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世紀陽光

世紀陽光集團控股有限公司
CENTURY SUNSHINE GROUP HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 509)

VERY SUBSTANTIAL DISPOSAL

REORGANISATION PLAN

**INVOLVING DIRECT AND INDIRECT SHAREHOLDINGS IN
CHINA RARE EARTH MAGNESIUM TECHNOLOGY HOLDINGS LIMITED**

Financial Adviser



BAOQIAO PARTNERS

BAOQIAO PARTNERS CAPITAL LIMITED

A letter from the Board is set out on pages 9 to 45 of this circular.

A notice convening the EGM to be held at Boardroom 3-4, Mezzanine Floor Renaissance Harbour View Hotel Hong Kong, 1 Harbour Road, Wanchai, Hong Kong on Tuesday, 21 November 2017 at 4 p.m. is set out on pages EGM-1 to EGM-3 of this circular. A form of proxy for use at the EGM is enclosed. Whether or not you intend to attend and vote at the EGM in person, you are requested to complete and return the accompanying proxy form to the branch share registrar of the Company in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong in accordance with the instructions printed thereon as soon as possible but in any event not later than 48 hours before the time scheduled for the EGM (or any adjournment thereof). Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM (or any adjournment thereof) should you so wish.

27 October 2017

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DEFINITIONS

In this circular, unless the context indicates otherwise, the following expressions have the following meanings:

“ABC Loans”	the loans in the aggregate principal amount of RMB140,000,000 advanced pursuant to various loan agreements dated 28 March 2014, 7 July 2014, 8 August 2014, 4 November 2014, 28 January 2015, 26 June 2015 entered into by Baishan Tianan (as borrower) with 中國農業銀行股份有限公司白山分行 (Agriculture Bank of China Limited, Baishan Branch*) (as lender)
“ABC Loan Guarantee”	guarantee given by a PRC subsidiary of Century Sunshine for payment obligations of Baishan Tianan in respect of the ABC Loans
“Appraisal Value”	the appraisal value of the CRE Group as at the valuation date, 31 August 2017, as stated in the GS Valuation Report
“associate(s)” or “close associate(s)”	has the meaning ascribed thereto in the Listing Rules
“Baishan Tianan”	白山市天安金屬鎂礦業有限公司 (Baishan City Tianan Magnesium Resources Co., Ltd.*), a company incorporated under the laws of the PRC and a wholly-owned subsidiary of CRE as at the Latest Practicable Date
“Board”	the board of Directors
“BOC/Jiangsu Loan”	the loan in the aggregate principal amount of RMB170,000,000 advanced pursuant to a loan agreement dated 8 December 2015 entered into by a subsidiary of the Company (as borrower) with, amongst others, 中國銀行股份有限公司東海支行 (Bank of China Limited Donghai Sub-branch*) and 江蘇銀行股份有限公司東海支行 (Bank of Jiangsu Co., Ltd. Donghai Sub-branch*) (as lenders)
“BOC/Jiangsu Loan Guarantee”	guarantee given by Baishan Tianan for payment obligations in respect of the BOC/Jiangsu Loan

DEFINITIONS

“Business Day”	any day (other than a Saturday, Sunday and public holiday) on which licensed banks in Hong Kong are generally open for business
“Century Bravo”	Century Bravo International Limited, a private company incorporated in the British Virgin Islands with limited liability and is wholly-owned by CRE as at the Latest Practicable Date
“CIAC”	Changchun Institute of Applied Chemistry, Chinese Academy of Sciences
“CIIL”	Capital Idea Investments Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company, which held 1,990 FGL Shares (representing 99.50% of the existing FGL Shares in issue) and 2,710 CRE Shares (representing approximately 26.29% of the existing CRE Shares in issue) as at the Latest Practicable Date
“CIIL Consideration GS Shares”	3,269,919,980 GS Shares to be issued and allotted to Ming Xin (as a nominee of CIIL) pursuant to the CIIL SPA
“CIIL SPA”	the sale and purchase agreement dated 1 September 2017 and entered into by, amongst others, CIIL (as vendor) and GS Purchaser (as purchaser) in respect of 1,990 FGL Shares (representing 99.50% of the existing FGL Shares in issue) and 2,710 CRE Shares (representing approximately 26.29% of the existing CRE Shares in issue)
“CIIL Transaction”	the sale, by CIIL, and purchase, by GS Purchaser of (i) 1,990 FGL Shares and (ii) 2,710 CRE Shares pursuant to the terms of the CIIL SPA
“Company”	Century Sunshine Group 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: 509)
“Completion”	completion of the CIIL Transaction in accordance with the terms of the CIIL SPA

DEFINITIONS

“connected person(s)”	has the meaning ascribed thereto in the Listing Rules
“Controlling Shareholder”	has the meaning ascribed thereto in the Listing Rules
“Consideration Ordinary GS Shares”	3,700,000,000 GS Shares, being the aggregate of CIIL Consideration GS Shares and 430,080,020 GS Shares to be issued and allotted to Win Union pursuant to the WU SPA
“Conversion GS Shares”	GS Shares to be issued upon conversion of the Convertible Bond
“Convertible Bond”	the 4% coupon convertible bond in the aggregate principal amount of HK\$420,000,000 to be issued by Group Sense to Ming Xin (as nominee of CIIL) pursuant to the CIIL SPA
“Counter Indemnity”	the deed of counter indemnity to be executed by CIIL and the Vendor Guarantors in favour of GS Purchaser, Group Sense and Baishan Tianan in relation to the obligations of FGL and/or its subsidiaries under the BOC/Jiangsu Loan Guarantee
“CRE”	China Rare Earth Magnesium Technology Holdings Limited, a private company incorporated in Hong Kong with limited liability and is owned by FGL as to approximately 64.99%, CIIL as to approximately 26.29% and Win Union as to approximately 8.72% as at the Latest Practicable Date
“CRE Group”	CRE and its subsidiaries
“CRE Share(s)”	the ordinary share(s) of CRE
“CS Group”	the Group other than the GS Group
“Director(s)”	the director(s) of the Company
“EGM”	an extraordinary general meeting of the Company to be convened for the purpose of considering and, if thought fit, approving, amongst other things, the CIIL SPA and the transactions contemplated thereunder

DEFINITIONS

“Exchangeable Bond”	the redeemable fixed coupon exchangeable bond with an aggregate principal amount of HK\$232,000,000 issued by Century Sunshine to WTIL under the exchangeable bond instrument dated 5 May 2016
“FGL”	Fullocean Group Limited, a company incorporated in the British Virgin Islands with limited liability and is owned by CIIL as to approximately 99.50% and Win Union as to approximately 0.50% as at the Latest Practicable Date
“FGL Share(s)”	the ordinary share(s) with a par value of US\$1.00 each in the share capital of FGL
“Group”	the Company and its subsidiaries
“Group Sense”	Group Sense (International) Limited, a company incorporated in Bermuda with limited liability, the issued shares of which are listed on the Main Board of the Stock Exchange (stock code: 601)
“GS Board”	the board of GS Directors
“GS Circular”	the circular dated 27 October 2017 issued by Group Sense in relation to the Transactions
“GS Director(s)”	the director(s) of Group Sense
“GS Group”	Group Sense and its subsidiaries
“GS Purchaser”	Sure Sino Global Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of Group Sense
“GS SGM”	a special general meeting of Group Sense to be convened for the purpose of considering and, if thought fit, approving, amongst other things, the CIIL SPA, the WU SPA and the transactions contemplated thereunder, the issue of the Consideration Ordinary GS Shares, the creation and issue of the Convertible Bond and the issue and allotment of the Conversion GS Shares

DEFINITIONS

“GS Share(s)”	ordinary share(s) of HK\$0.1 each in the share capital of Group Sense
“GS Shareholder(s)”	holder(s) of GS Share(s)
“GS Valuation”	the valuation of the CRE Group as at 31 August 2017
“GS Valuation Report”	the valuation report issued by Asset Appraisal Limited, an independent valuer to conduct the GS Valuation
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HK Mg-Tech”	Hong Kong Mg-Tech Metals Company Limited, a private company incorporated in the British Virgin Islands with limited liability and is wholly owned by Century Bravo as at the Latest Practicable Date
“IFC”	International Finance Corporation, an international organisation established by articles of agreement among its member countries including the PRC
“IFC Loan”	the loan granted by IFC to Baishan Tianan under the IFC Loan Documents
“IFC Loan Documents”	(i) the loan agreement dated 30 May 2014 (as amended and restated on 7 December 2015) entered into between IFC (as lender) and Baishan Tianan (as borrower) in respect of a loan in the principal amount of US\$27,000,000 (as amended and restated on 7 December 2015 and as may be further amended or restated from time to time); and (ii) the guarantee dated 30 May 2014 entered into by the Company (as guarantor) in favour of IFC in respect of the obligation of Baishan Tianan under the loan agreement referred to in (i) above (and as amended and restated on 7 December 2015 and as may be further amended and restated from time to time)
“IFC Loan Guarantee”	guarantee given by the Company for payment obligations in respect of the IFC Loan

DEFINITIONS

“Independent GS Shareholders”	GS Shareholders other than Ming Xin and parties who have interests in the Transactions
“Independent Shareholders”	Shareholders other than Mr. Shum Sai Chit and Ms. Chi Bi Fen and parties who have interests in the CIIL Transaction
“Independent Third Party(ies)”	third party(ies) independent of Group Sense and the Company and their connected persons
“Joint Announcement”	the announcement dated 1 September 2017 jointly made by Group Sense and the Company in relation to the Transactions
“Latest Practicable Date”	23 October 2017, being the latest practicable date for the purpose of ascertaining certain information contained in this circular prior to its publication
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	31 December 2017 or such later date as may be agreed between the parties to the CIIL SPA or the WU SPA (as the case may be)
“Ming Xin”	Ming Xin Developments Limited, a company incorporated in the British Virgin Islands with limited liability and a Controlling Shareholder of Group Sense holding 1,491,197,454 GS Shares, representing approximately 51.88% of the existing GS Shares in issue as at the Latest Practicable Date
“Percentage Ratios”	percentage ratios as set out in Rule 14.07 of the Listing Rules to be applied for determining the classification of a transaction
“PRC”	the People’s Republic of China which, for the purpose of this circular, excludes Hong Kong, Taiwan and the Macau Special Administrative Region of the PRC
“Reorganisation”	the reorganisation of the ownership structure of FGL and CRE to be effected as a result of the CIIL SPA and the WU SPA

DEFINITIONS

“SFO”	the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
“Shandong Hongri”	山東紅日化工股份有限公司 (Shandong Hongri Chemical Joint Stock Company, Ltd.*), a joint stock limited company established under the laws of the PRC, being a non-wholly owned subsidiary of the Company
“Share(s)”	ordinary share(s) of HK\$0.02 each in the share capital of the Company
“Shareholder(s)”	holder(s) of Share(s)
“Shareholder’s Loan”	the amount of approximately HK\$175,000,000 and not more than RMB153,000,000 owed by CRE to the Company as at the date of the CIIL SPA and at Completion respectively
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder”	has the meaning ascribed thereto in the Listing Rules
“Takeovers Code”	The Hong Kong Code on Takeovers and Mergers
“Target Group”	FGL and its subsidiaries
“Transactions”	the CIIL Transaction and the WU Transaction
“US”	United States of America
“Vendor Guarantors”	the Company and Ming Xin, being the guarantors of the obligations of CIIL under the CIIL SPA
“Win Union”	Win Union Limited, a company incorporated in the British Virgin Islands with limited liability which holds 10 FGL Shares (representing 0.50% of the existing FGL Shares in issue) and 900 CRE Shares (representing approximately 8.72% of the existing CRE Shares in issue) as at the Latest Practicable Date

DEFINITIONS

“WTIL”	Wan Tai Investments Limited, a company incorporated in the British Virgin Islands with limited liability and an indirectly and wholly-owned special purpose vehicle of CCB International (Holdings) Limited
“WU SPA”	the sale and purchase agreement dated 1 September 2017 and entered into by, amongst others, Win Union (as vendor) and GS Purchaser (as purchaser) in respect of 0.50% of the existing FGL Shares in issue and 8.72% of the existing CRE Shares in issue
“WU Transaction”	the sale, by Win Union, and purchase, by GS Purchaser of (i) 10 FGL Shares (representing 0.50% of the FGL Shares in issue) and (ii) 900 CRE Shares (representing approximately 8.72% of the existing CRE Shares in issue) pursuant to the terms of the WU SPA
“Xinjiang Tengxiang”	新疆騰翔鎂製品有限公司 (Xinjiang Tengxiang Magnesium Products Company Limited*), a company established in the PRC with limited liability and an indirect wholly-owned subsidiary of Group Sense as at the Latest Practicable Date
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong from time to time
“RMB”	Renminbi, the lawful currency of the PRC from time to time
“SGD”	Singapore dollars, the lawful currency of the Republic of Singapore from time to time
“USD” or “US\$”	US dollars, the lawful currency of the US from time to time
“%”	per cent

* All English translation of the Chinese names is for illustration purpose only

For the purposes of this circular, the translations of RMB into HK\$ and US\$ into HK\$ are based on the exchange rate of RMB1.00 to HK\$1.12, US\$1.00 to HK\$7.8 respectively, and are provided for information purposes only.

LETTER FROM THE BOARD



世紀陽光

世紀陽光集團控股有限公司 CENTURY SUNSHINE GROUP HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 509)

Executive Directors:

CHI Wen Fu (*Chairman*)

SHUM Sai Chit

CHI Bi Fen

Non-executive Directors:

GUO Mengyong

Independent non-executive Directors:

KWONG Ping Man

SHENG Hong

LAU Chi Kit

Registered Office:

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

Principal Office:

Unit 2605, 26th Floor

Harbour Centre

25 Harbour Road

Wanchai

Hong Kong

27 October 2017

To the Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL DISPOSAL

REORGANISATION PLAN INVOLVING DIRECT AND INDIRECT SHAREHOLDINGS IN CHINA RARE EARTH MAGNESIUM TECHNOLOGY HOLDINGS LIMITED

1. INTRODUCTION

Reference is made to the Joint Announcement in relation to, among other things, the proposed plan of Reorganisation, pursuant to which the magnesium business

LETTER FROM THE BOARD

of the Company held by CRE is to be transferred to Group Sense so that all of the Company's interests in its magnesium business will be held through Group Sense to allow better delineation of the businesses of the CS Group and the GS Group.

The purpose of this circular is to provide you with, among other things, (i) further details of the Reorganisation; (ii) financial information of the Group; (iii) financial information of the Target Group; (iv) the unaudited pro forma financial information of the Group; and (v) the notice of the EGM to be convened and held for the purpose of considering and, if thought fit, approving, amongst other things, the CIIL Transaction.

2. THE REORGANISATION

The Company is an investment holding company and the CS Group is principally engaged in the fertiliser business, magnesium product business and metallurgical flux business. CIIL is the wholly-owned subsidiary through which the Company holds its interest in the magnesium product business of the CS Group which operates at Baishan City, Jilin Province, the PRC.

Group Sense is an investment holding company and the GS Group is principally engaged in the manufacture and sale of magnesium-related products and electronic products. Group Sense is an indirectly owned subsidiary of the Company which holds approximately 51.88% shareholding interests in Group Sense as at the Latest Practicable Date.

In order to implement the Reorganisation plan, Group Sense and its wholly-owned subsidiary GS Purchaser entered into the CIIL SPA with CIIL, the Company and Ming Xin and the WU SPA with Win Union, pursuant to which the GS Purchaser conditionally agreed to acquire and both CIIL and Win Union conditionally agreed to sell their respective effective shareholding interest of approximately 90.95% and 9.05% in CRE, upon completion of which the GS Group will have acquired 100% interest in the Target Group while the Company will remain the holding company of the GS Group (including the Target Group).

The consideration for the acquisition is to be satisfied by the issue of Consideration Ordinary GS Shares and Convertible Bond by Group Sense. The Company will remain as the Controlling Shareholder of Group Sense upon Completion. The Transactions will not result in a change of control of Group Sense.

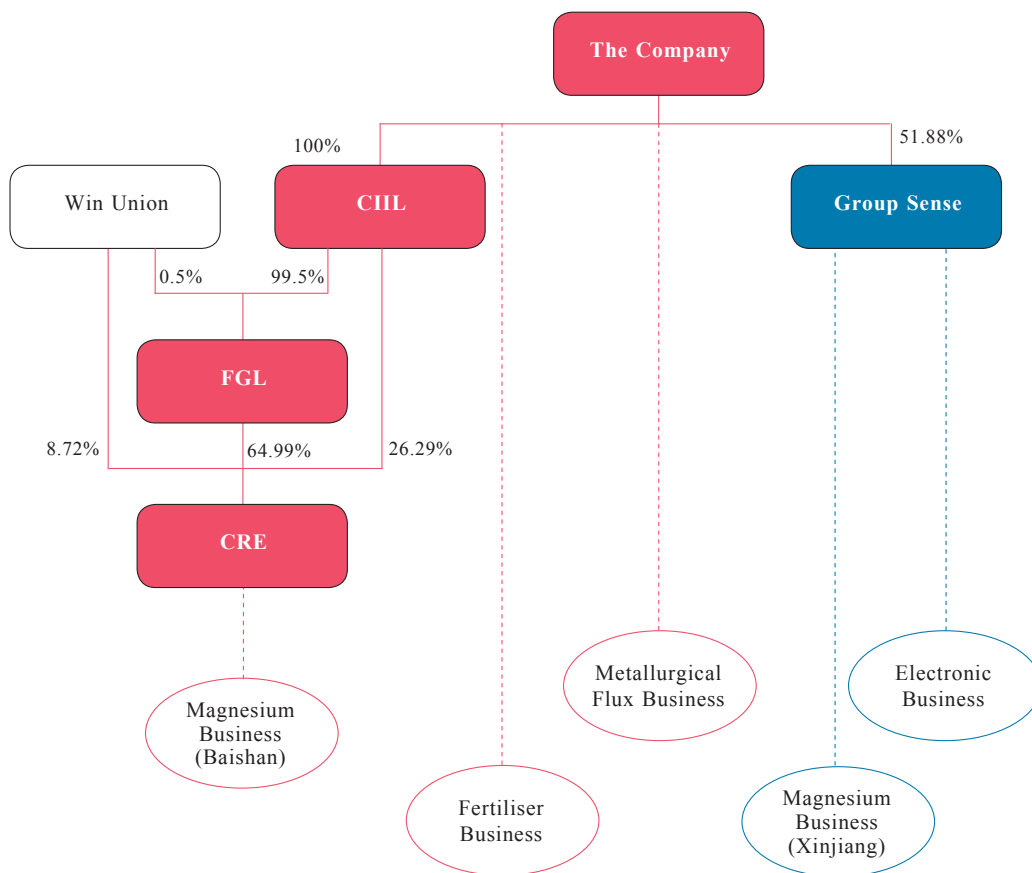
LETTER FROM THE BOARD

The principal terms of the CIIL SPA and the WU SPA are the same, save and except for following respects:— (i) the identity of the vendor and (where relevant the guarantors of the vendor) and the number of FGL Shares and CRE Shares being sold; (ii) the consideration payable under the WU SPA will not involve any issue of Convertible Bond; (iii) CIIL as majority shareholder of the Target Group is providing more substantive representations, warranties, undertakings and indemnities in respect of the Target Group; and (iv) completion of the WU SPA is conditional upon and is expected to take place at the same time as the completion of the CIIL SPA. Details of the WU SPA are set out in the GS Circular.

For the purposes of illustration, a simplified ownership structure of the Target Group and the principal businesses conducted by the Company and Group Sense through their respective subsidiaries immediately before and after the Reorganisation are shown as below:

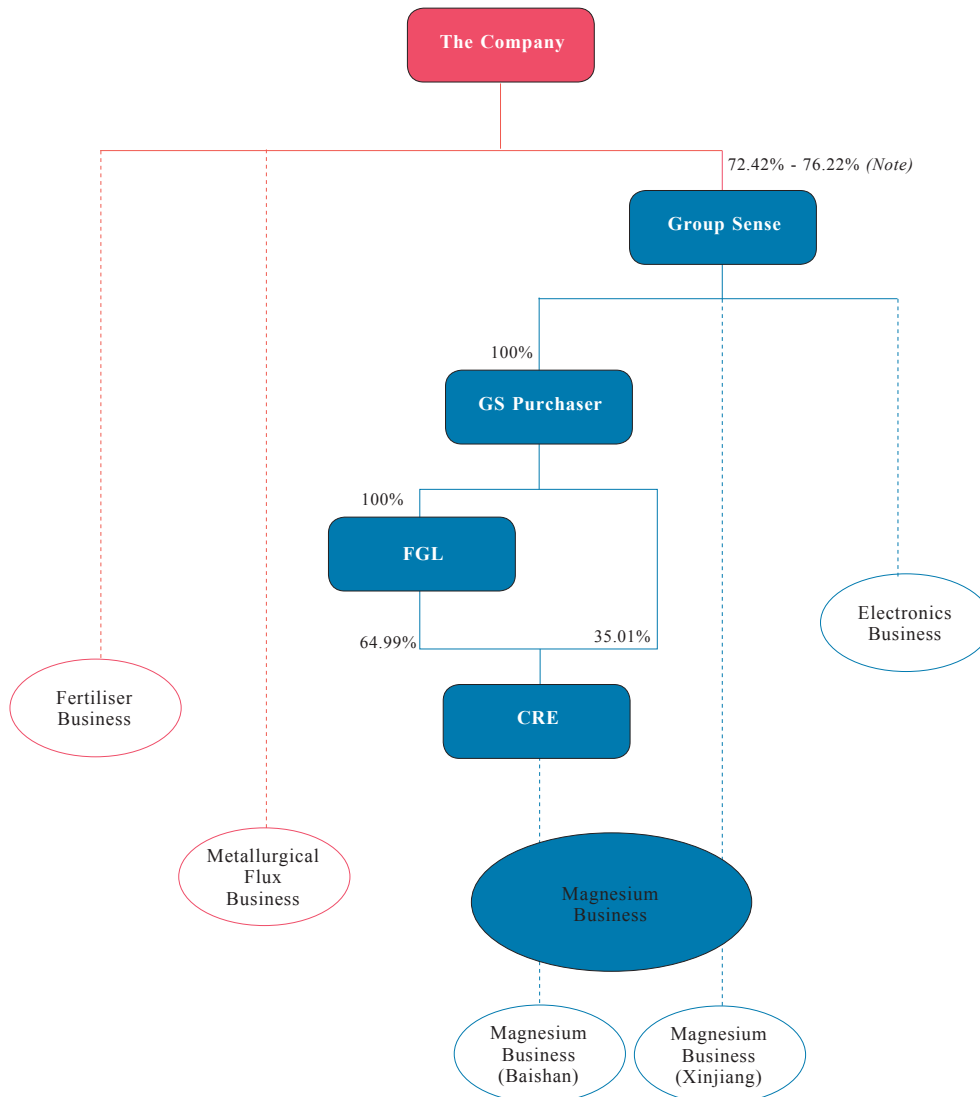
LETTER FROM THE BOARD

Before the Reorganisation



LETTER FROM THE BOARD

After the Reorganisation



Note: The maximum percentage figure of 76.22% has not taken into account the public float and Takeovers Code related restrictions and the special restrictions as referred to in “3. The CIIL SPA – Principal terms of the Convertible Bond” below.

