquidity of the Shares was relatively thin during the Review Period and the disposal of large block of Shares held by the Qualifying Shareholders in the open market may trigger price slump of the Shares as a result of the extremely thin trading volume of the Shares; and
- (f) the results of the market comparison as set forth under the sub-section headed “Comparison with comparable companies” of this letter.

We consider that the terms of the Share Offer (including the Offer Price) are fair and reasonable so far as the Qualifying Shareholders are concerned. Accordingly, we recommend the Independent Board Committee to advise the Qualifying Shareholders to accept the Share Offer. In addition, having considered the principal factor (as set out in the section headed “The CB Offer” of this letter), we consider that the terms of the CB Offer (including the offer price of the Convertible Bonds) are not fair and reasonable so far as the Bondholders are concerned. Accordingly, we recommend the Independent Board Committee to advise the Bondholders to consider not accepting the CB Offer.

**However, given that the Offer Price under the Share Offer represents discounts to the recent market prices of the Shares (including but not limited to the closing price of the Shares as at the Latest Practicable Date) and that with low trading liquidity of the Shares, disposal of large block of Shares by the Qualifying Shareholders in the open market would likely to trigger price slump of the Shares, we would also like to remind the Independent Board Committee to remind the Qualifying Shareholders to closely monitor the market price of the Shares and liquidity of the Shares during the Offer Period, and consider selling their Shares in the open market, where possible, instead of accepting the Share Offer, if the net proceeds from such sales exceed the net amount receivable under the Share Offer.**

Those Qualifying Shareholders and Bondholders who decide to retain part or all of their investments in the Shares and Convertible Bonds should carefully monitor the intentions of the Offeror in relation to the Company in the future and the potential difficulties they may encounter in disposing of their investments in the Shares and Convertible Bonds after the close of the Offers. Further terms and conditions of the Share Offer and CB Offer are set out in the “Letter from Haitong International Securities” and Appendix I to the Composite Document.

Yours faithfully,  
For and on behalf of  
**Lego Corporate Finance Limited**



**Joshua Liu**  
*Managing Director*

*Mr. Joshua Liu is a licensed person registered with the Securities and Futures Commission and a responsible officer of Lego Corporate Finance Limited to carry out Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong). He has over 18 years of experience in the investment banking and securities industry.*