LETTER FROM THE BOARD

3. THE CIIL SPA

Date of the CIIL SPA

1 September 2017

Parties

The CIIL SPA

1. CIIL, as vendor;
2. GS Purchaser, as purchaser;
3. the Company and Ming Xin, as the guarantors of the obligations of CIIL and the providers of certain warranties and undertakings; and
4. Group Sense, as the provider of certain warranties in respect of the CIIL Consideration GS Shares and the Convertible Bond.

Pursuant to the CIIL SPA, the GS Purchaser conditionally agreed to acquire and CIIL conditionally agreed to sell the 1,990 FGL Shares (representing 99.50% of FGL Shares in issue) and 2,710 CRE Shares (representing approximately 26.29% of CRE Shares in issue) held by CIIL.

As at the Latest Practicable Date, CIIL held 1,990 FGL Shares (representing approximately 99.5% of FGL Shares in issue) and 2,710 CRE Shares (representing approximately 26.29% of CRE Shares in issue) and FGL held 6,700 CRE Shares (representing approximately 64.99% of CRE Shares in issue). The Company holds its interest in the Target Group through CIIL and the effective shareholding interest of CIIL in CRE is approximately 90.95% as at the Latest Practicable Date.

Each of CIIL and Ming Xin is an investment holding company wholly-owned by the Company. The Company holds all of its interest in the GS Shares through Ming Xin.

GS Purchaser, an investment holding company, is a wholly-owned subsidiary of Group Sense.

LETTER FROM THE BOARD

Consideration

Subject to the terms and conditions of the CIIL SPA, CIIL has agreed to sell, and GS Purchaser has agreed to purchase FGL Shares and CRE Shares, representing the effective shareholding interest of CIIL in CRE of approximately 90.95%, for the following consideration:

Vendor	Subject matter of sale and purchase	Consideration	Method of settlement of Consideration
CIIL	— 1,990 FGL Shares, (representing 99.50% of the FGL Shares in issue) and — 2,710 CRE Shares (representing approximately 26.29% of the CRE Shares in issue)	HK\$1,727,967,992	— as to HK\$1,307,967,992, by the issue of 3,269,919,980 GS Shares to Ming Xin (as nominee of CIIL) at an issue price of HK\$0.40 per GS Share; and — as to the balance of HK\$420,000,000, by the issue of the Convertible Bond in the principal amount of HK\$420,000,000 to Ming Xin (as nominee of CIIL).

Application will be made by Group Sense to the Stock Exchange for the listing of, and permission to deal in (i) the CIIL Consideration GS Shares; and (ii) the Conversion GS Shares to be issued and allotted pursuant to the conversion of the Convertible Bond, which are to be issued under the CIIL SPA.

The consideration for the CIIL Transaction was determined by reference to (i) the Appraisal Value of 100% interest in CRE, to be determined by reference to valuation date of 31 August 2017, which shall not be less than HK\$1,900,000,000 (representing a small discount of approximately 10% to previous valuation on CRE Group carried out in 2016 (“**Previous Valuation**”) as part of the usual audit process by the CS Group, agreed after arm’s length negotiations among parties and based on the preliminary discussion with the independent valuer engaged by Group Sense); (ii) the financial performance and future prospects of the Target Group, and (iii) the synergies and benefits that are expected to be derived from the Reorganisation as discussed in the section headed “7. REASONS FOR AND BENEFITS OF THE REORGANISATION” in this letter.

LETTER FROM THE BOARD

In determining the consideration, both the Directors and GS Directors have reviewed and discussed with the independent valuer the Previous Valuation and the various assumptions adopted in preparing the Previous Valuation. The Previous Valuation, which was prepared for the usual audit process, adopted the income approach which focuses on the income producing capability of the magnesium business and discounted to its present value. Both the Directors and GS Directors understand that the Previous Valuation relied on the use of various assumptions/estimation of different projected inputs, including but not limited to, commodities pricing, operating costs, growth and discount rates as well as the timeline of releasing its phase II planned production capacity, etc., which are subjective and subject to change from time to time given the uncertainty and dynamic nature of metal businesses and the market conditions of the PRC economy. Latest information of the magnesium business, including growth of the planned production capacity, products mix, and pricing trend of commodities was also considered in reviewing the Previous Valuation.

In view of the underlying uncertainties involved under the income approach, sensitivity analysis was prepared by the management of the Company to assess the impact of changes in 1% and 2% of the discount rate (i.e. the required return for an investor after considering the relevant risk factors associated with the magnesium business) on the valuation result of the Previous Valuation. After arm's length negotiation between the Company and Group Sense taking into account results of the sensitivity analysis, both parties considered the adoption of an absolute increase of 1% discount rate to the fair value of the Previous Valuation was appropriate to form a prudent and reasonable basis in determining the minimum fair value of the CRE Group and a round number of HK\$1,900,000,000 was agreed between the parties under the CIIL SPA.

GS Valuation

Based on the GS Valuation Report, the Appraisal Value of the entire issued share capital of the CRE Group was HK\$1,964,000,000 as at 31 August 2017 and 90.95% of the corresponding Appraisal Value was HK\$1,786,258,000, representing a premium of approximately 3.4% over the consideration.

There was no direct involvement by the Directors or the Company in the preparation of the GS Valuation given the GS Valuation is conducted by Group Sense in confirming the Appraisal Value of the CRE Group as at 31 August 2017. A copy of the GS Valuation Report is set out in the GS Circular.

LETTER FROM THE BOARD

During the course of negotiation between the parties under the CIIL SPA, it was the understanding between the parties that (i) the valuer to be engaged by Group Sense shall be qualified and experienced to conduct valuation on the relevant business and for listed companies in Hong Kong; (ii) the methodologies adopted shall be commonly adopted in preparing valuation on the relevant business; and (iii) the GS Valuation will be subject to the review of and assessment by the Company.

The Company has enquired into the independent valuer's qualification and experience and its scope of engagement with Group Sense. In respect of the valuation methodology adopted in the GS Valuation, the Company notes that the independent valuer has considered all the commonly adopted valuation approaches in the market (namely, asset approach, market approach and income approach) for the purpose of determining the Appraisal Value of the 100% equity interest in the CRE Group and considered that the market approach is the most appropriate valuation methodology in the case of the CRE Group on the basis that it is the most direct valuation approach by which fair value is concluded on market determined market price paid by the market participants for the similar assets on the marketplace. The Company has discussed with Group Sense in respect of the adoption of market approach and agreed with Group Sense that the market approach is less subjective when comparing with the income approach as it represents the monetary value likely to be exchanged in an arm's length transaction, when a willing buyer will pay, and a willing seller will accept for a transaction.

The Company has also reviewed the selection criteria of the comparables used by the independent valuer and the source of the comparables' data. Based on the GS Valuation Report, the independent valuer has obtained information on listed companies engaging in similar line of business and their share trading price ratios against various economic measures have been analysed for comparison purpose. There are in total 10 selected comparables which satisfied all of the following selection criteria:

- (i) the company is principally participating in magnesium and/or aluminium sector with majority of its total revenues from continuing operations generated from magnesium/aluminium products (in view of its similarity of functional properties and overlapping application in terms of product types) in the latest financial year;
- (ii) shares of the company are being listed in a major stock exchange and are actively traded in a reasonable period of time;

LETTER FROM THE BOARD

- (iii) detailed financial and operational information in respect of the companies are publicly available; and
- (iv) the operating profit for the latest 12 months financial reporting period is positive.

Furthermore, the Company notes that the assumptions and limiting conditions on which the GS Valuation is based are mainly in respect of legal, political and economic environments of where CRE Group operates, going concern and financial position of the CRE Group as well as limitations in respect of the scope of due diligence performed by the independent valuer, which are general in nature and usually adopted in preparing business valuation.

Given the above, the Directors are satisfied that (i) the independent valuer has sufficient qualification and experience for preparation of the GS Valuation; and (ii) the methodology and the principal basis and assumptions adopted for the GS Valuation are appropriate, and therefore are of the view that the GS Valuation serves as a fair and reasonable reference to the fair value of the CRE Group as at 31 August 2017 and the consideration of HK\$1,727,967,992, for the effective shareholding interest in 90.95% of the CRE Group, is fair and reasonable and is in the interest of the Company and its Shareholders as a whole.

CIIL Interests in FGL and CRE

CIIL first acquired 40.00% interest in FGL on 31 December 2008 and it subsequently acquired interests in both FGL and CRE as below:

Date of acquisition	Acquisition of FGL % of shareholding	Acquisition of CRE % of shareholding
31 December 2008 (1st acquisition)	40.00%	—
31 August 2009	2.25%	—
31 October 2009	42.25%	—
15 January 2013	—	21.14%
16 January 2013	—	2.13%
5 January 2016	15.00%	—
23 March 2017	—	3.02%
Total	99.50%	26.29%

LETTER FROM THE BOARD

The original acquisition costs by CIIL in respect of (1) 99.50% of FGL was HK\$241,042,081 and (2) approximately 26.29% of CRE was HK\$64,214,560 respectively.

The issue price

The issue price of HK\$0.40 per each CIIL Consideration GS Share represents:

- (i) a premium of approximately 11.11% to the closing price of HK\$0.36 per GS Share as quoted on the Stock Exchange on 31 August 2017, being the last trading day before the date of the CIIL SPA;
- (ii) a premium of approximately 8.11% to the average closing price of approximately HK\$0.37 per GS Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including 31 August 2017, being the last trading day before the date of the CIIL SPA; and
- (iii) a premium of approximately 19.40% over the closing price of HK\$0.335 per GS Share as quoted on the Stock Exchange on the Latest Practicable Date.

The issue price was arrived at after arm's length negotiations between GS Purchaser and CIIL with reference to the trading prices of GS Shares prior to the joint announcement of Group Sense and the Company dated 18 April 2017 in relation to the memorandum of understanding relating to the CIIL Transaction.

Principal terms of the Convertible Bond

The principal terms of the Convertible Bond which are prepared to be created as a condition precedent to Completion are as follows:

Issuer:	Group Sense
Total principal amount:	HK\$420,000,000
Authorised denomination:	HK\$1,000,000 or integral multiples
Status:	The obligations of Group Sense arising under the Convertible Bond constitute direct, unconditional, unsecured, unsubordinated obligations of Group Sense, and rank pari passu among themselves and at least pari passu in right of payment with all other present and future unsecured obligations of Group Sense except for obligations accorded preference by mandatory provisions of applicable law.

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The Convertible Bond would be in registered and definitive form.

Interest rate: 4% per annum on the outstanding principal amount.

Maturity date: The third anniversary of the date of issue of the Convertible Bond (the “**Maturity Date**”).

Subject as provided in the conditions of the Convertible Bond, the outstanding principal amount of the Convertible Bond shall, unless previously converted for the Conversion Shares, be repaid by Group Sense to the holder(s) of the Convertible Bond (the “**Bondholder(s)**”) on the Maturity Date.

The Convertible Bond which is redeemed or to the extent converted will be cancelled.

Conversion rights: Subject to public float and Takeovers Code related restrictions and the special restrictions as set out further below, the whole (or part in authorised denominations) of the principal amount of the Convertible Bond is convertible into GS Shares at the option of the holder at the initial conversion price of HK\$0.40 per Conversion GS Share (subject to adjustments).

The Convertible Bond can be converted, at the option of the holders thereof, at any time and from time to time during the period commencing on the seventh date following the date of issue of the Convertible Bond and expiring up to and including the date which is seven dates prior to the Maturity Date provided that any such conversion (i) would not result in the Conversion GS Shares being issued at a price below their nominal value as at the applicable date of conversion; (ii) would not result in the public float of the GS Shares falling below the minimum public float requirements under the Listing Rules or as required by the Stock Exchange immediately after such conversion; or (iii) does not trigger a mandatory general offer obligation under the Takeovers Code.

Conversion GS Shares: Conversion GS Shares shall be allotted and issued by Group Sense, credited as fully paid, with effect from the date on which conversion rights are validly exercised by the Bondholder, and the Bondholder shall be entitled to all dividends and other distributions, rights and entitlements on the record date which falls after the conversion date.

LETTER FROM THE BOARD

Assuming the conversion rights attached to the Convertible Bond are exercised in full at the initial conversion price of HK\$0.40 per Conversion GS Share, 1,050,000,000 Conversion GS Shares will be allotted and issued by Group Sense.

Conversion price: HK\$0.40 per Conversion GS Share (subject to adjustments upon certain “Adjustment Events” as described below) (the “**Conversion Price**”).

Adjustment Events: The Conversion Price is subject to customary adjustment upon occurrence of, among other things, the following events:

- (i) consolidation, subdivision or reclassification of GS Shares;
- (ii) capitalisation of profits or reserves;
- (iii) capital distribution;
- (iv) rights issue of GS Shares or options over shares at a price which is less than 95% of the then market price of the GS Shares;
- (v) issue of securities convertible into or exchangeable for or carry rights of subscription for GS Shares at an total effective consideration per GS Share less than 95% of the then market price of the GS Shares;
- (vi) any modification of the rights of conversion or exchange or subscription attaching to securities in (iv) above resulting in total effective consideration per GS Share less than 95% of the then market price of the GS Shares;
- (vii) issue of share for cash at less than 95% of the then market price of the GS Shares; and
- (viii) issue GS Shares for the acquisition of any asset at total effective consideration per GS Share less than 95% of the then market price of the GS Shares.

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- Transferability:** The Convertible Bond may be transferred in whole (or in authorised denomination) to any person, subject to the special restrictions as further set out below, and the requirements under the Listing Rules and/or imposed by the Stock Exchange and/or other requirements imposed by the Stock Exchange, and the approval of the GS Shareholders in a general meeting if so required under, and in compliance with, the Listing Rules if such assignment and/or transfer is proposed to be made to a connected person of Group Sense (other than to CIIL or its associates).
- Voting rights:** The Convertible Bond do not confer on the holder(s) thereof the right to attend or vote at a general meeting of Group Sense.
- Purchase/Redemption:** Group Sense or any of its subsidiaries may repurchase the Convertible Bond in accordance with the Counter Indemnity and any Convertible Bond so purchased shall forthwith be cancelled by Group Sense.
- Under the Counter Indemnity, if neither CIIL, the Company or Ming Xin makes a payment in full when demand is made against Baishan Tianan for the performance of the BOC/Jiangsu Loan Guarantee, Group Sense may at its sole discretion redeem or purchase up to a maximum of the principal amount of the Convertible Bond then subject to the “Special restrictions” as described below, and set off its payment obligations in respect thereof against such unsatisfied payment obligation of CIIL, the Company or Ming Xin.
- Listing and trading:** The Convertible Bond are not and will not be listed on any stock exchange.
- Special restrictions:** Blocked Bond (as defined below) are not convertible or transferrable.

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In conjunction with the Counter Indemnity (see “Undertakings and Counter Indemnity from CIIL and the Vendor Guarantors in respect of BOC/Jiangsu Loan Guarantee and Financial Assistance from the Group” below), initially a total of Convertible Bond in the aggregate amount of HK\$200,000,000 (“**Blocked Bond**”) is not capable of transfer or conversion, so that it may be redeemed by Group Sense and the redemption price be set off against any payment obligations arising from the Counter Indemnity. Certificate(s) for the Blocked Bond will be held by Group Sense until the BOC/Jiangsu Loan Guarantee is released and discharged or replacement security provided or if Group Sense has redeemed those Convertible Bond as described below. The other rights attached to the Blocked Bond will remain unaffected.

Blocked Bond will be released to Ming Xin (as nominee of CIIL) in the following circumstances:—

- (a) the release of the BOC/Jiangsu Loan Guarantee; or
- (b) any cash amount deposited with Group Sense to replace part or all of the Blocked Bond as collateral for payment obligations under the Counter Indemnity, on such terms as are acceptable to Group Sense at its sole discretion.

The Blocked Bond of HK\$200,000,000 was determined with reference to the aggregate of (i) the guaranteed BOC/Jiangsu Loan principal of RMB170,000,000 (equivalent to approximately HK\$190,400,000) under the guarantee agreement dated 8 December 2015 for the provision of BOC/Jiangsu Loan Guarantee; and (ii) the estimated interest payable under BOC/Jiangsu Loan up to maturity of approximately RMB5,400,000 (equivalent to approximately HK\$6,048,000).

Conditions Precedent of the CIIL Transaction

Completion of the CIIL Transaction is conditional upon the following conditions being satisfied or waived (as the case may be):

- (a) the passing of a resolution at the GS SGM by the Independent GS Shareholders to approve the CIIL SPA and the transactions contemplated thereunder;
- (b) the passing of a resolution at the EGM by the Independent Shareholders to approve the CIIL SPA and the transactions contemplated thereunder;

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- (c) the Listing Committee of the Stock Exchange granting listing of and permission to deal in the CIIL Consideration GS Shares and the Conversion GS Shares;
- (d) Group Sense having obtained a valuation report confirming the Appraisal Value at not less than HK\$1,900,000,000 as at 31 August 2017;
- (e) all necessary waiver(s) or consent(s) from IFC (if required) under the IFC Loan Documents and from 中國農業銀行股份有限公司白山分行 (Agriculture Bank of China Limited, Baishan Branch) (if required) under the ABC Loans having been obtained in respect of the transactions contemplated under, among other things, the CIIL SPA, or all monies payable according to repayment schedule by Baishan Tianan and/or the Company under the IFC Loan Documents having been fully paid;
- (f) legal and financial due diligence of the Target Group being completed to the reasonable satisfaction of GS Purchaser and there being no matter arising from the due diligence review which shall adversely affect the value of the FGL Shares and CRE Shares to be transferred under the CIIL SPA; and
- (g) save and except for those required under the BOC/Jiangsu Loan Guarantee and ABC Loan Guarantees, all filings, registrations, consents, waivers, approvals, authorisations and clearances (if any) of any relevant authority or any other relevant third party necessary for the parties to proceed to completion having been obtained and, if obtained, not revoked.

Conditions (e) and (f) above are capable of being waived by GS Purchaser, and condition (g) is capable of being waived mutually by GS Purchaser and CIIL.

In the event that not all the conditions have been fulfilled or waived (as the case may be) on the Long Stop Date, the CIIL SPA shall lapse and be of no further effect and no party shall have any claim against or liability or obligation to the other party save in respect of any antecedent breach. As at the Latest Practicable Date, none of the conditions has been fulfilled or waived.

Completion of the WU SPA is conditional upon the completion of the CIIL SPA. However, completion of the WU SPA is not a condition precedent under the CIIL SPA.

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Completion

Subject to all the conditions precedent set out above being fulfilled or waived (as the case may be) on or before the Long Stop Date, completion of the CIIL Transaction shall take place on such Business Day notified by GS Purchaser to CIIL (being not more than 15 Business Days after the fulfillment or waiver (as the case may be) of the conditions precedent, or such other date as the parties may otherwise agree in writing).

Rescission

If, at any time before or at Completion, the GS Purchaser becomes aware that:

- (i) any of the representations, warranties and undertakings made by CIIL, the Vendor Guarantors is untrue or misleading; or
- (ii) any of CIIL, the Vendor Guarantors is in breach in any material aspect of any obligation on its part under the CIIL SPA; or
- (iii) a liquidator or receiver is appointed over any part of assets or undertakings of CIIL, the Vendor Warrantors or any member of the Target Group or any member of the Target Group is a subject of, or under application for, liquidation or receivership or winding up; or
- (iv) in the opinion of the GS Purchaser acting reasonably, there occurs any material adverse change to the financial or trading position or prospectus of the Target Group; or
- (v) to the extent applicable to CIIL or the Vendor Guarantors, any third party consents or authorisations and/or waivers referred to in the conditions precedent of the CIIL SPA that has been granted is subsequently withdrawn or revoked;

the GS Purchaser is entitled and may without any liability to CIIL, the Vendor Guarantors (as the case may be) and without prejudice to any other rights it may have in relation to any breach, elect not to complete the CIIL Transaction (as the case may be) by way of written notice to CIIL (as the case may be).

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If, at any time before or at Completion, CIIL becomes aware that:

- (i) any of the representations, warranties and undertakings made by the GS Purchaser or Group Sense is untrue or misleading; or
- (ii) the GS Purchaser and/or Group Sense (as the case may be) is in breach in any material aspect of any obligation on its part under the CIIL SPA; or
- (iii) a liquidator or receiver is appointed over any part of assets or undertakings of the GS Purchaser or Group Sense is a subject of, or under application for, liquidation or receivership or winding up; or
- (iv) to the extent applicable to the GS Purchaser or Group Sense, any third party consents or authorisations and/or waivers referred to in the conditions precedent of the CIIL SPA that has been granted is subsequently withdrawn or revoked;

CIIL is entitled and may without any liability to the GS Purchaser and/or Group Sense and without prejudice to any other rights it may have in relation to any breach, elect not to complete the CIIL Transaction by way of written notice to the GS Purchaser.

Undertakings and Counter Indemnity from CIIL and the Vendor Guarantors in respect of BOC/Jiangsu Loan Guarantee and Financial Assistance from the Group

BOC/Jiangsu Loan Guarantee

As at the Latest Practicable Date, Baishan Tianan, a member of the Target Group, is a guarantor under the BOC/Jiangsu Loan Guarantee for the BOC/Jiangsu Loan granted by two PRC banks (which are Independent Third Parties), namely 中國銀行股份有限公司東海支行 (Bank of China Limited Donghai Sub-branch*) and 江蘇銀行股份有限公司東海支行 (Bank of Jiangsu Co., Ltd. Donghai Sub-branch*), to a PRC subsidiary of the Company (not being a member of the GS Group) in the aggregate principal amount of RMB170,000,000 (equivalent to approximately HK\$190,400,000). As at the Latest Practicable Date, the aggregate outstanding amount of the BOC/Jiangsu Loan amounts to RMB121,000,000 (equivalent to approximately HK\$135,520,000) and no further drawdown will be made under the BOC/Jiangsu Loan. The BOC/Jiangsu Loan is repayable through semi-annual installment between the period from 10 August 2016 to 8 December 2019.

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Financial Assistance from the Group

As at the Latest Practicable Date, the following financial assistance is being provided to the Target Group by members of the Group, excluding the GS Group, as follows:—

- (a) an interest free Shareholder's Loan with no fixed repayment terms of approximately HK\$175,000,000 due from CRE to the Company representing the outstanding advances to finance the daily operations of the Target Group;
- (b) the IFC Loan granted by IFC to Baishan Tianan for a principal amount of US\$27 million (of which US\$21,778,000 (equivalent to approximately HK\$169,868,000) was outstanding as at the Latest Practicable Date) which is repayable through semi-annual instalments between the period from 15 October 2016 to 15 April 2021, which is guaranteed by the Company; and
- (c) a PRC subsidiary of the Company (not being a member of the GS Group or the Target Group) is a guarantor under the ABC Loan Guarantees for the ABC Loans granted by 中國農業銀行股份有限公司白山分行 (Agricultural Bank of China Limited, Baishan Branch*), to Baishan Tianan in the aggregate principal amount of RMB140,000,000 (equivalent to approximately HK\$156,800,000). As at the Latest Practicable Date, the aggregate outstanding amount of the ABC Loans amounted to RMB122,300,000 (equivalent to approximately HK\$136,976,000) and no further drawdown will be made under the ABC Loans. The ABC Loans are repayable through semi-annual installment based on drawn date between the period from 25 March 2016 to 25 March 2023.

Undertakings by CIIL and Vendor Guarantors

CIIL and Vendor Guarantors have given the following undertakings under the CIIL SPA:—

- (a) after the publication of the Joint Announcement to seek necessary consents and/or waivers for full and unconditional release and discharge of the BOC/ Jiangsu Loan Guarantee as soon as practicable;

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- (b) should such release and discharge not be secured at or before Completion:—
 - (1) they will use their best endeavours to seek such release and discharge as soon as practicable after Completion; and
 - (2) they will execute and deliver at Completion the Counter Indemnity in favour of Group Sense, the GS Purchaser and Baishan Tianan;
- (c) the relevant members of the Group will not require the payment of any guarantee fees in respect of the guarantees of the IFC Loan Guarantee and ABC Loan Guarantees.

The Counter Indemnity will provide for Vendor Guarantors and CIIL to indemnify Group Sense, GS Purchaser and Baishan Tianan (the “**Indemnified Persons**”) from and against all demands, claims, liabilities, losses, proceedings, actions, damages, costs and expenses whatsoever that the Indemnified Persons incur or suffer as a result of a demand being made in respect of the BOC/Jiangsu Loan Guarantee. Group Sense has the right (but not the obligation) to repurchase the Blocked Bond to offset payment obligations under the Counter Indemnity.

4. INFORMATION ON THE MAGNESIUM BUSINESS OF THE CS GROUP AND THE GS GROUP

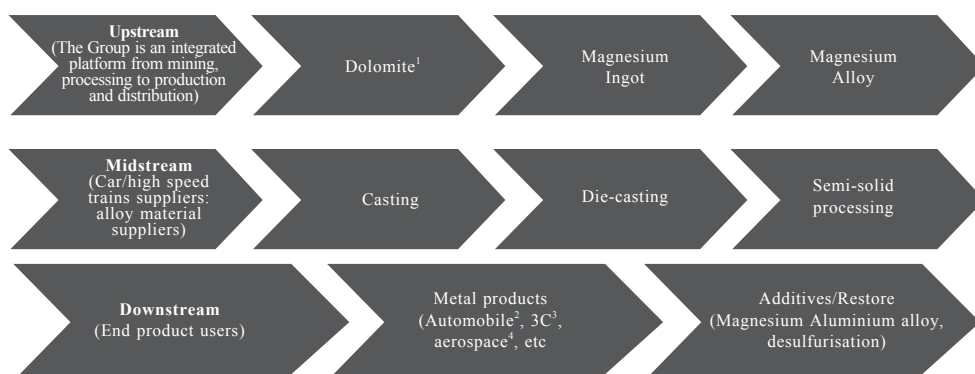
The Group operates its magnesium business principally through the principal operating subsidiary of the CRE Group (Baishan Tianan) and Xinjiang Tengxiang (a member of the GS Group). The Group first acquired an indirect majority interest in Baishan Tianan in December 2008, and as at the Latest Practicable Date, held approximately 90.95% effective interest in Baishan Tianan. As at the Latest Practicable Date, the GS Group owned 100% interest in Xinjiang Tengxiang which the GS Group acquired in December 2015.

LETTER FROM THE BOARD

Magnesium Business

The Group's magnesium products business includes mining (dolomite mine owned by Baishan Tianan), research and development, processing, production and distribution and sales of basic magnesium products and rare earth magnesium alloy, such that it has business activities in the upstream of the value chain of the magnesium business industry, as illustrated in the diagram below:

The Value Chain of the Magnesium Business Industry



Notes:

- (1) Baishan Tianan has the mining rights over a dolomite mine in Baishan City, the PRC.
- (2) Magnesium products produced for the automobile industry include gearboxes, steering columns, the housing for drivers' air bags, steering wheels, seat frames and fuel tank covers.
- (3) Magnesium products produced for the computer, consumer electronics and communications ("3C") industry include cameras, cell phones, laptops, portable media device housings and arms of hard drives.
- (4) Magnesium products are used in the aerospace industry in thrust reversers, engines, aircraft and helicopter transmission casings and intercontinental ballistic missiles.

Production Facilities

(i) Baishan Tianan (the principal operating subsidiary of the CRE Group)

Baishan Tianan operates magnesium production facilities in Jilin Province, the PRC, which is supplied by its own dolomite mine located in the vicinity of (approximately 12 kilometers distance from) the production facilities. Dolomite is an anhydrous carbonate mineral composed of calcium magnesium carbonate, which is a principal raw material used in the production of magnesium products. Baishan Tianan therefore operates an integrated platform that carries out smelting, ingot manufacturing, alloy processing and distribution of the magnesium alloys.

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Baishan Tianan's production base is located in China Magnesium Industrial Park in the Hunjiang District of Baishan City, Jilin Province, the PRC with a gross site area of 200,000 m². The plant was constructed in 2009 and commenced operations in 2011. It has a total planned production capacity of 75,000 tonnes. In 2016, after completion of its phase I technical update during the year, Baishan Tianan achieved actual output of 25,413 tonnes of magnesium products with a planned annual capacity of 25,000 tonnes for 2016. It has also recently completed its phase II expansion project with a production capacity of 50,000 tonnes and is expected to commence trial operations in phases in early 2018.

Baishan Tianan holds exploration rights to a dolomite mine in Baishan City, Jilin Province in the PRC which it acquired in December 2009 with a mining licence issued by 吉林省國土資源廳 (Department of Land and Resources Jilin Province) in November 2010 and expiring in November 2030.

The dolomite mine has a registered dolomite reserve of 23.027 million tonnes as at 31 December 2009 according to the Mining Resources Registration Certificate issued by 吉林省國土資源廳 (Department of Land and Resources Jilin Province) on 2 August 2010. It is an open pit dolomite mine that supplies the raw materials for the Baishan Tianan's production activities. For the years ended 31 December 2016 and 31 December 2015, the Group completed dolomite output of 448,449 tonnes and 380,227 tonnes respectively as disclosed in the 2016 annual report of the Company.

(ii) *Xinjiang Tengxiang (a member of the GS Group)*

Xinjiang Tengxiang's production base is located at Hami Heavy Industrial Park, Hami City, Xinjiang Uygur Autonomous Region, the PRC with total area of approximately 679,121 m². The authorised production capacity of Xinjiang Tengxiang comprises 1,200,000 tonnes of semi-coke, 100,000 tonnes of magnesium alloy and 100,000 tonnes of ferroalloy per annum. As at the Latest Practicable Date, Xinjiang Tengxiang has installed two major production lines, being the processing and production of magnesium ingot and semi-coke with existing production capacity of 15,000 tonnes and 600,000 tonnes respectively.

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As disclosed in the circular of Group Sense regarding the acquisition of Xinjiang Tengxiang dated 25 September 2015, Xinjiang Tengxiang temporarily suspended its production in May 2015. After the GS Group took charge of Xinjiang Tengxiang in December 2015, technical enhancement projects have been carried out in order to enable resumption of production and optimisation of the existing production facilities and processes. Production has resumed in phases since the first quarter of 2016 and the average production has reached over 65% of the planned production capacity of 15,000 tonnes since November 2016. While 2016 saw the production of magnesium ingots only, the technical enhancements effected give existing production lines alloying capabilities.

Xinjiang Tengxiang has commenced its first phase expansion of an additional 30,000-tonne magnesium production line (with alloying capabilities), which is expected to gradually commence production in 2018. Upon completion of the first phase expansion, the annual magnesium production capacity of Xinjiang Tengxiang will reach 45,000 tonnes.

The annual production capacity and volume of each of Baishan Tianan and Xinjiang Tengxiang as well as the average utilisation rate for its facilities for the period indicated are set out below:

	Baishan Tianan	Xinjiang Tengxiang <i>Note 1</i>	The Group Total
<i>Planned/Authorised production capacity (thousand tonnes)</i>	75.0	100.0	175.0
<i>Existing production capacity (thousand tonnes)</i>			
Year 2016	25.0	15.0	40.0
Year 2015	25.0	15.0	25.0
<i>Production volume (thousand tonnes)</i>			
Year 2016	25.4	3.2	28.6
Year 2015	24.5	2.0	24.5
<i>Utilisation rate (%)</i> ^{Note 2}			
Year 2016	101.6	21.3	
Year 2015	98.0	13.3	

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Notes:

1. Xinjiang Tengxiang was acquired by the GS Group in December 2015 and resumed production in the first quarter of 2016. The 2015 figures of Xinjiang Tengxiang which relate to production prior to the acquisition of Xinjiang Tengxiang by the GS Group are disclosed for reference only.
2. Utilisation rate is the ratio of actual production volume to the planned production capacity.

The production volumes of Baishan Tianan and Xinjiang Tengxiang are approximately 12,696 tonnes and 4,839 tonnes respectively for the first half of 2017.

Magnesium Products

The magnesium products produced by the Group include (i) rare earth magnesium alloys; and (ii) basic magnesium products, including magnesium ingots and general magnesium alloys.

Magnesium has valuable properties that have increasing applications in today's technology driven economy, with its core advantage of being a kind of light metal, only 2/3 of weight of aluminium and 1/4 of weight of steel being its strength to weight ratio. Magnesium alloys are mixtures of magnesium with other metals, such as rare earth, aluminium, zinc, manganese, silicon, copper and zirconium. Not only are they lighter structural metals, being a third lighter than aluminium and only a quarter of the weight of steel, they also have anti-radiation properties, resistance to creep, ability to be recycled, high strength to weight ratios, high thermal stability, excellent machinability, and high resistance to corrosion. In view of these attributes, magnesium alloys are widely used in different industries such as the automotive, aerospace, aviation, defense, computers, consumer electronics, communications, biomedical chemical and packaging industries.

As discussed in the paragraph headed "Research and Development" below, Baishan Tianan owns certain patents, including the production technologies of rare earth magnesium alloys, and is one of the few magnesium manufacturers of rare earth magnesium alloys in the PRC. Rare earth magnesium alloys are mixtures of certain rare earth metals such as cerium, lanthanum and ytterbium to magnesium. Rare earth magnesium alloys are even stronger material than general magnesium alloys.

Rare earth magnesium alloys are thus important structural materials and are employed particularly where low weight of construction is critical such as the making of aircraft and space apparatus.

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The table below shows the sales volumes, sales amounts as well as the gross profit margins of the magnesium products produced by Baishan Tianan and Xinjiang Tengxiang respectively for the periods indicated:

Sales volume (thousand tonnes):	Baishan Tianan <i>Note 3</i>	Xinjiang Tengxiang <i>Notes 1 and 2</i>	The Group Total
<i>Year 2015</i>			
Rare earth magnesium alloys	12.4	—	12.4
Basic magnesium products	11.6	2.7	11.6
<i>Year 2016</i>			
Rare earth magnesium alloys	13.2	—	13.2
Basic magnesium products	14.1	8.9	23.0
Sales amount (HK\$'000):			
<i>Year 2015</i>			
Rare earth magnesium alloys	525,083	—	525,083
Basic magnesium products	215,313	36,866	215,313
<i>Year 2016</i>			
Rare earth magnesium alloys	507,866	—	507,866
Basic magnesium products	242,996	132,021	375,017
Gross profit margin (%)			
<i>Year 2015</i>			
Rare earth magnesium alloys	41.8	—	41.8
Basic magnesium products	15.8	(24.0)	15.8
<i>Year 2016</i>			
Rare earth magnesium alloys	41.7	—	41.7
Basic magnesium products	15.5	5.0	11.7

Notes:

- Xinjiang Tengxiang was acquired by the GS Group in December 2015 and resumed production in the first quarter of 2016. The 2015 figures of Xinjiang Tengxiang which relate to production prior to the acquisition of Xinjiang Tengxiang by the GS Group are disclosed for reference only.
- Xinjiang Tengxiang produced magnesium ingots only in 2016 and will expand its product portfolio with magnesium alloys in order to increase profit margin for its existing 15,000-tonne production capacity as well as the 5,000-tonne expanding capacity in early 2018.
- The development of rare earth magnesium alloys allows Baishan Tianan to enjoy higher profit margins compared to the production and sale of basic magnesium products, because of the advanced technological requirements and applications.

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Research and Development

The Group has invested heavily in research and development and has been recognised by the PRC government for its deployment of leading technological methods in production.

In 2010, Baishan Tianan's production base in China Magnesium Industrial Park in Baishan was designated as a "Demonstration Base for China Magnesium Production" by the China Mining Association. It was the first to receive such an honour in the magnesium industry. In October 2011, Baishan Tianan was accredited as one of the 40 comprehensive demonstration bases for applications of mining resources by the PRC Ministry of Land and Resources and Ministry of Finance.

The Group has fostered strategic partnership with CIAC since 2013, one of the leading national research institutes dealing with magnesium alloys, in the course of expanding its magnesium business. As at the Latest Practicable Date, Baishan Tianan owned 12 patents developed by CIAC, of which 10 patents are registered in the PRC and 2 patents are registered in the United States of America, in respect of the production and development technologies of magnesium alloys, especially rare earth magnesium alloys.

The GS Group undertook certain technical enhancement projects for Xinjiang Tengxiang following completion of the acquisition in December 2015. The major enhancement works were completed in November 2016 and Xinjiang Tengxiang's production capacity for basic magnesium alloys has reached over 65% of its planned capacity of 15,000 tonnes since then.

Each of Baishan Tianan and Xinjiang Tengxiang has a team of 8 and 3 personnel in the research and development on new/or improved magnesium products as well as processing strategies, respectively.

Source of Raw Materials and Competitive Cost Structure

Dolomite is the principal raw material and coal is the major consumable energy materials used in the production of magnesium products.

Baishan Tianan has its own supply of dolomite through its mining rights over the high quality reserve of dolomite in Baishan City, the PRC and it has established long term relationship with its existing coal suppliers in Baishan, the PRC to continue to benefit from lower transportation costs, stable supply and quality of materials.

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Xinjiang Tengxiang enjoys the proximity to an abundant supply of dolomite and lower-cost coal in Xinjiang region, which gives it an inherent advantage in terms of production costs over manufacturers located in many other parts of China.

Sales and Marketing

Both Baishan Tianan and Xinjiang Tengxiang sell their respective products through distributors, mid-stream suppliers, such as components/alloy materials suppliers for automobile/railcar industries and to end users directly. The end users of the magnesium products are in the automobile industry, the 3C (Computer, Communication and Consumer Electronic) industry as well as aviation, military, medical and other industries. Products of Baishan Tianan and Xinjiang Tengxiang are sold to the end users or other intermediaries depending on the application requirements of the end products. The distribution network of Baishan Tianan principally covers three north-eastern provinces in the PRC, including Liaoning, Jilin and Heilongjiang whereas Xinjiang Tengxiang is focused on north-western region in the PRC. In addition, Xinjiang is a core intermediate point to deepen the communication and cooperation with European countries and Central, South and Western Asian countries under the “One Belt One Road” initiatives put forward by the PRC government and Xinjiang Tengxiang is positioned to take advantage of its strategic geographical position in exploring its distribution network overseas.

The sales and marketing teams of Baishan Tianan and Xinjiang Tengxiang comprise 21 and 8 personnel respectively as at the Latest Practicable Date who are responsible for the sales activities, selection of distributors and participating in marketing events, conferences and seminars for promoting their products across China.

Trading Business

The Target Group also has a small operation (engaged through HK Mg-Tech, an indirect wholly owned subsidiary of CRE) in trading of magnesium products in Hong Kong to Europe and US markets which commenced in 2016. It can also serve as a platform through which the GS Group may explore the overseas business opportunities that may arise under the “One Belt One Road” initiatives upon Completion.

Growth Opportunities of the Magnesium Business

According to the 有色金屬工業發展規劃(2016-2020年) (“Non-ferrous Metal Industry Development Plan (2016-2020)*”, the “**Plan**”) published by the Ministry of

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Industry and Information Technology of the PRC on 29 September 2016, the non-ferrous metal industry is one of the essential fundamental industries in manufacturing sector and the Thirteenth Five Year Period (i.e. from 2016 to 2020) is the key period for the non-ferrous metal industry of the PRC to grow to a leading position in the world.

Under the Plan, magnesium is regarded as the only non-ferrous metal among ten common non-ferrous metals which will continue to grow at a high rate during the Thirteenth Five Year Period due to the industry transformation and the flourish development in the emerging industries including new materials, energy saving and environmental protection, high-end equipment manufacturing, new energy vehicles and etc., despite of the slowing down of the national economy growth from the Twelfth Five Year Period to the Thirteenth Five Year Period. The Plan forecasted the industry consumption for magnesium by 2020 is expected to reach 750,000 tonnes, representing a compound annual growth rate (“CAGR”) of 7.1% as compared to 2015. The industry output of magnesium is expected to reach 1,300,000 tonnes by 2020.

According to the General Administration of Customs of the PRC and U.S. Geological Survey, Mineral Commodity Summaries 2017 from US Department of Interior, China’s magnesium production in 2016 was estimated to reach 880,000 tonnes (with domestic and export sales accounting for 59.5 % and 40.5 % respectively) with the CAGR being 6.1% between 2011 and 2016 (with domestic and export sales accounting for 15.6% and —2.3% respectively between 2011 and 2016).

In addition, based on the Mineral Commodity Summaries 2017, global magnesium output (excluding data from the United States as the information regarding US magnesium metal production was withheld to avoid disclosing company proprietary data as stated in Mineral Commodity Summaries 2017) for the same period was estimated to be 1,010,000 tonnes, with a CAGR of 5.5 % from 2011 to 2016 and the PRC contributed the majority of the world’s magnesium production, accounting for over 87% of global output in 2015.

Based on the above statistics, the rising local consumption and the dominant position of China in the global magnesium production market provide strong support on the continuing growth of the magnesium business in the PRC.

5. INFORMATION ON THE TARGET GROUP

The Target Group comprises (i) FGL, an investment holding company incorporated in the British Virgin Islands with limited liability on 2 April 2008, which holds 6,700 CRE Shares representing approximately 64.99% of the CRE Shares in issue;

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(ii) CRE, a private company incorporated in Hong Kong with limited liability on 5 May 2008 and (iii) Baishan Tianan and other subsidiaries which are wholly-owned by CRE. CRE and its subsidiaries together principally engaged in magnesium product business, including manufacturing, trading and sale of magnesium products. In addition to Baishan Tianan which is principally engaged in manufacturing and sale of magnesium products, other subsidiaries of CRE include (i) Century Bravo, an investment holding company incorporated in the British Virgin Islands and its subsidiaries, namely HK Mg-Tech, a company incorporated in the British Virgin Islands principally engaged in trading of magnesium products and Mg-Tech (International) Investments Limited, a management service company incorporated in Hong Kong and is dormant; and (ii) 吉林省稀鎂科技有限公司, a PRC subsidiary which is dormant.

Other than Baishan Tianan, other subsidiaries of CRE have no material operation, assets and liabilities as at the Latest Practicable Date.

Further details on the background information and operations of Baishan Tianan has been disclosed in the section headed “4. INFORMATION ON THE MAGNESIUM BUSINESS OF THE CS GROUP AND THE GS GROUP” in the letter from the Board of this circular.

Financial Information

Set out below is the audited financial information of the Target Group as extracted from the accountants’ report of the Target Group for the three years ended 31 December 2016 and for the six months ended 30 June 2017, respectively:

	For the six months ended 30 June 2017 HK\$’000	For the financial year ended 31 December		
		2016 HK\$’000	2015 HK\$’000	2014 HK\$’000
Profit before income tax	121,273	246,474	240,355	203,906
Profit for the year (period)	89,361	189,607	182,886	155,047
Net assets	847,736	721,183	622,676	497,334

Further details on the financial information of the Target Group are set out in “Appendix II – Accountants’ Report of the Target Group” to this circular.

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6. FINANCIAL EFFECTS IN RELATION TO THE REORGANISATION

As disclosed in the Joint Announcement, as a result of the Reorganisation, there may be a possible exercise of the exchange rights for GS Shares under the Exchangeable Bond by WTIL up to an aggregate outstanding principal of HK\$232,000,000. The Company received a confirmation from WTIL on 4 October 2017 that WTIL will not exercise the exchange rights attached to the Exchangeable Bond. Under the terms of the Exchangeable Bond, if an event of default occurs, such exchange rights of WTIL will be revived until full amount of the moneys payable in respect of the Exchangeable Bond has been received by WTIL.

As there will be no exercise of the exchange rights attaching to the Exchangeable Bond, immediately upon Completion and assuming no Convertible Bond has been converted and full exercise of exchange rights attaching to the Exchangeable Bond, 72.42% of Group Sense's (as well as the Target Group's) share capital will be indirectly held by the Company as a result of the Reorganisation. Assuming full exercise of the conversion rights (subject to conversion restrictions as detailed in the section headed "Convertible Bond" in this letter) under the Convertible Bond, the Company will be indirectly interested in approximately 76.22% of Group Sense's and the Target Group's share capital. Therefore, each company of the Target Group will remain as a subsidiary of the Company and the Target Group's results will continue to be consolidated into the financial statements of the Company. Since Group Sense is a subsidiary of the Company, the Transactions are treated as transactions with noncontrolling interest and the difference between the proceeds from the disposal of interest and the decrease of the shared net assets of the subsidiaries is adjusted to reserves. Accordingly, it is expected that there will be no material gain or loss arising on the Transactions for the Company.

Further details are set out in "Appendix III — Unaudited Pro Forma Financial Information of the Group" to this circular.

7. REASONS FOR AND BENEFITS OF THE REORGANISATION

Upon completion of the Transactions, Group Sense will become the beneficial shareholder of the Target Group while the Company will continue to be the holding company of the GS Group (including the Target Group). The Board considered that the Reorganisation is crucial for the CS Group and the GS Group as a whole for the reasons set out below.

Clear delineation enabling more focused and efficient management and future development of the businesses of the Group and the GS Group

Following Completion, the business of the CS Group and the GS Group will be clearly delineated. The CS Group will focus on its fertiliser business and metallurgical flux business while the GS Group will specialise in magnesium operations in addition to the electronic products business.

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(i) *Enabling expansion of the scale of the magnesium business and greater efficiencies in implementing the strategy of developing a flagship platform for magnesium business under the GS Group*

As disclosed in the 2016 annual report of Group Sense, the GS Group is striving to boost its magnesium alloy business to become one of the top manufacturers in the global magnesium market. Group Sense acquired Xinjiang Tengxiang in December 2015, which has been in operation since 1 January 2016 with an authorised and annual production capacity of 100,000 tonnes and 15,000 tonnes respectively. In order to enhance the development of its magnesium business, it is the intention of the GS Group to expand its magnesium business by increasing production capacity and market network, attracting new source of customers, optimising equipment and technology of the production lines and enhancing production efficiency. The GS Group plans to invest in phases in the coming years and eventually construct a production plant that is capable for all of the government-approved 100,000-tonne production capacity. Based on the current development plan and progress of Xinjiang Tengxiang, the GS Board expects that Xinjiang Tengxiang is going to enjoy rapid development in the near future given the potential growth of its production capacity, the competitive cost structure and the geographical advantage and positioning under the “One Belt One Road” initiatives put forward by the PRC government.

The GS Board has been seeking merger and acquisition opportunities in the magnesium industry with a view to solidify the position of Group Sense in the industry, capturing larger market share so as to achieve economies of scale.

The CRE Group, being one of the leading magnesium alloys producers in the PRC, with proven technical and production expertise as well as strong customer base and distribution network in the north-eastern region in the PRC, and its planned expansion of production capacity, presents a good opportunity for Group Sense to develop a flagship platform conducting magnesium business under the Group, which the GS Directors believe will allow expansion of the scale of its operations achieving combined production capacity of 175,000 tonnes.

In addition, the management team of the Target Group has extensive industry experience, operating and business development capability in the magnesium business. Baishan Tianan has commenced operations since 2009 and key members of its management team have on average at least ten years of magnesium products experience. In relation to technical and operational

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aspects, in addition to the existing production, research and development teams of both Baishan Tianan and Xinjiang Tenxiang, Professor Meng Jian (“**Professor Meng**”), the non-executive director of Group Sense, has extensive experience in research and development of magnesium and rare earth magnesium alloys products. He is a professor and deputy officer of State Key Laboratory for Rare Earth Resource Utilisation, CIAC. He is a deputy officer of Professional Committee of Solid Science and New Materials of Chinese Society of Rare Earth. He is also a director of Chinese Society of Rare Earth and Nonferrous Metals Society of China. He is an expert of the Association of China Rare Earth Industry and China Magnesium Association. Professor Meng has been engaging in research and development of rare earth magnesium alloys and new materials. He has contributed to the development and application of rare earth magnesium alloys in China. Professor Meng majored in semiconducting from Jilin University, and holds a master’s degree from the chemistry department of Chinese Academy of Science. He holds a degree of doctor of Engineering from Toyohashi University of Technology, Japan. Professor Meng will be the senior consultant of Group Sense’s magnesium business, focusing especially in the continuing development of high-end magnesium alloys, upon Completion.

Both the Company and Group Sense believe that by leveraging on the wisdom and continuing guidance of Professor Meng together with the synergy of the expertise and experience of the human resources of Group Sense and the Target Group, Group Sense will be well positioned to lead the GS Group to achieve further business expansion of the magnesium business.

By consolidating the operations under the GS Group, both the Group and the GS Group expect to enjoy over time the benefits of synergies of the CRE Group and Xinjiang Tengxiang in terms of product range, research and development capabilities as well as by sharing customer base and sales network to further strengthen the market coverage and penetration of the magnesium business. As a result of the consolidation of operations and management of magnesium business under the GS Group, the supporting functions of the magnesium business will be centralised and the technical and management expertise can be strengthened and leveraged, thereby enhancing the shareholders value of both the Group and GS Group (through its majority interest in the GS Group) and achieving a more cost-effective business operations, management and market development.

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Were it not for the Reorganisation, the Company would have no immediate plan to dispose of the Target Group. The Reorganisation provides an opportunity to the Shareholders to convert their indirect economic interests in the unlisted Target Group into the direct interest in listed Shares while maintaining its ability to enjoy the growth of the Target Group through its majority interest in Group Sense following Completion.

(ii) *Strengthening the position of the Group as one of the leading compound and organic fertilisers producers in the PRC*

As disclosed in the 2016 annual report of the Company, it is the Group's business direction to enhance the presence and market penetration of the ecological compound fertilisers of the Group as well as its business scale in fertiliser business.

Currently, the Group has three production bases in Jiangsu, Jiangxi and Shandong Provinces of the PRC respectively and its products includes the "Lu Di", "Feng Shou", "Le He He" and "Zhan Lan" fertiliser brands, which are specialty products that are well-received and recognised in the domestic PRC market.

The Group's fertiliser plant in Jiangsu Province has five production lines with an aggregate annual production capacity of 850,000 tonnes of organic and compound fertilisers as the Latest Practicable Date. A new fertiliser production plant at Ruichang City, Jiangxi Province, with an annual capacity of 1,400,000 tonnes has commenced construction in August 2016, of which phase one construction with an annual production capacity of 550,000 tonnes is expected to be completed in the third quarter of 2017 while the remaining production capacity of 850,000 tonnes is expected to be in place in 2019.

In August 2016, the Group entered into an acquisition agreement to acquire 50.5% equity interest in Shandong Hongri, which is a well known compound fertiliser enterprise in the PRC with over 50 years of operating history. The transaction was completed on 1 April 2017, through which the Group expects sales volume of approximately 700,000 tonnes of compound fertiliser products of Shandong Hongri will be achieved in 2017.

Shandong Hongri owns several patented technologies in fertiliser production and is a pioneer and leading enterprise in China's potassium sulfate compound fertiliser production. It is the first chemical enterprise in China to be named

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as the “Top Ten Outstanding After-sales Service Provider of National Famous Brands” (全國名優產品售後服務行業十佳單位) and the first Stated-level “National Chemistry Agricultural Services Centre” (全國化工農化服務中心) in Shandong Province. In 2016, it was honoured as one of the Top 500 Chemical Enterprises of China and one of the Top 100 Chemical Fertiliser Enterprises in China. Its brand “Yanyangtian” (豔陽天) is prominent and very reputable, and was rewarded the title “China’s Brand” (中國名牌) and “China’s Reputable Trademark” (中國馳名商標), and being selected as “2016 Top 50 Brands of Farmer’s Most Trusted Fertilisers” (2016農民信賴的肥料品牌五十強). The consolidation of Shandong Hongri into the Group not only doubles the current production capacity of the Group, but also enhances the reputation and recognition of the Group in the China’s fertiliser industry.

In addition, the Group obtained exploration and mining rights to a serpentine mine in 2012, which is located approximately one kilometre from the Jiangxu production base. Serpentine is a source of the magnesium and silicon that the Group uses in the production of its silicon magnesium compound fertiliser. The abundant, quality serpentine reserves also provide a source of auxiliary material (i.e. metallurgical flux) for smelting iron and steel which the Group produces and sells to major domestic steel enterprises as a secondary business.

The Directors believe that, with the existing annual capacity of 850,000 tonnes at its production base in Jiangsu Province and the gradual release of the expected annual capacity of 1,400,000 tonnes at the production base in Jiangxi Province, along with the incorporation of Shandong Hongri into the Group, the fertiliser production capacity of the Group will be increased by at least three-fold to exceed over 3,000,000 tonnes in 2019 with extended market coverage in the Northern, Central and Southern China thus strengthening the position of the Group as one of the leading the compound and organic fertilisers Products in the PRC.

Pursuant to the “Guidance on Promoting the Restructuring and Development of Fertiliser Industry (《推進化肥行業轉型發展的指導意見》)” issued by the Ministry of Industry and Information Technology in the PRC, the utilisation of the new type of fertilisers in China will increase from less than 10% at present to 30% by 2020, creating a massive market space for the green and ecological new fertilisers of the Group.

The statistics from the National Bureau of Statistics of the PRC also shows that, the use of compound fertilisers in the PRC increased by approximately 15% from 2011 to 2015 while the use of single chemical fertilisers increased by approximately only 1% during the same period.

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In addition, according to the “Action Plan to Reduce the Use of Chemical Fertiliser to Zero-growth by 2020” (《到2020年化肥施用量零增長行動方案》), and the “Proposal on Substitution of Chemical Fertiliser with Organic Fertiliser Used on Fruit, Vegetables and Tea” (《開展果菜茶有機肥替代化肥行動方案》) issued by Ministry of Agriculture of the PRC in 2015 and 2017 respectively, it is expected to reduce the chemical fertilisers use by over 20% in key growing areas for fruit, vegetables and tea; and by over 50% in core agricultural areas and production bases for well-known brands by 2020.

The Directors believe that, with the national policies to promote the reduction of single chemical fertilisers, the application of compound and organic fertilisers will be a trend, which will further benefit the Group’s development.

With a more focused line of business, the Company’s management may devote its precious management resources in the further investment and development of the fertiliser business. The Group will continue its product differentiation strategy in order to secure market shares in higher-end markets and improve its overall profitability. In addition, the Group intends to increase its sales coverage and market penetration by continued business development activities in the PRC market, appointing additional distributors, enhancing relationships with existing distributors and intensifying its marketing efforts in the PRC. Capitalising on the expanding scale of its production bases and the growing demand for ecological compound and organic fertilisers arising from the progressing agricultural modernization and government support in the PRC, the Board believes that its fertiliser business will enjoy more rapid growth and extensive development in the foreseeable future.

Strengthening of the financial position of both CS Group and GS Group and unlocking shareholders value for the Company and Group Sense

After completion of the Reorganisation, Group Sense expects that it will secure immediate and stable profit and cash flow from the Target Group without any cash outlay under the Transactions.

The increased size and the quality of the assets/business of Group Sense upon integration of the Target Group’s business into Group Sense will facilitate the GS Group to attract investments and obtain financings on more competitive terms with a view to optimize its equity/debt structure, thereby strengthen the financial position of both the Group and the GS Group. The Directors believe that the Group and the GS Group will have stronger capability to raise fund to develop its business so as to create value for both the Shareholders and GS Shareholders.

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The Group intends to seek the release and discharge of the BOC/Jiangsu Loan Guarantee as soon as practicable following the publication of the Joint Announcement. Should such release not be secured prior to Completion, contractual arrangements have been put in place, in the form of undertakings under the CIIL SPA, the Counter Indemnity in conjunction with restrictions in relation to the Blocked Bond, as disclosed in the paragraph headed “Undertakings and Counter Indemnity from CIIL and the Vendor Guarantors in respect of BOC/Jiangsu Loan Guarantee and Financial Assistance from the Group” and “Principal Terms of the Convertible Bond – Special Restrictions” to provide for compensation in case any demand is made in respect of the BOC/Jiangsu Loan Guarantee.

The Directors believe that the clearer delineation and different business positioning of the CS Group and the GS Group and the consolidation into and expansion of the magnesium operations of Group Sense can facilitate raising future equity and debt financings to support the development of the different businesses of the two groups. In addition, the Directors believe that the current market price of the Shares, due to, among others, various valuation methodologies adopted for the diversified business focus of the Group, does not fully reflect the value of its interest in the Target Group as well as other the Group’s business. The Reorganisation will enhance the transparency of the assets of both the Company and Group Sense and enable investors to adopt a single valuation methodology for each of the Company and Group Sense thereby unlocking value for shareholders of both groups.

The Directors believe that the terms of the CIIL Transaction are on normal commercial terms and in the ordinary and usual course of business of the Group, fair and reasonable and in the interests of the Shareholders as a whole.

8. LISTING RULES IMPLICATIONS

The CIIL Transaction constitutes a very substantial disposal for the Company under the Listing Rules on the basis that one or more of the relevant Percentage Ratios applicable to the Company is above 75%.

Accordingly, the CIIL Transaction is subject to the reporting, announcement and approval requirements of the Listing Rules requiring approvals from the Independent Shareholders. As at the Latest Practicable Date, each of Mr. Shum Sai Chit and Ms. Chi Bi Fen is an executive director of both the Company and Group Sense, and Mr. Kwong Ping Man is an independent non-executive director of both the Company and Group Sense. In this regard, at the EGM to be convened for the purpose of approving the CIIL Transaction, each of (a) Mr. Shum Sai Chit who held 14,666,305 Shares,

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representing approximately 0.32% of the existing Shares in issue as at the Latest Practicable Date and (b) Ms. Chi Bi Fen who held 12,352,499 Shares, representing approximately 0.27% of the existing Shares in issue as at the Latest Practicable Date, will abstain from voting on the relevant resolution. Neither Mr. Shum Sai Chit nor Ms. Chi Bi Fen has any associate which holds any Shares. Therefore, there is no associate of Mr. Shum Sai Chit or Ms. Chi Bi Fen which is required to abstain from voting on the relevant resolution.

Save as disclosed above and as at the Latest Practicable Date, to the best of the knowledge, information and belief of the Directors, after having made all reasonable enquiries, no other Shareholder is materially interested in the CIIL Transaction and will be required to abstain from voting on the relevant resolution at the EGM.

Completion of the CIIL SPA is subject to the satisfaction and/or waiver of the conditions precedent therein and therefore, may or may not proceed. Shareholders and potential investors are advised to exercise caution when dealing in the Shares.

RECOMMENDATION

The Board considers that the terms of the CIIL Transaction are on normal commercial terms and in the ordinary and usual course of business of the Group, fair and reasonable and in the interests of the Company and the Shareholders as a whole. The Board therefore recommends the Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the CIIL Transaction and the transactions contemplated thereunder as set out in the notice of EGM.

ADDITIONAL INFORMATION

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

Yours faithfully,
By Order of the Board
Century Sunshine Group Holdings Limited
Chi Wen Fu
Chairman

1. FINANCIAL INFORMATION

Financial information on the Group for the three years ended 31 December 2016 and for the six months ended 30 June 2017 are set out in the annual reports of the Company for each of the years ended 31 December 2014 (pages 65 to 173), 31 December 2015 (pages 69 to 196) and 31 December 2016 (pages 71 to 227) and the interim report of the Company for the six months ended 30 June 2017 (pages 25 to 51), respectively, which are published on both the website of the Stock Exchange (<http://www.hkex.com.hk>) and the website of the Company (www.centurysunshine.com.hk) respectively.

2. WORKING CAPITAL

As at the Latest Practicable Date, the Directors are of opinion that the 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 unforeseen circumstances.

3. INDEBTEDNESS**Borrowings**

As at the close of business on 31 August 2017, being the latest practicable date for the purpose of this indebtedness statement, the Enlarged Group had an unsecured borrowing of approximately HK\$1,291 million and secured borrowings of approximately HK\$754 million.

Guarantee

As at 31 August 2017, the guaranteed and unguaranteed borrowings of the Enlarged Group amounted to approximately HK\$1,342 million and HK\$703 million. The guaranteed borrowings were as follows:

- (a) HK\$839 million of bank borrowings were guaranteed by the fellow subsidiaries of the Company;
- (b) HK\$333 million of bank borrowings were guaranteed by the Company;
- (c) HK\$170 million of other borrowings were guaranteed by the Company.

Pledge of assets

As at the close of business on 31 August 2017, the Group had pledged certain of its property, plant and equipment, land use rights and deposits with bank of the Group with a value of approximately HK\$381 million, HK\$182 million and HK\$258 million, respectively, to secure the bank borrowings.

Corporate guarantee

As at 31 August 2017, the Group has provided corporate guarantees to independent third parties, namely, 華盛江泉集團有限公司 (Huasheng Jiangquan Group Co. Ltd.*) and its subsidiaries, 臨沂燁華焦化有限公司 (Linyi Yehua Company Limited*) and 臨沂蒙飛商貿有限公司 (Linyi Mengfei Commercial Company Limited*)(together, the “**Huasheng Companies**”), to finance their secured borrowings of approximately HK\$303 million.

Contingent liabilities

(i) On 15 January 2013, CIIL acquired 2,180 shares of CRE from Mr. Miao Xi Zhu (“Mr. Miao”) at a consideration of HK\$32,089,382. CRE is a non-wholly owned subsidiary of the Company and is currently mainly owned as to 64.99% by FGL, 23.28% by CIIL and 8.73% by Win Union. Win Union is also the minority shareholder of FGL. Mr. Miao considered that he was misled to enter into the transaction at an undervalue. On 6 October 2014, Mr. Miao lodged a claim in relation to the transaction at the High Court of Hong Kong against Mr. Shum, Mr. Chi, CIIL and Win Union for the losses arising from selling shares at an undervalue. Mr. Shum, Mr. Chi and CIIL considered that the allegation of Mr. Miao went against the facts seriously. Prior to the completion of the transaction, Mr. Miao has been the second largest shareholder and director of CRE with full knowledge of its overall operation and development plans. The consideration of the transaction was determined after over one month’s negotiation between each party based on the assets, liabilities and performance of CRE, and thus there was no so-called sales at undervalue. To the best knowledge of the Company, as of the Latest Practicable Date, the writ of summons of the litigation has been served on Mr. Shum and Mr. Chi, but not CIIL. Upon receiving the writ, CIIL will seek legal advice in relation to the claim and the necessary actions to be taken in this respect and will vigorously defend against the claim. The Company is of the view that this litigation will not have a material adverse impact on the business operation and financial position of the Group. The Directors are of the opinion that no provision is required to be made.

(ii) As at 31 August 2017, Shandong Hongri, the non-wholly owned subsidiary of the Company, has executed financial guarantees to certain banks for credit facilities granted to independent third party, amounting to approximately RMB270 million (equivalent to approximately HK\$303 million) and were fully utilised. As disclosed in the circular published by the Company dated 27 September 2016 regarding the acquisition of the equity interest in Shandong Hongri, Shandong Hongri has acted as the guarantors for the banking facilities granted to some large independent companies in Linyi City of the PRC (where Shandong Hongri is located) and in return, such companies also guarantee the payment of loans under banking facilities granted to Shandong Hongri. The Group is currently in discussions with the Huasheng Companies and relevant banks for the release of the corporate guarantees provided.

4. MANAGEMENT DISCUSSIONS AND ANALYSIS OF THE GROUP UPON COMPLETION OF THE REORGANISATION

The Company will remain the holding company of the GS Group (including the Target Group) upon completion of the Reorganisation.

Set out below is the reproduction of the text contained in the section headed “Management Discussion and Analysis” of the Group for the three years ended 31 December 2014, 2015 and 2016, and for the six months ended 30 June 2017, which are extracted from the annual reports of the Company for the three years ended 31 December 2014, 2015 and 2016 and the interim report of the Company for the six months ended 30 June 2017:

For the year ended 31 December 2014

Business Review

The Group maintained high growth in its business in 2014. Total revenue for the year amounted to HK\$2,072,519,000, representing an increase of approximately 26.4% as compared to 2013, among which magnesium products and fertilisers, the two principal business undertakings, recorded satisfactory performance. Revenue from the magnesium product business reached HK\$696,904,000 for 2014 (2013: HK\$547,366,000), accounting for approximately 33.6% (2013: 33.3%) of the Group’s total revenue and representing an increase of 27.3% as compared to 2013, while revenue from the fertiliser business stood at HK\$1,277,282,000 for 2014 (2013: HK\$1,028,068,000), accounting for 61.6% (2013: 62.7%) of the Group’s total revenue and representing an increase of 24.2% as compared to 2013. Profit attributable to owners of the Company in 2014 was HK\$287,910,000 (2013: HK\$230,215,000), representing an increase of approximately 25.1% as compared to 2013.

Magnesium Product Business

The magnesium product business continued a rapid growth momentum marked by excellent results whether in terms of sales or revenue. For the year ended 31 December 2014, the magnesium product business contributed HK\$696,904,000 (2013: HK\$547,366,000) to Group revenue, an increase of 27.3% year-on-year. The business products included basic magnesium products and rare earth magnesium alloys, carrying an average gross margin of 32.1% (2013: 32.7%).

The Group is one of the few integrated enterprises in the PRC's magnesium industry. Its production base has been designated as a Demonstration Base for Comprehensive Applications of Mining Resources in the PRC by the Ministry of Land and Resources and the Ministry of Finance of the PRC. In 2013, a subsidiary of the Changchun Institute of Applied Chemistry under the Chinese Academy of Sciences — an authoritative institution engaged in researching rare earth magnesium alloys — was successfully introduced into the Group as a strategic shareholder. The move has further bolstered the Group's science research standards. Given the possession of patents regarding rare earth magnesium alloys and the full expansion of the advantages in transportation alongside state-of-the-art production technology for its own raw material resources, the Group continued to be well positioned competitively in the industry.

Magnesium alloys are currently one of the lightest structural metals in engineering applications. They boast various features such as low density and high strength, and have attractive industrial properties such as desirable casting, welding and machining functionality, and are hailed as “a green engineering material with the most potential for development and application in the 21st century.” They are currently widely used in various industrial areas such as transportation, 3C products, aerospace and chemicals. Against the backdrop of China's strong push for energy conservation and emissions reduction, market demand for magnesium alloys continued to climb. According to the initial output target under the “13th Five-year” development plan for the PRC's magnesium industry currently under preparation, raw magnesium output in the PRC will increase from approximately 800,000 tonnes in 2014 to approximately 1.3 million tonnes at the end of the “13th Five-year” development plan in 2020, with an average annual growth rate maintained at 8.4%, higher than the average economic growth rate of around 7% expected during the period of the “Twelfth Five-year Plan” or the “Thirteenth Five-year Plan”.

The Group's annual production capacity of magnesium is anticipated to reach 75,000 tonnes upon completion of the second phase expansion as at the end of 2016. The rapid expansion of capacity and the rapid growth in industry demand will lay a solid foundation for sustainable, high growth in the Group's magnesium products business.

Fertiliser Business

Against the backdrop of the general performance in the fertiliser market as a whole, the Group posted steady growth in both product sales and revenue by basing operations on an environmental-friendly, green and eco business-oriented approach as its mission; using a product mix comprising exclusive and superior products at the core, and employing a competitive strategy for product differentiation as a feature. For the year ended 31 December 2014, the fertiliser business contributed HK\$1,277,282,000 (2013: HK\$1,028,068,000) to the Group in revenue, an increase of up to 24.2% year-on-year. The fertiliser business mainly covers two product categories — compound fertilisers and organic fertilisers.

China's economy is currently in a transitional period, while agriculture is also switching from an extensive operational model to an ecological, green and sustainable new agricultural development model. As a result, while the same products are being made and similar business models are being adopted by those enterprises engaged only in the single fertiliser business, they are encountering a difficult business environment. Meanwhile, greater market space is being ceded to those enterprises engaged in producing environmental-friendly, green and eco products. The organic fertiliser business of the Group is growing rapidly and continuously because of the new agricultural development model, which is an inevitable result of the survival of the fittest.

Silicon Magnesium ("Si-Mg") fertiliser, a high-margin superior product of the Group's fertiliser business, can provide crops with more comprehensive and balanced nutrition. In the PRC, where more than about 50% of 450 million mu of paddy rice soils contain low silicon content, and 19% of the soils contain low magnesium content, Si-Mg fertiliser is effective in improving soil structure and increasing crop resistance to pests and disease. This product has been well-received by the market since its launch in 2012. Moreover, the Group's high-grade serpentine reserves provide ample raw material resources and cost advantages for Si-Mg fertilisers, having improved the gross margin of the product.

To seize opportunities arising from the rapid development of the market for ecological fertilisers, the Group is aggressively implementing a plan to expand production capacity. The annual capacity of the Group's fertiliser business reached 750,000 tonnes at its production base located in Jiangsu by the first quarter of 2015. This additional 300,000 tonnes annual capacity is the first phase of the expansion project. The Group will continue its expansion to further enhance its product line to meet market demand.

Other Businesses

The metallurgical flux business is the Group's secondary business. The abundant, superb quality serpentine reserves not only provide a key raw material to produce Si-Mg fertilisers, but also an indispensable source of auxiliary material for iron and steel smelting. On the premise that an adequate and steady source of raw material is secured for the production of Si-Mg fertilisers, the Group will sell a manageable amount of serpentine reserves to major domestic steel enterprises for stable revenue generation. During the year, revenue from the metallurgical flux business amounted to HK\$98,333,000 (2013: HK\$64,857,000), representing 4.8% (2013: 4.0%) of the total revenue.

Outlook

The Group's dual business model on parallel development and product differentiation continued to generate encouraging results for the Group. Riding on the growth momentum over the past years, the Group will further expand full advantages in patents and proprietary technologies ahead of its counterparts, and given its abundant reserves of quality raw materials, it will uphold the continuously innovative concept of corporate development and aims to develop substantial shares of high performance, high-profit yet low-cost highly heterogeneous products to secure the first tier market position for the Group. Moreover, its increasing proportion of high-margin products will be vital in enhancing its overall profitability.

Looking forward to 2015, management has full confidence in sustaining its rapid growth. With the support of the Chinese government's favourable industrial policies, the Group will expand its production capacity — continue to strengthen operational management, consolidate its leading position in the industry and strive to create better returns for shareholders.

Key Operational Data

Unaudited key operational data for the year ended 31 December 2014, together with the comparative figures for the corresponding period in 2013, is as follows. Main businesses listed below contributed over 95% of the Group's total revenue for the year ended 31 December 2014.

(a) Sales volume of major products:

	Year		
	2014	2013	Increased
	<i>Tonnes</i>	<i>Tonnes</i>	<i>%</i>
Magnesium product business	22,783	16,898	34.8
Fertiliser business	<u>544,356</u>	<u>419,244</u>	<u>29.8</u>

(b) Average selling prices of major products:

	Year		
	2014	2013	Decreased
	<i>per tonne</i>	<i>per tonne</i>	<i>%</i>
	<i>HK\$</i>	<i>HK\$</i>	
Magnesium product business	29,322	31,077	(5.6)
Fertiliser business	<u>2,343</u>	<u>2,446</u>	<u>(4.2)</u>

(c) Gross profit margins of major products:

	Year		Increased/ (Decreased)
	2014	2013	<i>Percentage</i>
	<i>%</i>	<i>%</i>	<i>points</i>
Magnesium product business	32.1	32.7	(0.6)
Fertiliser business	27.1	26.3	0.8
The Group's gross profit margin	<u>31.8</u>	<u>31.0</u>	<u>0.8</u>

Revenue

Total revenue of the Group in 2014 amounted to approximately HK\$2,072,519,000 (2013: approximately HK\$1,640,291,000), representing a growth of about 26.4%. This is mainly due to increase in sale volume. During the year, sale quantities for magnesium products business and fertilisers business have increased by 34.8% and 29.8% respectively.

Cost of Sales

Cost of sales for 2014 amounted to approximately HK\$1,412,575,000 (2013: HK\$1,132,526,000), an increase of around 24.7% over last year. Among which, approximately 32.5%, 65.9% and 1.6% are attributable to magnesium product business, fertiliser business and metallurgical flux business respectively (2013: approximately 31.5%, 66.9% and 1.6% respectively). Cost of sales mainly comprised of material cost and utilities cost, that accounted for approximately 88.0% of total cost of sales.

Gross Profit

Consolidated gross profit for 2014 was approximately HK\$659,944,000 (2013: HK\$507,765,000), surged by approximately 30.0%. The consolidated gross profit margin raised from 31.0% to approximately 31.8%. This is mainly due to the change and improvement in product mix, thereby enhancing the Group's overall gross profit ratio.

Selling and Marketing Costs

Selling and marketing costs were approximately HK\$103,116,000 (2013: HK\$69,437,000), which mainly comprised of transportation costs of approximately 67.7% and staff costs, entertainment and commission of approximately 24.1% (2013: approximately 69.2% and 22.7% respectively). Selling and marketing costs accounted for approximately 5.0% (2013: approximately 4.2%) of total revenue.

Administrative Expenses

Administrative expenses were approximately HK\$63,302,000 (2013: HK\$55,767,000), which mainly comprised of staff costs, depreciation and amortisation expenses, audit and professional fees and occupancy costs, accounting for approximately 35.5%, 15.4%, 9.5% and 4.3% (2013: approximately 39.6%, 24.4%, 6.1% and 4.1%) respectively of the total administrative expenses for the year.

Increase in administrative expenses was mainly resulted from expenses incurred for coping with expansion of our businesses, yet, the Group was still able to minimise such expenses as it only represented approximately 3.1% (2013: approximately 3.4%) of total revenue.

Other Income and Gains

Other income and gains amounted to approximately HK\$15,055,000 (2013: HK\$11,782,000), mainly comprised of interest income and rental income accounting to approximately HK\$8,544,000 and HK\$4,766,000 (2013: approximately HK\$5,157,000 and HK\$5,241,000) respectively.

Margin

Profit for the year amounted to approximately HK\$339,641,000 (2013: HK\$277,133,000), leaped by approximately 22.6%. Profit attributable to owners of the Company for the year amounted to HK\$287,910,000 (2013: HK\$230,215,000), increased by approximately 25.1%.

Liquidity, Liabilities and Financial Resources

The Group's liquidity in 2014 was mainly derived from cash generated from business operations. As at 31 December 2014, total amount of cash and bank balances of the Group was approximately HK\$828,782,000 (2013: HK\$422,901,000).

As at 31 December 2014, the Group's total borrowings increased by approximately 195.7% as compared to 2013, while net current assets increased by approximately 52.3% as compared to 2013. The Group's gearing ratio (calculated by total borrowings over total assets) was approximately 23.4% in 2014 (2013: 10.6%).

The Group's existing cash resources together with the steady cash flows generated from business activities are sufficient to meet its business needs. Net cash generated from operating activities amounted to HK\$322,910,000 (2013: HK\$301,371,000).

Exchange Rate Risk Management

The Group mainly operates in the People's Republic of China (the "PRC") and Hong Kong and is exposed to foreign exchange risk arising from primarily with respect to HK\$, Renminbi, US\$ and Australian dollars. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and

net investments in foreign operations. The Group's management does not expect the net foreign currency risk from these activities to be significant and hence, the Group does not presently hedge the foreign exchange risks. The Group periodically reviews liquid assets and liabilities held in currencies other than HK\$ to evaluate its foreign exchange risk exposure and consider the usage of hedging instruments when necessary.

Credit Risk Management

The Group has always been aware of the credit risk exposure of our customers. The Group strictly followed the "client account management procedures" established in 2004. The procedures required and ensured that all clients were regularly assessed and be kept track of their transaction records and credit history. The Group specified and assigned to each customer, as according to their operation and credit status, a series of credit measures such as credit ratio, credit period, credit rating, credit terms and guarantee. The client account management procedures were effective to control the credit risk of the Group.

Significant Transactions

- (i) On 24 February 2014, the Company and International Finance Corporation ("IFC") completed the Share Subscription Agreement. Pursuant to which, IFC had subscribed for an aggregate of 155,077,000 fully paid subscription shares at HK\$0.75 each. The fund raised was approximately HK\$116,308,000. Details of which are disclosed in Note 34 to the financial statements.

On 27 June 2014, the Company had issued convertible bonds with the principal amount of HK\$115,000,000 and HK\$180,000,000. Details of which are disclosed in Note 31 to the financial statements.

The aggregate proceeds raised of approximately HK\$411,308,000 was used for capital expenditure and expansion of production capacity.

- (ii) On 19 December 2014, Ming Xin Developments Limited, a wholly owned subsidiary of the Group, entered into a sale and purchase agreement and a subscription agreement, for the acquisition of 500,000,000 existing shares and the subscription of 239,532,000 new shares of Group Sense (International) Limited (stock code: 601) ("Group Senses") at the consideration of HK\$229,600,000 and HK\$76,650,000 respectively. The transactions were completed on 26 February 2015. As the Group gained 51.46% controlling interest in Group Senses after the completion, mandatory general offer were

made by the Group on 5 March 2015 and expected to complete on 26 March 2015. For details, please refer to the relevant announcements and circulars published by the Group on the HKEx and the Company's websites.

- (iii) On 4 February 2015, the Company entered into a non-legally binding framework agreement with an independent third party (the "Vendor") in relation to the proposed acquisition of 100% equity interest in operating project companies (the "Subject Companies") as owned by the Vendor (the "Proposed Acquisition"). The Subject Companies mainly engage in magnesium business and its ancillary businesses including power generation and semi-coke. For more details in relation to the Proposed Acquisition, please refer to the Company's announcement dated 4 February 2015.

In relation to the Proposed Acquisition, the Group will review the negotiation progress from time to time, so as to assess the funding requirement and position; and, to tailor appropriate funding policies, including but not limiting to bank borrowings, debt and equity financing, etc. In the event that the Proposed Acquisition proceeds, the Company will comply with the relevant disclosure requirements of the Listing Rules and/or the Hong Kong Code on Takeovers and Mergers as and when appropriate.

Pledge of Assets

As at 31 December 2014, the Group had pledge of its assets, details of which are disclosed in Note 30 to the financial statements.

Capital Commitments

As at 31 December 2014, other than those disclosed in Note 38 to the financial statements, the Group did not have any material capital commitments.

Contingent Liabilities

As at 31 December 2014, other than those disclosed in Note 42 to the financial statements, the Group did not have any significant contingent liabilities.

Capital Structure

As at 31 December 2014, the issued share capital of the Company were HK\$58,112,771, divided into 2,905,638,537 shares of HK\$0.02 each.

Human Resources

The number of employees of the Group was approximately 1,290 (2013: 1,250) as at 31 December 2014. The remuneration of employees was determined by the Group with reference to their performance, work experience and current market conditions. Employee benefits include medical insurance, defined provident fund scheme, discretionary bonus and employee share option scheme. There has been no labour dispute or significant change in the number of employees that affect the normal operations of the Group. The Directors believe that the Group maintains admirable relations with its employees.

Project Overview***Dolomite Mine***

The Group's dolomite mine is situated in Baishan City, Jilin Province, the PRC. The mine is operated by open-pit method, and therefore no additional exploration works are involved or required. Only simple infrastructure works for open-pit mining are involved in the development activities, and no underground drilling or structural works are involved. The dolomite mined is raw material for producing magnesium products of the Group. The transportation cost for raw material is relatively low due to the close proximity of the mine to the production base of the Group.

As disclosed in the 2010 annual report, the dolomite mine of the Group was reported under the Chinese resource/reserve categories. As at 31 December 2014, the anticipated resource and reserve volumes were determined based on the yearly reduction of quantity mined to calculate the remaining resource and reserve volumes. There is no material change in the assumptions of estimation by the Group as compared with those previously disclosed. The resource and reserve volumes was reviewed by the Group's internal geological experts. For the year ended 31 December 2014, the Group completed a dolomite output of 414,722 tonnes (2013: 315,236 tonnes). As compared with the state as at 31 December 2013, there was no material change in the resource estimate and ore reserve of the dolomite mine.

During 2014, the expenditures incurred in development activities were mainly for infrastructure construction such as roads and sewage disposal systems, and environmental protection, etc. Such expenditures have been capitalised and included in the consolidated statement of financial position for 2014. The expenditures incurred in mining activities were mainly for direct wages, materials, energy, transportation, depreciation and amortisation, etc. Such expenditures have been included in cost of sales and charged to the consolidated statement of profit and loss and other comprehensive income for 2014.

The expenditure incurred in development and mining production activities of dolomite for the year ended 31 December 2014 were approximately HK\$92,402,000 and HK\$17,074,000 respectively while the expenditure incurred in exploration was HK\$Nil.

Serpentine Mine

The Group's serpentine mine is situated in Donghai County, Jiangsu Province, the PRC. The mine is operated by open-pit method, and therefore no additional exploration works are involved or required. Only simple infrastructure works for open-pit mining are involved in the development activities, and no underground drilling or structural works are involved. The serpentine mined is sold directly as metallurgical flux for iron and steel smelting and is raw material for producing silicon magnesium fertilisers of the Group. The transportation cost for raw material is relatively low due to the close proximity of the mine to the production base of the Group.

As disclosed in the 2010 annual report, the resource/reserve of the Serpentine Mine was reported under the JORC system when it was acquired in 2010. As at 31 December 2014, the anticipated resource and reserve volumes were determined based on the volume at the time of acquisition with the yearly reduction of quantity mined to calculate the remaining resource and reserve volumes. There is no material change in the assumptions of estimation by the Group as compared with those previously disclosed. The resource and reserve volumes was reviewed by the Group's internal geological experts. For the year ended 31 December 2014, the Group completed a serpentine output of 539,823 tonnes (2013: 543,526 tonnes). As compared with the state as at 31 December 2013, there was no material change in the resource estimate and ore reserve of the serpentine mine.

The expenditures incurred for 2014 in development activities were mainly for infrastructure construction such as roads and sewage disposal systems, and environmental protection, etc. Such expenditures have been capitalised and included in the consolidated statement of financial position for 2014. The expenditures incurred in mining activities were mainly for direct wages, materials, energy, transportation, depreciation and amortisation, etc. Such expenditures have been included in cost of sales and charged to the consolidated statement of profit and loss and other comprehensive income for 2014.

The expenditure incurred in development and mining production activities of serpentine for the year ended 31 December 2014 was approximately HK\$51,225,000 and HK\$51,806,000 respectively while the expenditure incurred in exploration was HK\$Nil.

For the year ended 31 December 2015***Business Review***

The Group maintained a relatively higher growth of business in 2015. Total revenue for the year ended 31 December 2015 (the “Year”) increased by 21.4% to HK\$2,515,602,000 (2014: HK\$2,072,519,000). The gross profit margin was 31.2% (2014: 31.8%). The slight overall decrease in the gross profit margin of the Group is mainly due to the dilution of the relatively lower gross profit margin of the electric product business of Group Sense (International) Limited (stock code: 601) (“GSIL”) which was acquired during the Year. Fertiliser business and magnesium product business, the two core businesses of the Group recorded growth during the Year. Revenue of the fertiliser business contributed to approximately HK\$1,523,281,000 for 2015 (2014: HK\$1,277,282,000), accounting for approximately 60.6% (2014: 61.6%) of the Group’s total revenue, and representing an increase of 19.3% year-on-year, while revenue of the magnesium product business reached approximately HK\$760,502,000 for 2015 (2014: HK\$696,904,000), accounting for approximately 30.2% (2014: 33.6%) of the Group’s total revenue, and representing an increase of 9.1% as compared to 2014.

Fertiliser Business

The Group has two competitive fertiliser products, including compound fertilisers and organic fertilisers. For the year ended 31 December 2015, the fertiliser product business contributed HK\$1,523,281,000 (2014: HK\$1,277,282,000) to revenue of the Group, representing an increase of 19.3% year-on-year, and carrying an average gross profit margin of 27.9% (2014: 27.1%).

In order to achieve the strategic objective of developing its fertiliser business of the Group to the national forefront, the Company keeps expanding its production scale. In July 2015, the Group acquired a land covering an area of 800 acres within an industrial park in Ruichang City of the People’s Government of Jiangxi Province, on which, the Group intended to build a fertiliser production line with an annual capacity of 1.4 million tonnes of fertilisers, a self-owned cargo-handling terminal and the auxiliary facilities. The new production capacity of 1.4 million tonnes is primarily established for the Si-Mg compound fertiliser, water-soluble fertiliser and other new fertiliser products. Ruichang City, the location of the new production base, is an important industrial city of Jiangxi Province, adjacent to three coastal economic circles (the Yangtze River Delta, the Pearl River Delta, and Southeastern part of Fujian), bordering the south shore of the Yangtze River, and connecting two major railway networks including Beijing – Kowloon Railway and the Beijing – Guangzhou Railway, representing the convenience of water and land transportation. In addition,

the Company utilized advanced technology on its new fertiliser production line, and thanks to the convenient adjacent water and land transportation, the cost of transportation and production could be reduced significantly. The first phase of the new fertiliser production line with an annual capacity of 800,000 tonnes is scheduled to be completed in 2018, and the second phase with an annual capacity of 600,000 tonnes is scheduled to be completed in 2019. The construction and enhancement of the project will cover the southern market and complement and match with the northern market of such products covered by the Jiangsu production base, which contributes to the further development of sales network of the Group and enhance our client-base coverage.

The new capacity of 300,000 tonnes fertiliser has commenced production in the production base of Jiangsu Province in the first quarter of 2015. The annual capacity is expected to reach 850,000 tonnes in 2016 through technology upgrade of existing production facilities. The overall capacity could be reached over 2 million tonnes in the future including the newly expanded production capacity of 1.4 million tonnes in Jiangxi production base. The Group will continue to proactively seek for appropriate merger and acquisition opportunities, so as to accelerate the rapid growth of its fertiliser business.

Magnesium Product Business

The magnesium products of the Group included basic magnesium products and rare earth magnesium alloys. For the year ended 31 December 2015, the magnesium product business contributed HK\$760,502,000 (2014: HK\$696,904,000) to revenue of the Group, representing an increase of 9.1% year-on-year, and carrying an average gross profit margin of 34.2% (2014: 32.1%).

In order to further strengthen the Group's comparable advantage in the magnesium business and its competitiveness in the industry, the Company successfully acquired a total of 51.88% shares in GSIL in early 2015, and through this independent listing platform, the Company vigorously expanded and implemented the magnesium business development plan. In August 2015, GSIL announced the acquisition of a magnesium product manufacturer located in Xinjiang Province, with annual production capacity of 1.2 million tonnes of semi-coke, 60,000 tonnes of magnesium ingot and 100,000 tonnes of ferroalloy, as approved by the Chinese government. Two established production lines consist of annual production capacity of 15,000 tonnes magnesium ingot and 600,000 tonnes semi-coke respectively. The magnesium production line has commenced production after trial run in the first quarter of 2016. This acquisition facilitates the resource integration of the Group, and also encourages the Group to achieve the strategic goal to become the leading magnesium enterprise in China and the world.

The total production capacity of magnesium is expected to reach 135,000 tonnes in the future, aggregating the expansion of the authorized production capacity of 60,000 tonnes in the production base in Xinjiang and the existing production capacity. The expansion of capacity could further enhance the market position of the Group in the magnesium industry, and accelerate the growth of the overall performance of the Group's magnesium business.

Other Businesses

The metallurgical flux and electronic products are the Group's secondary businesses. The superb quality serpentine reserves not only provide a key raw material to produce Si-Mg fertilisers, but also serve as an indispensable source of auxiliary material for iron and steel smelting. The Group sells a manageable amount of serpentine to major domestic steel enterprises for stable income, with prerequisite of an adequate and steady supply of raw material for the production of Si-Mg fertilisers.

Outlook

In pace with the vigorous impetus to energy conservation, environmental protection and emission reduction, the Group will seize the opportunity to develop ecological fertiliser and the new magnesium alloy material. Despite of slowdown of domestic economic growth, the management has confidence on the business with its competitiveness by leveraging on the advantages on resources and differentiated products in the market. The Group will devote the best efforts in achieving further business development in a prudent way.

In 2016, the Group will continue to implement the market strategy of product differentiation, focus on research, and develop more high-performance, and high-value-added products to cope with the market demand, and thus reinforce its leading position in the high-end market. Meanwhile, the Group will continue to proactively seek for appropriate merger and acquisition opportunities, continue the expansion of capacity, and strive for the fulfillment of the strategic objective to becoming the leading corporation for both ecological fertiliser and magnesium businesses in China, ultimately bringing higher return to shareholders.

Key Operational Data

Unaudited key operational data for the year ended 31 December 2015, together with the comparative figures for the corresponding period in 2014, is as follows. Main businesses listed below contributed over 90% of the Group's total revenue for the year ended 31 December 2015.

(a) Sales volume of major products:

	Year		
	2015	2014	Increased
	<i>Tonnes</i>	<i>Tonnes</i>	<i>%</i>
Fertiliser business	661,748	544,356	21.6
Magnesium product business	24,031	22,783	5.5

(b) Average selling prices of major products:

	Year		
	2015	2014	Increased/
	<i>per tonne</i>	<i>per tonne</i>	(Decreased)
	<i>HK\$</i>	<i>HK\$</i>	<i>%</i>
Fertiliser business	2,301	2,343	(1.8)
Magnesium product business	30,806	29,322	5.1

(c) Gross profit margins of major products:

	Year		Increased/
	2015	2014	(Decreased)
	<i>%</i>	<i>%</i>	<i>Percentage</i>
			<i>points</i>
Fertiliser business	27.9	27.1	0.8
Magnesium product business	34.2	32.1	2.1
The Group's gross profit margin	<u>31.2</u>	<u>31.8</u>	<u>(0.6)</u>

Revenue

Total revenue of the Group in 2015 amounted to approximately HK\$2,515,602,000 (2014: approximately HK\$2,072,519,000), representing a growth of about 21.4%. During the Year, the sale quantities for fertilisers business and magnesium products business have increased by 21.6% and 5.5% respectively.

Cost of Sale

Cost of sales for 2015 amounted to approximately HK\$1,729,567,000 (2014: HK\$1,412,575,000), an increase of around 22.4% over last year. Among which, approximately 91.9% (2014: 98.4%) are attributable to fertiliser business and magnesium product business. Cost of sales mainly comprised of material cost and utilities cost.

Gross Profit

Consolidated gross profit for 2015 was approximately HK\$786,035,000 (2014: HK\$659,944,000), surged by approximately 19.1%. The Group managed to further improve product structure, optimized product mix, thereby improving the gross profit margin of the Group's principal business, i.e. the fertilisers business and magnesium business. However, the electronic business acquired during the Year has a relatively lower gross profit margin, resulting in the slight decrease in the Group's consolidated gross profit margin from 31.8% to 31.2%.

Selling and Marketing Costs

Selling and marketing costs were approximately HK\$113,406,000 (2014: HK\$103,116,000), represents an year-on-year increase of approximately 10.0%. Selling and marketing costs mainly comprised of transportation, salaries and commission.

Administrative Expenses

During the Year, administrative expenses of the Group were approximately HK\$139,598,000 (2014: HK\$63,302,000), representing approximately 5.5% (2014: approximately 3.1%) of the total revenue. Such expenses mainly include staff remuneration, depreciation and amortisation expenses, audit and professional fees and occupancy costs. Increase in administrative expenses was mainly due to the acquisition of GSIL, whose administrative and R&D expenses of electronic products business amounted to approximately HK\$63,462,000. Nevertheless, the Group was still able to effectively control such expenses.

Other Income and Gains

Other income and gains amounted to approximately HK\$42,799,000 (2014: HK\$15,055,000), increased by 184.3%, which mainly comprised of interest income and sales of scrap materials amounting to approximately HK\$12,094,000 and HK\$11,679,000 respectively.

Margin

Profit for the Year amounted to approximately HK\$341,885,000 (2014: approximately HK\$339,641,000), representing an increase of approximately 0.7% year-on-year, including the operating losses of approximately HK\$24,685,000 incurred from the electronic product business of GSIL acquired on 26 February 2015. If excluding such losses, our core businesses of the fertiliser and magnesium product business recorded a profit for the Year of approximately HK\$366,570,000, representing a year-on-year increase of approximately 7.9%. Profit attributable to owners of the Company for the Year amounted to HK\$303,489,000 (2014: HK\$287,910,000), increased by approximately 5.4% on a year-on-year basis. If excluding the abovementioned operating losses of the newly acquired item, the year-on-year increase would be approximately 9.8%. The Group strives to strictly control its costs, implement business reorganisation and injection of new projects with long-term growth potential. The operating results of GSIL is expected to be improved and enhanced in the coming year, which will bring positive contribution to the Group.

The basic earnings per share was 7.19 HK cents (2014: 8.01 HK cents). The weighted average number of ordinary shares for the purpose of basic and diluted earnings per share has been adjusted for the issue of shares pursuant to open offer on 1 June 2015 and bonus issue on 29 June 2015.

Liquidity, Liabilities and Financial Resources

The Group's liquidity in 2015 was mainly derived from cash generated from business operations and financing activities during the Year. As at 31 December 2015, total amount of cash and bank balances of the Group was approximately HK\$1,452,515,000 (2014: HK\$828,782,000).

As at 31 December 2015, the Group's total borrowings increased by approximately 69.0% as compared to 2014, while net current assets increased by approximately 141.7% as compared to 2014. The Group's gearing ratio (calculated by total borrowings over total assets) was approximately 27.7% in 2015 (2014: 23.4%).

The Group's existing cash resources together with the steady cash flows generated from business activities are sufficient to meet its business needs.

Pledge of Assets

As at 31 December 2015, the Group had pledge of its assets, details of which are disclosed in Note 32 to the financial statements.

Capital Commitments

As at 31 December 2015, other than those disclosed in Note 39 to the financial statements, the Group did not have any material capital commitments.

Contingent Liabilities

As at 31 December 2015, other than those disclosed in Note 45 to the financial statements, the Group did not have any significant contingent liabilities.

Capital Structure

As at 31 December 2015, the issued share capital of the Company were HK\$92,189,736, divided into 4,609,486,843 shares of HK\$0.02 each.

Significant Transactions

- (i) On 19 December 2014, Ming Xin Developments Limited ("Ming Xin"), a wholly owned subsidiary of the Group, entered into a sale and purchase agreement and a subscription agreement, for the acquisition of 500,000,000 existing shares and the subscription of 239,532,000 new shares of Group Sense (International) Limited (stock code: 601) ("GSIL") at the consideration of HK\$229,600,000 and HK\$76,650,000 respectively. The transactions were completed on 26 February 2015. As the Group gained 51.46% controlling interest in GSIL after the completion, mandatory general offer were made by the Group on 5 March 2015 and completed on 26 March 2015. The Group's controlling interest in GSIL thereafter increased to 51.88%. For details, please refer to the relevant announcements and circulars published by the Group.
- (ii) On 4 February 2015, the Company entered into a non-legally binding framework agreement with an independent third party (the "Vendor") in relation to the proposed acquisition of 100% equity interest in operating project companies (the "Subject Companies") as owned by the Vendor (the "Proposed Acquisition"). The Subject Companies mainly engage in magnesium

business and its ancillary businesses including power generation and semi-coke. Despite the expiration of the 6-month exclusive period of the proposed acquisition, the parties were still in the process of negotiation.

In addition, the Group will also identify potential business-related projects and targets of mergers and acquisitions from time to time in order to implement the Group's strategic objectives, that is to develop our business to the forefront of the country by way of expansion of production capacity through selfestablishment and mergers and acquisitions. In the event that the proposed mergers and acquisition proceeds, the Company will comply with the relevant disclosure requirements of the Listing Rules and/or the Hong Kong Code on Takeovers and Mergers as and when appropriate.

- (iii) On 1 June 2015, the Company issued 1,453,119,268 new Shares by way of open offer at HK\$0.40 per share on the basis of 1 open offer share for every 2 existing Shares held by qualifying shareholders as at 28 May 2015. Details are stated in the Company's prospectus issued on 8 May 2015.

On 29 June 2015, the Company issued 217,967,890 new Shares by way of bonus issue on the basis of 1 bonus issue share for every 20 existing Shares held by qualifying shareholders as at 17 June 2015. Details are stated in the Company's relevant announcements.

- (iv) On 4 June 2015, the Company issued the first tranche of 7.2% subordinated notes with the face value of SGD75 million (under the Multicurrency Medium Term Note Programme). The notes are listed on the Singapore Stock Exchange and will mature on 4 June 2018.

On 3 August 2015, the Company further issued the second tranche of 7.2% subordinated notes with the face value of SGD50 million which will also matured on 4 June 2018.

- (v) On 17 November 2015, GSIL, an indirect non-wholly owned subsidiary of the Company, issued 1,437,195,029 new GSIL shares by way of open offer at HK\$0.20 per share on the basis of 1 GSIL open offer share for every 1 existing GSIL shares held by qualifying shareholders as at 23 October 2015. Details are stated in the GSIL's prospectus issued on 20 August 2015. This open offer raised approximately HK\$287,439,000 before expenses.

- (vi) During the year, the Company's indirect non-wholly owned subsidiaries, GSIL and its subsidiaries, completed the acquisition of Xinjiang Tengxiang Magnesium Products Company Limited from a third party. Details of which are disclosed in Note 42(b) to the financial statement.

Key Risks and Uncertainties

Our Group's financial condition, results of operations, and business prospects may be affected by a number of risks and uncertainties directly or indirectly pertaining to our Group's businesses. The followings are the key risks and uncertainties identified by our Group. There may be other risks and uncertainties in addition to those shown below which are not known to our Group or which may not be material now but could turn out to be material in the future.

Market risks

Market risk is the risk that deteriorates profitability or affects ability to meet business objectives arising from the movement in market demand, product prices, foreign exchange rates, and interest rates. The management of our Group keeps continually monitoring these exposures closely to ensure appropriate measures are implemented on a timely and effective manner against such risks.

Exchange rate risk

The Group mainly operates in the People's Republic of China (the "PRC") and Hong Kong and is exposed to foreign exchange risk arising from primarily with respect to Renminbi, HK\$, Singapore dollars, US\$ and Australian dollars. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. The Group's management does not expect the net foreign currency risk from these activities to be significant and hence, the Group does not presently hedge the foreign exchange risks. The Group has planned to periodically reviews liquid assets and liabilities held in currencies other than HK\$ to evaluate its foreign exchange risk exposure and consider the usage of hedging instruments when necessary.

Interest rate risk

For interest-sensitive products and investments, our Group analyses its interest rate exposure on a dynamic basis and considers managing this risk in a cost-effective manner when appropriate, through variety of means.

Credit risk

The Group has always been aware of the credit risk exposure of our customers. The Group strictly followed the “client account management procedures” established in 2004. The procedures required and ensured that all clients were regularly assessed and be kept track of their transaction records and credit history. The Group specified and assigned to each customer, as according to their operation and credit status, a series of credit measures such as credit ratio, credit period, credit rating, credit terms and guarantee. The client account management procedures were effective to control the credit risk of the Group.

Liquidity risk

Liquidity risk is the potential that our Group will be unable to meet its obligations when they fall due because of an inability to obtain adequate funding or liquidate assets. In managing liquidity risk, our Group monitors cash flows and maintains an adequate level of cash and cash equivalent to ensure the ability to finance the Group’s operations and reduce the effects of fluctuation in cash flows.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Responsibility for managing operational risks basically rests with functional departments of the Group and its subsidiaries. Key functions of the Group is to guide their standard operating procedures, limits of authority and reporting framework. Our management will assess key operational exposures and effect raised in business development regularly, implement relevant measures and improve the internal control so that risk can be responded and mitigated on a timely and effective manner.

Investment risk

Investment risk can be defined as the likelihood of extension of its return period relative to the expected return or occurrence of losses on any particular investment attributable to changes of external factors. The Group is well aware of importance of exploring various business opportunities and territories on a continual basis, and also implement as the top agenda of the year. Key concern of projects investment framework will be balancing risk and return across different investments, and thus risk assessment is a core aspect of the investment decision process. Proper investment assessment and due diligence procedures have been set up and detailed analysis will be made before approving investments. Regular updates on the progress of the investments of our Group would be submitted to the Board.

Manpower and retention risk

Manpower risk means huge demand for talents because of the Group's rapid business development while at the same time facing severe competition over specialists from the industry and turnover of manpower. Our Group may face the risk of not being able to recruit and retain key personnel and talents with appropriate and required skills, experience and competence to cope with the expansion of business which would meet the business objectives of our Group. Our Group will conduct a thorough analysis over its remuneration system, as well as incentive mechanism and optimize the compensation structure so as to ensure remuneration packages can align reasonably with market standard and maintain its competitiveness. Meanwhile, recruitment channels are broadened and the talent pool of senior management are strengthened, so as to further enhance the promotion opportunities and career path of employees. Systematic staff training are also being further enhanced to increase the overall effectiveness of training and the dissemination of corporate cultures and values.

Environmental Policies and Performance

Environmental policies and performance mainly means increasing attention of PRC government paid to environmental rules and policies and more strict regulatory requirements. As subsidiaries and newly acquired enterprises commenced into operation for a long while and lag behind certain environmental and duty requirements promulgated by PRC government. The Group monitors impact on business development closely raised from movements of environmental policy and external factors. Acting in an environmentally responsible manner and performing social responsibilities, the Group is committed to improving and maintaining the long term sustainability of the communities in which it operates. The Group endeavours to comply with laws and regulations regarding environmental protection and adopt effective measures to achieve efficient use of resources, energy saving and waste reduction. Green initiatives and measures have been adopted in daily operation of the Group. Such initiatives include recycling of resources, energy saving measures and water saving practices.

Compliance with Laws and Regulations

The Group's operations are mainly carried out by the Company's subsidiaries in mainland China while the Company is listed on the Stock Exchange. The Group's operations accordingly shall comply with relevant laws and regulations in mainland China and Hong Kong. During the year ended 31 December 2015 and up to the date of this report, to the best of our knowledge, the Group has complied with all the relevant laws and regulations in mainland China and Hong Kong, and there was

no material breach of or non-compliance with the applicable laws and regulations, which results significant loss and negative impacts by the Group.

Relationship with Employees and Key Stakeholders

The number of employees of the Group was approximately 2,430 (2014: 1,290) as at 31 December 2015. The remuneration of employees was determined by the Group with reference to their performance, work experience and current market conditions. Employee benefits include medical insurance, defined provident fund scheme, discretionary bonus and employee share option scheme. There has been no labour dispute or significant change in the number of employees that affect the normal operations of the Group. The Directors believe that the Group maintains admirable relations with its employees.

Our Group understands that it is important to maintain good relationship with business partners, shareholders, investors and banks to achieve its long-term goals. To keep up with our key stakeholders closely, the Group has formulated corresponding scheme about investor relationship, and also holds tailored activities from time to time, such as annual/extraordinary general meetings, on-site visits, seminars and road-shows. Accordingly, our senior management have kept good communication, promptly exchanged ideas and shared business latest update about development of the Group with them when appropriate. During the Year, there was no material dispute between our Group and its business partners or banks.

Project Overview

Dolomite Mine

The Group's dolomite mine is situated in Baishan City, Jilin Province, the PRC. The mine is operated by open-pit method, and therefore no additional exploration works are involved or required. Only simple infrastructure works for open-pit mining are involved in the development activities, and no underground drilling or structural works are involved. The dolomite mined is raw material for producing magnesium products of the Group. The transportation cost for raw material is relatively low due to the close proximity of the mine to the production base of the Group.

As disclosed in the 2010 annual report, the dolomite mine of the Group was reported under the Chinese resource/reserve categories. As at 31 December 2015, the anticipated resource and reserve volumes were determined based on the yearly reduction of quantity mined to calculate the remaining resource and reserve volumes. There is no material change in the assumptions of estimation by the Group as compared with those previously disclosed. The resource and reserve volumes

was reviewed by the Group's internal geological experts. For the year ended 31 December 2015, the Group completed a dolomite output of 380,227 tonnes (2014: 414,722 tonnes). As compared with the state as at 31 December 2014, there was no material change in the resource estimate and ore reserve of the dolomite mine.

During 2015, the expenditures incurred in development activities were mainly for blasting, electricity and water supplies to the mine and repair and construction to the infrastructure. Such expenditures have been capitalised and included in the consolidated statement of financial position for 2015. The expenditures incurred in mining activities were mainly for direct wages, materials, energy, transportation, depreciation and amortisation, etc. Such expenditures have been included in cost of sales and charged to the consolidated statement of profit and loss and other comprehensive income for 2015.

The expenditure incurred in development and mining production activities of dolomite for the year ended 31 December 2015 were approximately HK\$11,824,000 and HK\$16,189,000 respectively while the expenditure incurred in exploration was HK\$ Nil.

Serpentine Mine

The Group's serpentine mine is situated in Donghai County, Jiangsu Province, the PRC. The mine is operated by open-pit method, and therefore no additional exploration works are involved or required. Only simple infrastructure works for open-pit mining are involved in the development activities, and no underground drilling or structural works are involved. The serpentine mined is sold directly as metallurgical flux for iron and steel smelting and is raw material for producing silicon magnesium fertilisers of the Group. The transportation cost for raw material is relatively low due to the close proximity of the mine to the production base of the Group.

As disclosed in the 2010 annual report, the resource/reserve of the Serpentine Mine was reported under the JORC system when it was acquired in 2010. As at 31 December 2015, the anticipated resource and reserve volumes were determined based on the volume at the time of acquisition with the yearly reduction of quantity mined to calculate the remaining resource and reserve volumes. There is no material change in the assumptions of estimation by the Group as compared with those previously disclosed. The resource and reserve volumes was reviewed by the Group's internal geological experts. For the year ended 31 December 2015, the Group completed a serpentine output of 574,303 tonnes (2014: 539,823 tonnes). As compared with the state as at 31 December 2014, there was no material change in the resource estimate and ore reserve of the serpentine mine.

The expenditures incurred for 2015 in development activities were mainly for drainage system, greening and installation of main equipment. Such expenditures have been capitalised and included in the consolidated statement of financial position for 2015. The expenditures incurred in mining activities were mainly for direct wages, materials, energy, transportation, depreciation and amortisation, etc. Such expenditures have been included in cost of sales and charged to the consolidated statement of profit and loss and other comprehensive income for 2015.

The expenditure incurred in development and mining production activities of serpentine for the year ended 31 December 2015 was approximately HK\$18,253,000 and HK\$33,184,000 respectively while the expenditure incurred in exploration was HK\$ Nil.

For the year ended 31 December 2016

Business Review

In 2016, both the global economy and the financial market have experienced severe volatility, while the global economic development slowed down due to a succession of Black Swan events. The accelerated increase in US Federal Funds Rate casted direct impact on the investors' confidence, which became the principal trigger of the global financial market fluctuation; furthermore, the unexpected Brexit has a far-reaching impact over the worldwide political and economic pattern, and at the same time adversely affected the financial market. While debt risks all over the world is on the rise, the problem is the most acute for the emerging markets. Under the gloomy global economy, China recorded a merely 6.7% GDP growth rate in 2016, showing signs of an economic slowdown once again. Against such unfavorable market backdrop, the Group was able to proactively pursue a steady advancement relentlessly and to going against the current, with our two core businesses achieving a stable growth during the year in midst of a troubled market.

During the year ended 31 December 2016, the Group recorded an overall increase in revenue of 2.9% to HK\$2,589,221,000 (2015: HK\$2,515,602,000), with gross profit margin recorded at 29.3% (2015: 31.2%). Revenue from the fertiliser business was HK\$1,399,088,000 (2015: HK\$1,523,281,000), representing a year-on-year decrease of 8.2%, and accounted for 54.0% of the total revenue of the Group (2015: 60.6%); revenue from the magnesium product business was HK\$910,984,000 (2015: HK\$760,502,000), representing a year-on-year increase of 19.8%, and accounted for 35.2% of the total revenue of the Group (2015: 30.2%).

Fertiliser Business

The Group has two major fertiliser products, namely compound fertilisers and organic fertilisers. During the year ended 31 December 2016, the fertiliser business contributed approximately HK\$1,399,088,000 to the Group's revenue (2015: approximately HK\$1,523,281,000), representing a year-on-year increase in sales volume of 4.6% to 692,197 tonnes (2015: 661,748 tonnes), with an average gross profit margin of 28.4% (2015: 27.9%). Sales revenue recorded a year-on-year decrease due to the fall of global commodity prices and the depreciation of RMB during the Year. Nevertheless, the business still recorded a year-on-year increase in sales volume and a steady increase in gross profit margin.

During the Year, the PRC government continued to promote the use of environmental-friendly highly-effective new fertilisers, resulting in a satisfactory sales record of several well-known brands of the Group, including “Lu Di”, “Le He He”, “Zhan Lan” and “Feng Shou”. In addition to benefiting from the national policies, the construction of several major projects of the Group has also picked up the pace. During the Year, the annual production capacity of Jiangsu production base reached 850,000 tonnes, and the construction of phase one production line in Jiangxi Province with an annual production capacity of 1,400,000 tonnes, has moved ahead considerably as compared to the scheduled commencement in 2018. The Group estimates that the phase one production line may commence production in the third quarter of 2017, with a fertiliser production capacity of 550,000 tonnes, including the series products of 400,000 tonnes of high tower fertiliser and 150,000 tonnes of compound fertiliser, while the remaining production capacity of 850,000 tonnes is expected to materialise in 2019. Ruichang City is an important industrial town in Jiangxi Province; adjacent to the three major coastal economic circles, namely the Yangtze River Delta, the Pearl River Delta and the Southeastern Fujian Area, it lays on the southern shore of the Yangtze River, and is connected through the two major railway network, namely the Beijing-Kowloon Railway and the Beijing-Guangzhou Railway, which provide convenient water and land transportation and thus lower the transportation costs; the advanced technology of the new production line with the specific facilitated container terminal also lowers the logistics and production costs effectively.

In order to enhance the presence and market penetration rate of the ecological compound fertiliser business of the Group in the Northern, Central and Southern China production bases, as well as to expand the operation scale of the Group and to speed up the growth of our fertiliser business, the Group entered into an acquisition agreement to acquire 50.5% equity interest in Shandong Hongri which is well-established with over 50 years of operating history. Shandong Hongri is the inventor of sulphur-based compound fertiliser, and is known as the “father of

sulphur-based compound fertiliser” of China. It is the first chemical enterprise in China to be named as the “Top Ten Outstanding After-sale Service Provider of National Famous Brands (全國名優產品售後服務行業十佳單位)”, as well as the first “National Agricultural-Chemical Service Center (全國化工農化服務中心)” in Shandong Province. It is also a recognised provincial “Enterprise Development Center (企業開發中心)” in Shandong Province, and holds several proprietary technologies, especially the wellknown brands “艷陽天(Yanyangtian)” and “東方紅(Dongfanghong)” which enjoy strong market reputation and brand influence, and are popular among the consumers. During the Year, Shandong Hongri carried out full inspection, and successfully resumed normal production. It is expected to reach a sales volume of approximately 700,000 tonnes of compound fertiliser products in 2017.

The conditions precedent to the acquisition of Shandong Hongri have been satisfied and the resolution was passed to the Board for consideration and approval on 29 March 2017. The transaction will be completed and Shandong Hongri will be merged into the Group with effect from 1 April 2017 according to the terms of the acquisition agreement.

The Group believes that, with the gradual release of capacity at our two production bases in Jiangsu and Jiangxi Province, along with the official incorporation of Shandong Hongri into the Group, the fertiliser production capacity of the Group shall increase by at least three-fold compared to the current scale of production, thus successfully promote the soaring development of the Group’s fertiliser business.

Magnesium Product Business

The magnesium products of the Group included basic magnesium products and rare earth magnesium alloys. For the year ended 31 December 2016, the magnesium product business contributed HK\$910,984,000 (2015: HK\$760,502,000) to the revenue of the Group. During the Year, sales volume recorded 36,201 tonnes (2015: 24,031 tonnes), while the overall sales volume of magnesium product has recorded a significantly increase of 50.6% year-on-year. Furthermore, the Xinjiang base has commenced production during the Year, as the Xinjiang base mainly produce basic magnesium products, the gross profit margin of magnesium business has been diluted to 29.0% (2015: 34.2%) due to the significant year-on-year increase of 98.1% in sales volume of this kind of products. In the circumstances where the selling prices remain stable, a 19.8% growth of sales revenue in magnesium product business is recorded.

Magnesium alloy is considered to be the green lightweight alloy structured material with the greatest potential in terms of development, and is significant to green products development and design. Magnesium is mainly applied in the transportation industry such as automotive and 3C electronic products. Given the rapid growth of downstream demand, the status of magnesium alloy industry will rise significantly within the PRC economy. With her rich reserve of magnesium resource, China ranks first in the world in terms of production volume and export volume for magnesium, which foretold the massive growth potential of the magnesium business. The Group has invested heavily in the research and development of magnesium alloy projects since 2008, and has become the leading enterprise within the industry. The Group currently holds a rich and high-quality reserve of dolomite mineral resource in Baishan City, Jilin Province, and has completed the construction of a highly developed basic magnesium and magnesium alloy production base with an annual production capacity of 25,000 tonnes in 2016, the phase two expansion project with an additional capacity of 50,000 tonnes is basically completed, with its newly added production lines to gradually commence trial operation.

Besides, Group Sense (International) Limited (“GSIL”), a subsidiary of the Group, has an established magnesium and semi-coke production lines in Xinjiang with an annual production capacity of 15,000 tonnes and 600,000 tonnes respectively. During the Year, the production line of magnesium alloys has successfully commenced production after the renovation and adjustments. The production base in Xinjiang has the official right to produce 100,000 tonnes magnesium alloys as approved by the government. Upon completion of the expansion project, along with its existing production capacity, the aggregate production capacity of magnesium alloys of the Group is expected to reach 175,000 tonnes in the future, coupled with a number of patents in high performance magnesium alloy manufacturing methods and technologies held by the Group, we have achieved mutual integration of the independent supply of upstream raw material resources and downstream production capacity, which provides good conditions and driving forces for the development of magnesium product business and would further enhance the market status of the Group within the magnesium industry, as well as accelerate the growth of the overall performance of the Group’s magnesium business.

Other Businesses

Other businesses of the Group include metallurgical flux and electronic products. The Group owns quality serpentine reserves which is not only a key raw material to produce Si-Mg fertilisers, but is also an indispensable source of auxiliary material for iron and steel smelting. The Group sells a manageable amount of serpentine to major domestic steel enterprises for continuous and stable income, with prerequisite of an adequate and steady supply of raw material for the production of Si-Mg fertilisers.

Prospect

Looking forward in 2017, fluctuation in the global economy from 2016 shall remain with even more uncertainties ahead, imposing pressure on the operation of various industries. However, with rapid expansion in respect of our two core businesses, the Group is expecting to enjoy benefits from the favorable national policies that actively encourage agricultural modernization and application of new material. Among such policies, the Ministry of Industry and Information Technology (MIIT) has issued the “Guidance on Prompting the Restructuring and Development of Fertiliser Industry (推進化肥行業轉型發展的指導意見)”, which mentioned that utilisation of the new type of fertiliser in China will increase from less than 10% at present to 30% by 2020, creating a massive market space for the green and ecological new fertilisers of the Group. On the other hand, the “Development Plan of the Nonferrous Metal Industry (2016-2020) (有色金屬工業發展規劃(2016- 2020年))” encourages and supports the extensive application of nonferrous metals, including the magnesium alloy materials. The Group will continue to enhance the operational efficiency of the magnesium business, and further facilitate the integration of the Group’s magnesium business and continuously optimise resources allocation, so as to enhance the core competitiveness of the Group.

The Group believes that with the gradual implementation of the national industrial policies, along with better understanding of the market on new fertilisers and new magnesium alloy materials, demands of our products will continue to grow and drives the business development of the Group. To sufficiently expand the market share, the Group will leverage on our advance proprietary technologies and market advantages of the brands to expand the productivity and strategise the market layout, and to implement our marketing strategy of product differentiation, to research and development more high-function high value-added products to meet the market demand, so as to further solidify the leading status of our products within the high-end market.

Looking forward, the Group shall capture the ideal development opportunities to accelerate its market penetration and release of production capacity, and continue to pursue the strategic objective of promoting the two core businesses to the forefront of the industries in China, and to create abundant returns for our shareholders.

Key Operational Data

Unaudited key operational data for the year ended 31 December 2016, together with the comparative figures for the corresponding period in 2015, is as follows. Main businesses listed below contributed over 88% of the Group's total revenue for the year ended 31 December 2016.

(a) Sales volume of major products:

	2016 <i>Tonnes</i>	2015 <i>Tonnes</i>	Increase %
Fertiliser business	692,197	661,748	4.6
Magnesium product business	<u>36,201</u>	<u>24,031</u>	<u>50.6</u>

(b) Average selling price of major products:

	2016 <i>HK\$/Tonnes</i>	2015 <i>HK\$/Tonnes</i>	Decrease %
Fertiliser business	2,021	2,301	(12.2)
Magnesium product business	<u>24,388</u>	<u>30,806</u>	<u>(20.8)</u>

(c) Gross profit margin:

	2016 %	2015 %	Increase/ (Decrease) <i>Percentage point</i>
Fertiliser business	28.4	27.9	0.5
Magnesium product business	29.0	34.2	(5.2)
The Group's gross profit margin	<u>29.3</u>	<u>31.2</u>	<u>(1.9)</u>

Operating Income and Gross Profit

During the Year, the Company recorded a turnover of HK\$2,589,221,000, representing a year-on-year increase of 2.9%.

Sales volume of our fertilisers increased by 4.6% during the year, while average prices decreased by 12.2%, mainly attributable to the depreciation of RMB against HKD of approximately 6% during the Year. Prices in RMB of our organic fertilisers and Si-Mg compound fertilisers remained fairly constant, however, sales prices of compound fertilisers is highly sensitive to market fluctuation and suffered a drop of around 13.5%. However, through effective cost control, gross profit for fertiliser business still recorded a slight increase of 0.5% to 28.4%.

For the magnesium business, sales volume increased by approximately 50.6% during the Year, which is mainly contributed by GSIL's newly acquired magnesium business during last year. Besides, the Group also expands our business to magnesium trading with export to Europe and USA markets, representing a milestone of the magnesium business. Since the sales volume of our basic magnesium products increased by approximately 98.1% year-on-year, the overall gross profit of our magnesium business has been diluted to 29.0%.

Other Income

During the Year, GSIL has completed the negotiation of adjustment to the purchase consideration with the sellers for its acquisition of a magnesium project last year, thereby recognising an increase in bargain purchase of HK\$21,564,000, and last year's figures has been adjusted according to the relevant accounting standards while the results of 2015 was restated.

The Group's other income mainly comprised of interest income and sales of scraps, being HK\$23,970,000 and HK\$14,056,000 (2015: HK\$12,094,000 and HK\$11,679,000) respectively.

Administrative Expense

Administrative expenses of the Group for the Year amounted to approximately HK\$159,379,000, representing an increase of 14.1% year-on-year. The increase mainly arises from certain operating expenses of the idle capacity of GSIL's new magnesium production base of HK\$25,066,000 for upgrade of production facilities and workflow since it resumed production in first quarter of 2016. The technology upgrade and production optimisation was completed around November 2016, the

production capacity of Xinjiang production base is then released and production volume has reached 70% of the existing capacity.

Interest Expenses

The Group interest expenses amounted to approximately HK\$117,564,000, representing a year-on-year increase of approximately HK\$30,174,000 or 34.5%. The increase is mainly attributable to the issue of SGD listed bonds in June and August 2015, the year-on-year comparison only includes half-year interest. The earnings-to-interest ratio of the Group is around 5 times (2015: 6 times). It is expected that upon the gradual completion of construction of our Baishan magnesium plant Phase II and Jiangxi Tianrui fertilisers plant and commence production in 2017, the ratio will be improved.

Margin

Profit of the year amounted to HK\$313,052,000, representing a year-on-year decrease of 13.8%. Profit for the Year attributable to owners of the Company amounted to HK\$302,334,000, representing a year-on-year decrease of 3.9%. If excluding the effect from gain on bargain purchase in relation to the acquisition consideration made by GSIL during the prior year, profit of the year will only drop by approximately 6.4%, while profit attributable to owners of the Company will indeed slightly increase by approximately 0.9% year-on-year.

Final Dividend

As the Group is in the process of production capacity expansion, including the fertiliser project with the newly established production capacity of 1,400,000 tonnes in Jiangxi and the acquisition of the renowned compound fertiliser corporation Shandong Hongri, whose sales volume is expected to reach 700,000 tonnes in 2017, the annual capacity of the Group is expected to be about 3 times the existing in the future. Therefore, the Group treasures the investment opportunity with priority, and taking into account the capital expenditure and operating cash flow required for the above project expansion, the Board does not recommend the payment of the final dividend for the year ended 31 December 2016.

Liquidity, Liabilities and Financial Resources

The Group's liquidity in 2016 was mainly derived from cash generated from business operations and financing activities during the year. As at 31 December 2016, total amount of bank and cash balances of the Group was approximately HK\$932,785,000 (2015: HK\$1,452,515,000).

As at 31 December 2016, the Group's total borrowings increased by approximately 10.5% as compared to 2015, while net current assets decreased by approximately 15.3% as compared to 2015. The Group's gearing ratio (calculated by total borrowings over total assets) was approximately 29.4% in 2016 (2015: 25.7%).

The Group's existing cash resources together with the steady cash flows generated from business activities are sufficient to meet its business needs.

Pledge of Assets

As at 31 December 2016, the Group had pledge of its assets, details of which are disclosed in Note 32 to the financial statements.

Capital Commitments

As at 31 December 2016, other than those disclosed in Note 41(a) to the financial statements, the Group did not have any material capital commitments.

Contingent Liabilities

As at 31 December 2016, other than those disclosed in Note 47 to the financial statements, the Group did not have any significant contingent liabilities.

Capital Structure

As at 31 December 2016, the issued share capital of the Company were HK\$91,959,537, divided into 4,597,976,843 shares of HK\$0.02 each.

Significant Transactions

- (a) On 26 April 2016 (after trading hours), the Company, as issuer, Wan Tai Investments Limited, an indirectly and wholly-owned subsidiary of CCB International (Holdings) Limited, as investor, and Mr. Chi, as obligor, entered into a subscription agreement for the issuance of a fixed rate exchangeable bonds in the principal amount of HK\$232,000,000. Details of which, please refer to the relevant announcement on the HKEX and the company's website. The relevant exchangeable bonds were issued on 4 May 2016.

- (b) On 3 August 2016 (after trading hours), Long Xiang Enterprises Limited (a direct wholly-owned subsidiary of the Company, as the Purchaser), entered into an acquisition agreement with Prosperous Rich Holdings Limited (a company indirectly held by the Company's former executive director, Mr. Yang Yuchuan, as the Vendor) and Acronagrotrans Ltd (as the Target Company, which directly holds 50.5% interests in Shandong Hongri), pursuant to which, the Purchaser conditionally agreed to buy, and the Vendor conditionally agreed to sell the entire equity interest in the Target Company, at the cash consideration of US\$1 (equivalent to approximately HK\$7.76), which is payable in accordance with the terms and conditions thereto at Completion. Details of which, please refer to the relevant announcement and circular on the HKEX and the company's website made on 4 August 2016 and 27 September 2016 respectively.

Pursuant to the agreement of acquisition of 50.5% equity interest in Shandong Hongri, the Group agreed to procure financing from banks and financial institutions and/or shall provide any forms of guarantee or securities (upon request by such banks and financial institutions) in aggregate loan amount not exceeding RMB250,000,000 (equivalent to approximately HK\$292,500,000) to Shandong Hongri. Details are disclosed in the circular of the Company dated 27 September 2016.

The conditions precedent to the acquisition of Shandong Hongri have been fulfilled. Upon review and approval by the Board on 29 March 2017, the acquisition to be completed according to the terms and conditions of the acquisition agreement on 1 April 2017 and Shandong Hongri to be consolidated into the Group.

Key Risks and Uncertainties

Our Group's financial condition, results of operations, and business prospects may be affected by a number of risks and uncertainties directly or indirectly pertaining to our Group's businesses. The followings are the key risks and uncertainties identified by our Group. There may be other risks and uncertainties in addition to those shown below which are not known to our Group or which may not be material now but could turn out to be material in the future.

Market risks

Market risk is the risk that deteriorates profitability or affects ability to meet business objectives arising from the movement in market demand, product prices, foreign exchange rates, and interest rates. The management of our Group keeps continually monitoring these exposures closely to ensure appropriate measures are implemented on a timely and effective manner against such risks.

Exchange rate risk

The Group mainly operates in the People's Republic of China (the "PRC") and Hong Kong and is exposed to foreign exchange risk arising from primarily with respect to Renminbi, HK\$, Singapore dollars, US\$ and Australian dollars. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. The Group does not presently hedge the foreign exchange risks. The Group periodically reviews liquid assets and liabilities held in currencies other than HK\$ to evaluate its foreign exchange risk exposure and consider the usage of hedging instruments when necessary.

Interest rate risk

For interest-sensitive products and investments, our Group analyses its interest rate exposure on a dynamic basis and considers managing this risk in a cost-effective manner when appropriate, through variety of means.

Credit risk

The Group has always been aware of the credit risk exposure of our customers. The Group strictly followed the "client account management procedures" established in 2004. The procedures required and ensured that all clients were regularly assessed and be kept track of their transaction records and credit history. The Group specified and assigned to each customer, as according to their operation and credit status, a series of credit measures such as credit ratio, credit period, credit rating, credit terms and guarantee. The client account management procedures were effective to control the credit risk of the Group.

Liquidity risk

Liquidity risk is the potential that our Group will be unable to meet its obligations when they fall due because of an inability to obtain adequate funding or liquidate assets. In managing liquidity risk, our Group monitors cash flows and maintains an adequate level of cash and cash equivalent to ensure the ability to finance the Group's operations and reduce the effects of fluctuation in cash flows.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Responsibility for managing operational risks basically rests with functional departments of the Group and its subsidiaries. Key functions of the Group is to guide their standard operating procedures, limits of authority and reporting framework. Our management will assess key operational exposures and effect raised in business development regularly, implement relevant measures and improve the internal control so that risk can be responded and mitigated on a timely and effective manner.

Investment risk

Investment risk can be defined as the likelihood of extension of its return period relative to the expected return or occurrence of losses on any particular investment attributable to changes of external factors. The Group is well aware of importance of exploring various business opportunities and territories on a continual basis, and also implement as the top agenda of the year. Key concern of projects investment framework will be balancing risk and return across different investments, and thus risk assessment is a core aspect of the investment decision process. Proper investment assessment and due diligence procedures have been set up and detailed analysis will be made before approving investments. Regular updates on the progress of the investments of our Group would be submitted to the Board.

Manpower and retention risk

Manpower risk means huge demand for talents because of the Group's rapid business development while at the same time facing severe competition over specialists from the industry and turnover of manpower. Our Group may face the risk of not being able to recruit and retain key personnel and talents with appropriate and required skills, experience and competence to cope with the expansion of business which would meet the business objectives of our Group. Our Group will conduct a thorough analysis over its remuneration system, as well as incentive mechanism

and optimise the compensation structure so as to ensure remuneration packages can align reasonably with market standard and maintain its competitiveness. Meanwhile, recruitment channels are broadened and the talent pool of senior management are strengthened, so as to further enhance the promotion opportunities and career path of employees. Systematic staff training are also being further enhanced to increase the overall effectiveness of training and the dissemination of good corporate cultures.

Environmental Policies and Performance

Environmental policies and performance mainly means increasing attention of PRC government paid to environmental rules and policies and more strict regulatory requirements. As subsidiaries and newly acquired enterprises commenced into operation for a long while and lag behind certain environmental and duty requirements promulgated by PRC government. The Group monitors impact on business development closely raised from movements of environmental policy and external factors. Acting in an environmentally responsible manner and performing social responsibilities, the Group is committed to improving and maintaining the long term sustainability of the communities in which it operates. The Group endeavours to comply with laws and regulations regarding environmental protection and adopt effective measures to achieve efficient use of resources, energy saving and waste reduction. Green initiatives and measures have been adopted in daily operation of the Group. Such initiatives include recycling of resources, energy saving measures and water saving practices.

Compliance with Laws and Regulations

The Group's operations are mainly carried out by the Company's subsidiaries in mainland China while the Company is listed on the Stock Exchange. The Group's operations accordingly shall comply with relevant laws and regulations in mainland China and Hong Kong. During the year ended 31 December 2016 and up to the date of this report, to the best of our knowledge, the Group has complied with all the relevant laws and regulations in mainland China and Hong Kong, and there was no material breach of or non-compliance with the applicable laws and regulations, which results significant loss and negative impacts by the Group.

Relationship with Employees and Key Stakeholders

The number of employees of the Group was approximately 2,610 (2015: 2,430) as at 31 December 2016. The remuneration of employees was determined by the Group with reference to their performance, work experience and current market conditions. Employee benefits include medical insurance, defined provident fund scheme,

discretionary bonus and employee share option scheme. There has been no labour dispute or significant change in the number of employees that affect the normal operations of the Group. The Directors believe that the Group maintains admirable relations with its employees.

Our Group understands that it is important to maintain good relationship with business partners, shareholders, investors and banks to achieve its long-term goals. To keep up with our key stakeholders closely, the Group has formulated corresponding scheme about investor relationship, and also holds tailored activities from time to time, such as annual/extraordinary general meetings, on-site visits, seminars and road-shows. Accordingly, our senior management have kept good communication, promptly exchanged ideas and shared business latest update about development of the Group with them when appropriate. During the Year, there was no material dispute between our Group and its business partners or banks.

Project Overview

Dolomite Mine

The Group's dolomite mine is situated in Baishan City, Jilin Province, the PRC. The mine is operated by openpit method, and therefore no additional exploration works are involved or required. Only simple infrastructure works for open-pit mining are involved in the development activities, and no underground drilling or structural works are involved. The dolomite mined is raw material for producing magnesium products of the Group. The transportation cost for raw material is relatively low due to the close proximity of the mine to the production base of the Group.

The dolomite mine of the Group was reported under the Chinese resource/reserve categories. As at 31 December 2016, the anticipated resource and reserve volumes were determined based on the yearly reduction of quantity mined to calculate the remaining resource and reserve volumes. There is no material change in the assumptions of estimation by the Group as compared with those previously disclosed. The resource and reserve volumes was reviewed by the Group's internal geological experts. For the year ended 31 December 2016, the Group completed a dolomite output of 448,449 tonnes (2015: 380,227 tonnes). As compared with the state as at 31 December 2015, there was no material change in the resource estimate and ore reserve of the dolomite mine.

During 2016, the expenditures incurred in mining activities were mainly for direct wages, materials, energy, transportation, depreciation and amortisation, etc. Such expenditures have been included in cost of sales and charged to the consolidated statement of profit or loss and other comprehensive income for 2016.

The expenditure incurred in mining activities of dolomite for the year ended 31 December 2016 were approximately HK\$17,486,000 while the expenditure incurred in exploration and development activities was HK\$ Nil.

Serpentine Mine

The Group's serpentine mine is situated in Donghai County, Jiangsu Province, the PRC. The mine is operated by open-pit method, and therefore no additional exploration works are involved or required. Only simple infrastructure works for open-pit mining are involved in the development activities, and no underground drilling or structural works are involved. The serpentine mined is sold directly as metallurgical flux for iron and steel smelting and is raw material for producing silicon magnesium fertilisers of the Group. The transportation cost for raw material is relatively low due to the close proximity of the mine to the production base of the Group.

The resource/reserve of the Serpentine Mine was reported under the JORC system when it was acquired in 2010. As at 31 December 2016, the anticipated resource and reserve volumes were determined based on the volume at the time of acquisition with the yearly reduction of quantity mined to calculate the remaining resource and reserve volumes. There is no material change in the assumptions of estimation by the Group as compared with those previously disclosed. The resource and reserve volumes was reviewed by the Group's internal geological experts. For the year ended 31 December 2016, the Group completed a serpentine output of 488,644 tonnes (2015: 574,303 tonnes). As compared with the state as at 31 December 2015, there was no material change in the resource estimate and ore reserve of the serpentine mine.

The expenditures incurred for 2016 in development activities were mainly for construction of road, drainage system, greening and installation of main equipment. Such expenditures have been capitalised and included in the consolidated statement of financial position for 2016. The expenditures incurred in mining activities were mainly for direct wages, materials, energy, transportation, depreciation and amortisation, etc. Such expenditures have been included in cost of sales and charged to the consolidated statement of profit or loss and other comprehensive income for 2016.

The expenditures incurred in development and mining activities of serpentine for the year ended 31 December 2016 were approximately HK\$7,282,000 and HK\$27,970,000 respectively while the expenditures incurred in exploration were HK\$ Nil.

For the six months ended 30 June 2017

Business Review

In the first half of 2017, the global economy was still unstable, emerging economies rebounded slowly and disputes between developed economies were intensified. The trade momentum with major economies resumed, U.S. Federal Reserve raised interest rates twice. Japanese economy continued to recover while the volatility in regional financial market was reflected by the European markets were disrupted by the French and British elections. The Chinese economy was stable with moderate GDP growth, and industrial structure underwent gradual adjustment and the share of the secondary sector declined. Despite both domestic and international challenges, Century Sunshine Group Holdings Limited (“Century Sunshine” or the “Company”, together with its subsidiaries, the “Group”) overcome the difficult situation and continued with its business expansion. In April 2017, Shandong Hongri Chemical Joint Stock Company, Ltd. (“Shandong Hongri”), a well-known compound fertiliser enterprise in China, was formally integrated into the Group, bringing along a significant increase in sales volume, revenue and market share in fertiliser business.

For the six months ended 30 June 2017 (the “Period”), the Group recorded an increase in revenue by 23.1% to HK\$1,522,185,000 (2016: HK\$1,236,142,000), with gross profit margin recorded at 24.5% (2016: 30.0%). Revenue from the magnesium product business for the Period was HK\$503,035,000 (2016: HK\$424,385,000), representing a year-on-year increase of 18.5%, and accounted for 33.0% of the total revenue of the Group (2016: 34.3%); revenue from the fertiliser business for the Period amounted to HK\$855,064,000 (2016: HK\$681,960,000), representing an increase of 25.4% year-on-year, and accounted for 56.2% (2016: 55.2%) of the Group’s total revenue. During the Period, the Group recorded a slight decrease in the gross profit margin mainly due to the fluctuated commodity price, the depreciation of RMB and the change of product structure. Nevertheless, the Group delivered stable business performance with a rapid growth in fertiliser production capacity and an improvement in the magnesium business. The Group’s strategy of products differentiation is the primary driver for the Group’s overall development.

Fertiliser Business

With more than 10 years of experience in research and development, manufacturing and sales of ecological agricultural fertilisers, the Group has established and held several well-known brands, including “Le He He (樂呵呵)”, “Feng Shou (豐收)”, “Zhan Lan (湛藍)”, “Yanyangtian (艷陽天)” and “Dongfanghong (東方紅)”. Compound fertilisers and organic fertilisers are the two major categories amongst products. During the Period, the fertiliser business contributed approximately HK\$855,064,000 to the Group’s revenue (2016: approximately HK\$681,960,000), with an average gross profit margin of approximately 23.0% (2016: 27.6%). Sales volume recorded a significant increase of 28.9% to 414,841 tonnes (2016: 321,847 tonnes). In particular, with the merger of Shandong Hongri into the Group in April 2017, the sales volume from Shandong Hongri amounted to approximately 97,250 tonnes and revenue reached HK\$197,040,000, lifting the overall performance of the segment.

Currently, the three production bases of the Group locate at Jiangsu, Jiangxi and Shandong respectively, with strong national brand recognition in the compound and organic fertilisers. In order to capture the opportunities brought along by national policies, the Group has been focusing on fully releasing production capacity to take up market share and accelerate market penetration during the Period. The Jiangxi production base is under construction. The phase one construction is expected to be completed in the third quarter of 2017, with an annual production capacity of 550,000 tonnes; while the remaining production capacity of 850,000 tonnes is expected to be in place in 2019. Upon the completion of the entire project of 1,400,000 tonne production lines, the Group will assume a leading position in the compound fertiliser industry, with an annual fertiliser production capacity of over 3,000,000 tonnes.

With a long operating history, the Group’s production bases in Jiangsu and Shandong have a well-established sales network covering the northern, central and southern provinces except Tibet. Upon launching the products from the newly-built production bases in Jiangxi into the market, the Group will enrich its portfolio of organic fertiliser and further improve the supply chain of overall fertiliser products. The southern part of the country which is remote from the other two production bases in Jiangsu and Shandong will be then well covered. At the same time, the new fertiliser products from Jiangxi will fill the market gap in northern and central regions, now served by the other two production bases. With the release of additional production capacity and strong brand recognition, the sales volume is expected to rise significantly and this will become a sustainable driving force for the Group.

Shandong Hongri has been established for more than 50 years. It owns several patented technologies such as “Method of low temperature conversion of potassium sulfate by potassium chloride”. As the pioneer of China’s domestic production of potassium sulfate compound fertiliser, Shandong Hongri is recognised as the leading enterprise in China’s potassium sulfate compound fertiliser technology. Being the inventor of sulphurbased compound fertiliser, Shandong Hongri is well-known as the “father of sulphur-based compound fertiliser” of China. It is the first chemical enterprise in China to be named as the “Top Ten Outstanding Aftersales Service Provider of National Famous Brands” (全國名優產品售後服務行業十佳單位) and the first Statedlevel “National Chemistry Agricultural Services Centre” (全國化工農化服務中心) in Shandong Province, as well as the recognized provincial “Enterprise Development Centre” (企業開發中心) in Shandong Province. In 2016, it was honoured as one of the Top 500 Chemical Enterprises of China and one of the Top 100 Chemical Fertiliser Enterprises in China. Its brand “Yanyangtian” (豔陽天) is prominent and very reputable, and was rewarded the title “China’s brand” (中國名牌) and “China’s Reputable Trademark” (中國馳名商標), and being selected as “2016 Top 50 Brands of Farmer’s Most Trusted Fertilisers” (2016農民信賴的肥料品牌五十強). As the leading brand of sulphur compound fertiliser, Shandong Hongri is popular among the consumers. The consolidation of Shandong Hongri into the Group not only doubles our production capacity, but also enhances the reputation of the Group in the market.

Benefiting from the favourable national policies on agriculture and organic fertiliser, the utilisation rate of both organic and compound fertilisers is on the rise in China, while the utilisation rate of single chemical fertiliser gradually decreases. This speeds up the pace of green agriculture. According to the “Action Plan to Reduce the Use of Chemical Fertiliser to Zero-growth by 2020” (《到2020年化肥施用量零增長行動方案》) and the “Proposal on Substitution of Chemical Fertiliser with Organic Fertiliser Used on Fruit, Vegetables and Tea” (《開展果菜茶有機肥替代化肥行動方案》) issued by Ministry of Agriculture of People’s Republic of China in 2015 and 2017 respectively, it is expected to reduce the chemical fertilisers use by over 20% in key growing areas for fruit, vegetables and tea; and by over 50% in core agricultural areas and production bases for well-known brands by 2020. The Ministry of Agriculture announced a subsidy of RMB1 billion in 2017 to replace chemical fertilisers with organic alternatives in 100 counties (cities) in order to promote organic fertilisers and cut down the use of chemical fertiliser. The Group believes that, with the national policies to promote the reduction of single chemical fertilisers, the application of compound and organic fertilisers will be a trend. This further benefits the Group’s development. Adhering to the principle of “soil testing and prescribed fertilisation” for decades, the Group has built a green and ecologically

sustainable business, in line with the direction of the national policies. The business opportunities for us are immense. As a leader of ecological fertiliser, the Group is steadfast to seize greater market share of compound fertilisers and organic fertilisers.

Magnesium Product Business

The magnesium products of the Group are broadly classified as basic magnesium products and rare earth magnesium alloys. The magnesium product business contributed a revenue of HK\$503,035,000 (2016: HK\$424,385,000) to the Group for the Period. During the Period, sales volume reached 22,238 tonnes (2016: 16,013 tonnes), while the overall sales volume of magnesium product increased 38.9% year-on-year, mainly due to the significant growth in sales volume of magnesium products from the Xinjiang production base. Since the sale increment is mainly from Xinjiang production base which principally sells basic magnesium product, the average selling price of magnesium business was diluted by 12.4% year-on-year, while the sales volume of high-end rare earth magnesium alloy product reached 6,011 tonnes which is compatible to that of last year. This shows that the Group can effectively expand the production capacity of magnesium products while keeping high-end rare earth magnesium product business intact.

The Group holds a rich and high-quality reserve of dolomite mineral resource in Baishan City, Jilin Province, and has constructed the basic magnesium and magnesium alloy production base with advanced technology. With an array of patents in high performance magnesium alloy, the Group has achieved a seamless integration of the supply of raw material and production capacity. This, together with our patented technologies, provides a very favorable condition and strong driving force for the development of magnesium business.

Group Sense (international) Limited (“GSIL”, stock code: 601), a subsidiary of the Company, owns a magnesium production base in Xinjiang, the PRC (the “Xinjiang Base”). The Xinjiang Base continued to contribute to the financial results of the Group’s magnesium product business during the Period. The government approved production capacity of the Xinjiang Base is 100,000 tonnes of magnesium alloy, of which production facilities of 15,000 tonnes have been built and utilised for the existing productions. Additional capacity of 30,000 tonnes is currently under construction and expected to be gradually released in 2018. It is expected that the overall production capacity of the Group’s magnesium product business will reach 170,000 tonnes upon completion of the expansion project in the Xinjiang Base, positioning the Group as one of the leaders in the magnesium industry.

Magnesium alloy is considered to be the green, lightweight, structural material with a great potential. It is significant to green products development and design. With continuous technological advancement, magnesium products have been widely used in fields like transportation, communications, military, aviation, aeronautics, construction and healthcare. Because of the rapid growth of downstream demand, magnesium alloy industry will become more and more important in China. With a rich reserve of magnesium resource, China is ranked the first in the world in terms of production volume and export volume for magnesium, indicating the enormous growth potential of the business. With extensive industry experience, patented technologies and planned expansion of capacity, the Group is well-positioned to capture the development opportunities and strive for advancement.

On 18 April 2017, the Group has announced a non-legally binding memorandum of understanding between the Group and GSIL regarding a possible disposal of Century Sunshine's interests in its magnesium business held by China Race Earth Magnesium Technology Holdings Limited to GSIL. The possible transaction will then transfer Century Sunshine's interests in the magnesium business to GSIL. Century Sunshine shall make an announcement(s), as appropriate, in the event when any material development and/or that a definitive legally binding agreement is entered into.

Other Businesses

Other businesses of the Group include metallurgical flux and electronic products. The Group owns quality serpentine reserves which is not only a key raw material to produce Si-Mg fertilisers, but is also an indispensable source of auxiliary material for iron and steel smelting. The Group also sells serpentine to major domestic steel enterprises to generate a stable income, after the requirement for the production of Si-Mg fertilisers is fulfilled.

Prospect

The Chinese economy is held steady with some positive signals in the first half of 2017. The Group forecasts that, with central government's focus on maintaining stability, the Chinese economy will grow moderately in the second half. The structural reform is expected to accelerate. Industrial and the manufacturing sector are to remain stable while low-end products may come under pressure. Afterall, the Group believes that its product differentiation strategy will help the Group stand out in the market.

The central government continues to promote the policies on modernisation of agriculture and application of new material. As set out in the “Guidance on Prompting the Restructuring and Development of Fertiliser Industry (推進化肥行業轉型發展的指導意見)” issued by the Ministry of Industry and Information Technology (MIIT), the utilisation of the new type of fertiliser in China will increase from less than 10% at present to 30% by 2020, creating a massive market space for new ecological fertilisers of the Group. Meanwhile, the “Development Plan of the Nonferrous Metal Industry (2016-2020) (有色金屬工業發展規劃 (2016-2020年))” (the “Nonferrous Metal 13th Five Year Plan”), “Made in China 2025” and “Belt and Road” initiatives issued by the MIIT will open up potential demands and development in nonferrous metal market. In particular, under the Nonferrous Metal 13th Five Year Plan, magnesium is listed as one of the top five metals with the highest compound annual growth rate of 7.1% based on the 2020 key nonferrous metal consumption and production forecast. The production volume of magnesium is expected to reach 1,300,000 tonnes by 2020. The initiative encourages and supports the extensive application of nonferrous metals, including the magnesium, leveraging on technologies as driving forces to speed up the industry transformation and upgrading for further development.

The Group believes that, with the gradual implementation of the national industrial policies, along with a better understanding on our new fertilisers and new magnesium alloy, demand of our products will continue to grow and help driving the business of the Group. As such, the Group will continue with product differentiation strategy and to enhance our production capacity to become a leader in both industries. The Group will also research into more high end, high value-added products to cope with demands. We will strive a more promising return for our shareholders.

Key Operational Data

Unaudited key operational data for the six months ended 30 June 2017, together with the comparative figures for the corresponding period in 2016, are as follows. Main businesses listed below contributed over 89% of the Group’s total turnover for the Period.

(a) Sales volume of major products:

	2017	2016	Increase
	<i>Tonnes</i>	<i>Tonnes</i>	<i>%</i>
Fertiliser business	414,841	321,847	28.9
Magnesium product business	<u>22,238</u>	<u>16,013</u>	<u>38.9</u>

APPENDIX I FINANCIAL INFORMATION OF THE GROUP

(b) Average selling price of major products:

	2017 <i>HK\$/Tonne</i>	2016 <i>HK\$/Tonne</i>	Decrease %
Fertiliser business	2,061	2,119	(2.7)
Magnesium product business	<u>22,349</u>	<u>25,510</u>	<u>(12.4)</u>

(c) Gross profit margin:

	2017 %	2016 %	Decrease Percentage points
Fertiliser business	23.0	27.6	(4.6)
Magnesium product business	25.0	30.7	(5.7)
The Group's overall gross profit margin	<u>24.5</u>	<u>30.0</u>	<u>(5.5)</u>

Financial Review

Operating income and gross profit

The Group recorded a revenue of approximately HK\$1,522,185,000 for the Period, representing a year-on-year growth of 23.1%. The revenue from two of the major businesses of the Group, namely fertiliser business and magnesium business, increased by 25.4% and 18.5% respectively.

The revenue of the fertiliser business for the Period was approximately HK\$855,064,000 with a sales volume of 414,841 tonnes, representing a year-on-year growth of 25.4% and 28.9% respectively. Shandong Hongri, the well-known compound fertiliser enterprise in China, was formally integrated into the Group since 1 April, 2017, bringing a significant increase in both sales volume and revenue to the Group. Shandong Hongri contributed a sales volume of approximately 97,250 tonnes and a revenue of approximately HK\$197,040,000 for the Group during the Period. Revenue generated from Jiangsu production decreased by approximately 4% year-on-year, due to the production volume from Jiangsu was affected by the technical test on new products, occupying one of the

production lines of the Group in Jiangsu during the Period, as well as the year-on-year depreciation of RMB by approximately 5%. With the lower gross profit of compound fertiliser compared to that of organic fertiliser and silicon magnesium fertiliser, the overall gross profit margin of fertilisers of the Group decreased by approximately 4.6 percentage points to 23.0%, due to the product structure influenced by the soaring sales volume of compound fertiliser resulted from the integration of Shandong Hongri into the Group.

The revenue and sales volume of the magnesium business were approximately HK\$503,035,000 and 22,238 tonnes for the Period, representing respective year-on-year growth of approximately 18.5% and 38.9%. The uplifted sales volume was mainly attributable to the increase of sales volume in basic magnesium products, including a year-on-year growth of the sales volume of approximately 4,560 tonnes of magnesium ingot from GSIL's production base in Xinjiang. Besides, the commencement of the magnesium products trading business of the Group also led to additional sales volume. As the product structure of magnesium business was modified by the increased sales volume of basic magnesium products, the overall gross profit margin dropped by approximately 5.7 percentage points. The sales volume and gross profit of rare earth magnesium alloy products of the Group was similar to that of the corresponding period last year.

Other gain or loss, net

Other gain or loss, net was approximately HK\$32,396,000, representing a year-on-year decline of approximately 4.8%, mainly comprised of interest income of approximately HK\$6,829,000 (2016: HK\$12,827,000) and sales of wastes of approximately HK\$4,479,000 (2016: HK\$7,898,000).

Administrative expense

The administrative expense for the Period was approximately HK\$81,834,000, representing a year-on-year growth of approximately 11.9%. The increment of administrative expense was mainly due to the merge of Shandong Hongri. The fees were mainly comprised of remuneration of employees, depreciation and amortization, audit and professional fees for project acquisition, research and development and leases.

Finance cost

Finance cost was approximately HK\$69,593,000, representing a year-on-year growth of approximately 16.9%. In June 2017, the Group reformed the composition of our Singapore listed subordinated notes through the issue of new 7.0% subordinated notes with face value of SGD101.75 million and the redemption of old 7.2% subordinated notes with the face value of SGD125 million due in June 2018 (of which the holders of old subordinated notes

with face value of SGD38.25 million opted for an exchange of new notes with old notes). As a result, the short-term debt of the Group has been improved. The relevant interests increased by approximately HK\$7,000,000 year-on-year due to an approximately 1-month overlapping period of the old and new notes, and the acceleration of amortization of actual interests by the early redemption of old notes. Besides, the formal merge of Shandong Hongri into the Group in April 2017 generated an interest of approximately HK\$4,300,000.

Margin

For the six months ended 30 June 2017, the profit after tax of the Group was approximately HK\$129,695,000, representing a year-on-year growth of approximately 0.9%. In order to enhance our revenue and the overall profit, the Group strived to maintain the sales of products with high gross profit, and develop market shares for products with low gross profit.

Liquidity, liabilities and financial resources

The Group's liquidity was mainly derived from cash generated from operating activities. As at 30 June 2017, total amount of cash and bank balances of the Group was approximately HK\$902,799,000 (as at 31 December 2016: approximately HK\$932,785,000).

As at 30 June 2017, the Group's total borrowings increased by approximately 18.2% as compared to that as at 31 December 2016. The Group's gearing ratio (calculated by total borrowings over total assets) was approximately 27.7% as at 30 June 2017 (as at 31 December 2016: 29.4%).

The Group's existing cash resources together with the steady cash flows generated from operating activities are sufficient to meet its business needs.

Exchange Rate Risk Management

The Group mainly operates in the People's Republic of China (the "PRC") and Hong Kong and is exposed to foreign exchange risk primarily with respect to HK\$, Renminbi, US\$, Singapore dollars and Australian dollars. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. The Group does not presently hedge the foreign exchange risks. The Group will periodically review liquid assets and liabilities held in currencies other than HK\$ to evaluate its foreign exchange risk exposure and consider the usage of hedging instruments when necessary.

Pledge of Assets

As at 30 June 2017, the Group had pledged its property, plant and equipment, land use rights and deposits with banks with carrying amount of approximately HK\$393,699,000, HK\$182,371,000 and HK\$179,985,000 respectively (as at 31 December 2016: approximately HK\$163,650,000, HK\$103,855,000 and HK\$56,703,000 respectively) to secure borrowings.

Significant transactions

- (i) On 3 August 2016 (after trading hours), Long Xiang Enterprises Limited (a direct wholly-owned subsidiary of the Company, as the Purchaser), entered into an acquisition agreement with Prosperous Rich Holdings Limited (a company indirectly held by the Company's former executive director, Mr. Yang Yuchuan, as the Vendor) and Acronagrotrans Ltd (as the Target Company, which directly holds 50.5% interests in Shandong Hongri), pursuant to which, the Purchaser conditionally agreed to buy, and the Vendor conditionally agreed to sell the entire equity interest in the Target Company, at the cash consideration of US\$1 (equivalent to approximately HK\$7.76), which is payable in accordance with the terms and conditions thereto at Completion. Details of which, please refer to the relevant announcement on the HKEX and the company's website made on 4 August 2016.

The transaction was completed and Shandong Hongri was consolidated into the Group with effect from 1 April 2017.

- (ii) On 5 June 2017, the Company issued 7.0% subordinated notes with the face value of SGD101.75 million (under the Multicurrency Medium Term Note Programme). The notes are listed on the Singapore Stock Exchange and will mature on 3 July 2020.

On the same date, the Company redeemed the face value of SGD38.25 million the 7.2% subordinated notes issued in 2015 by exchange for the new 7.0% subordinated notes. The remaining subordinated notes issued in 2015 of the face value of SGD86.75 million were fully redeemed on 30 June 2017.

Contingent liabilities

As at 30 June 2017, the Company did not have any significant contingent liabilities.

Capital Structure

As at 30 June 2017 and 31 December 2016, the issued share capital of the Company were HK\$91,959,537, divided into 4,597,976,843 shares of HK\$0.02 each.

Human resources

The number of employees of the Group was approximately 4,580 as at 30 June 2017 (as at 31 December 2016: 2,610). The remuneration of employees was determined by the Group with reference to their performance, work experience and current market conditions. Employee benefits include medical insurance, defined contribution retirement plans, discretionary bonus and employee share option scheme. There has been no labour dispute or significant change in the number of employees that affect the normal operations of the Group. The Directors believe that the Group maintains admirable relations with its employees.

*Project Overview**Dolomite Mine*

The Group's dolomite mine is situated in Baishan City, Jilin Province, the PRC. The mine is operated by openpit method, and therefore no additional exploration works are involved or required. Only simple infrastructure works for open-pit mining are involved in the development activities, and no underground drilling or structural works are involved. The dolomite mined is the raw material for producing magnesium products of the Group. The transportation cost for the raw material is relatively low due to the close proximity of the mine to the production base of the Group.

As disclosed in the 2010 annual report of the Company, the dolomite mine of the Group was reported under the Chinese resource/reserve categories. As at 30 June 2017, the anticipated resource and reserve volumes were determined based on the yearly reduction of quantity mined to calculate the remaining resource and reserve volumes. There is no material change in the assumptions of estimation by the Group as compared with those previously disclosed. The resource and reserve volumes was reviewed by the Group's internal geological experts. For the six months ended 30 June 2017, the Group completed a dolomite output of 252,686 tonnes (2016: 250,190 tonnes). As compared with the status as at 31 December 2016, there was no material change in the resource estimate and ore reserve of the dolomite mine.

For the six months ended 30 June 2017, the expenditures incurred in mining activities were mainly for direct wages, materials, energy, transportation, depreciation and amortisation, etc. Such expenditures have been included in cost of sales and charged to the unaudited condensed consolidated statement of profit or loss and other comprehensive income.

The expenditure incurred in mining activities of the dolomite mine for the six months ended 30 June 2017 were approximately HK\$8,998,000 while the expenditure incurred in exploration and development was HK\$Nil.

Serpentine Mine

The Group's serpentine mine is situated in Donghai County, Jiangsu Province, the PRC. The mine is operated by open-pit method, and therefore no additional exploration works are involved or required. Only simple infrastructure works for open-pit mining are involved in the development activities, and no underground drilling or structural works are involved. The serpentine mined is sold directly as metallurgical flux for iron and steel smelting and is the raw material for producing silicon magnesium fertilisers of the Group. The transportation cost for the raw material is relatively low due to the close proximity of the mine to the production base of the Group.

As disclosed in the 2010 annual report of the Company, the resource/reserve of the Serpentine Mine was reported under the JORC system when it was acquired in 2010. As at 30 June 2017, the anticipated resource and reserve volumes were determined based on the volume at the time of acquisition with the yearly reduction of quantity mined to calculate the remaining resource and reserve volumes. There is no material change in the assumptions of estimation by the Group as compared with those previously disclosed. The resource and reserve volumes was reviewed by the Group's internal geological experts. For the six months ended 30 June 2017, the Group completed a serpentine output of 290,857 tonnes (2016: 258,845 tonnes). As compared with the status as at 31 December 2016, there was no material change in the resource estimate and ore reserve of the serpentine mine.

The expenditures incurred for the six months ended 30 June 2017 in development activities were mainly for the construction of road, drainage system, greening and installation of equipment. Such expenditures have been capitalised and included in the unaudited condensed consolidated statement of financial position. The expenditures incurred in mining activities were mainly for direct wages, materials, energy, transportation, depreciation and amortisation, etc. Such expenditures have been included in cost of sales and charged to the unaudited condensed consolidated statement of profit or loss and other comprehensive income.

The expenditure incurred in mining production activities of serpentine for the six months ended 30 June 2017 was approximately HK\$14,463,000 while the expenditure incurred in exploration and development was HK\$Nil.

5. SUPPLEMENTAL INFORMATION ON THE MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP

The following is the supplemental information on the management discussion and analysis of the Group for the three years ended 31 December 2014, 2015 and 2016 and for the six months ended 30 June 2017.

Capital Structure

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The Group monitors capital on the basis of the gearing ratio. During the year ended 31 December 2014, 2015 and 2016 and the six months ended 30 June 2017, the Group's strategy is to maintain a gearing ratio within 50%. The management of the Group reviews the capital structure periodically.

The Group's loans and cash and cash equivalents were mainly denominated in RMB, HK\$, US\$ and SGD. The Group's debts comprised of debts with fixed rate of interest and floating interest. As at 31 December 2014, 2015 and 2016 and 30 June 2017, the Group's debts with fixed interest rate were approximately HK\$294,880,000, HK\$868,995,000, HK\$867,183,000 and HK\$751,719,000 respectively.

6. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

Following completion of the Reorganisation, the business of the CS Group and GS Group will be clearly delineated. The CS Group will focus on its fertiliser business and metallurgical flux business while the Company will remain as the Controlling Shareholder of Group Sense, which will specialise in magnesium operations in addition to the electronic products business.

(i) CS Group***Fertiliser business***

As disclosed in the annual report of the Company for the year ended 31 December 2016, it is the Group's business direction to enhance the presence and market penetration of the ecological fertilisers of the Group as well as its business scale in fertiliser business.

The Group has been focusing on fully releasing production capacity to take up market share and accelerate market penetration. The Directors believes that, with the existing annual capacity of 850,000 tonnes at its production base in Jiangsu Province and the gradual release of the expected annual capacity of 1,400,000 tonnes at the production base in Jiangxi Province, along with the official incorporation of Shandong Hongri, a leading brand of sulphur compound fertilizer into the Group, the fertiliser production capacity of the Group will be increased by at least three-fold in 2019 with extended market coverage in the Northern, Central and Southern China and further enhance the core competitive advantages of the Group.

The development of the Group's fertiliser business will continue to align with and benefit from the national agricultural policies direction. Pursuant to the "Guidance on Promoting the Restructuring and Development of Fertiliser Industry (推進化肥行業轉型發展的指導意見)" issued by the Ministry of Industry and Information Technology (MIIT), the utilisation of the new type of fertilisers in China will increase from less than 10% at present to 30% by 2020. Against the backdrop of the continuous agricultural modernization and encouragement of eco-friendly agriculture supported by the PRC government, the environment-friendly ecological fertiliser shall become the dominant development trend of the fertiliser industry, reinforcing the CS Group to become one of the leading market players in the industry.

Metallurgical flux business

The Group owns quality serpentine reserves which is not only a key raw material to produce Si-Mg fertilisers, but is also an indispensable source of auxiliary material for iron and steel smelting. The Group will continue to sell serpentine to major domestic steel enterprises after the requirement for its production of Si-Mg fertilisers is fulfilled in order to generate a stable income for its metallurgical flux business.

(ii) GS Group

Set out below is the reproduction of the text contained in the section headed “FINANCIAL AND TRADING PROSPECTS OF THE GROUP” contained in the GS Circular.

Magnesium business

The Enlarged Group’s magnesium operations will operate through both Xinjiang Tengxiang and Baishan Tianan upon completion of the Transactions.

The Enlarged Group plans to invest by stages in Xinjiang Tengxiang to eventually construct a production plant that is capable of the entire government approved 100,000-tonne production capacity. Xinjiang Tengxiang has in mid-2017 commenced construction of its magnesium production line with a newly added capacity of 30,000 tonnes, including magnesium alloy production in mid-2017. It is expected that the utilisation of the expected production capacity will be achieved gradually in 2018. Subject to the completion of the first phase of the newly added production line, the total production capacity of the Xinjiang base will reach 45,000 tonnes (including its existing capacity of 15,000 tonnes).

Baishan Tianan is one of the leading magnesium alloys producers in the PRC. It has planned production capacity of 75,000 tonnes, proven technical and production expertise as well as strong customer base and distribution network in the north-eastern region of the PRC. The acquisition of the CRE Group presents a good opportunity for the Enlarged Group to develop a flagship platform conducting magnesium business, which will allow expansion of the scale of the Enlarged Group’s operations as it strives to achieve combined production capacity of 175,000 tonnes.

By consolidating the operations under the Enlarged Group, together with the rich industry experience of the Group management, the Enlarged Group expects to enjoy over time the benefits of synergies of the CRE Group and Xinjiang Tengxiang in terms of product range, research and development capabilities as well as by sharing customer base and sales network to further strengthen the market coverage and penetration of the magnesium business.

Electronic product business

The electronic product business of the Enlarged Group comprises manufacturing business unit, strategic products strategic business unit and personal communications products strategic business unit. The Group will continue with product differentiation strategy with a view to develop new customers and effectively manage the cost and optimize the operating performance of electronic product business.

As at the Latest Practicable Date, the Directors confirm that, other than the Reorganisation, the Company has no plan to downsize, cease, sell and/or dispose any of its existing businesses.

The following is the text of a report received from the reporting accountants, HLB Hodgson Impey Cheng Limited, Certified Public Accountants, Hong Kong, prepared for the purpose of incorporation in this circular.



國衛會計師事務所有限公司
Hodgson Impey Cheng Limited

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

27 October 2017

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF CENTURY SUNSHINE GROUP HOLDINGS LIMITED

Introduction

We report on the historical financial information of Fullocean Group Limited (the “**Target Company**”) and its subsidiaries (together, the “**Target Group**”) set out on pages II-5 to II-48, which comprises the consolidated statements of financial position as at 31 December 2014, 2015, 2016 and 30 June 2017, and the consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the years ended 31 December 2014, 2015 and 2016 and the six months ended 30 June 2017 (the “**Relevant Periods**”) and a summary of significant accounting policies and other explanatory information (together, the “**Historical Financial Information**”). The Historical Financial Information set out on pages II-5 to II-48 forms an integral part of this report, which has been prepared for inclusion in the circular of the Company dated 27 October 2017 (the “**Circular**”) in connection with the proposed plan of reorganisation involving direct and indirect shareholdings in China Rare Earth Magnesium Technology Holdings Limited (the “**Proposed Reorganisation**”).

Directors' responsibilities for the Historical Financial Information

The directors of the Target Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibilities

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 “Accountants’ Reports on Historical Financial Information in Investment Circulars” issued by the Hong Kong Institute of Certificated Public Accountants (“**HKICPA**”). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants’ judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity’s preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical 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, the Historical Financial Information gives, for the purposes of the accountants’ report, a true and fair view of the Target Group’s financial position as at 31 December 2014, 2015, 2016 and 30 June 2017 and of the Target Group’s financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Target Group which comprises consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six months ended 30 June 2016 and other explanatory information (the “**Stub Period Comparative Financial Information**”). The directors of the Target Company are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountants’ report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information no adjustments to the Underlying Financial Statements as defined on pages II-14 have been made.

Dividends

We refer to Note 27 to the Historical Financial Information which contains information about the dividends paid by the Target Group in respect of the Relevant Periods.

No historical financial statements for the Target Company

No financial statements have been prepared for the Target Company since its date of incorporation.

HLB Hodgson Impey Cheng Limited

Certified Public Accountants

Wong Sze Wai, Basilia

Practicing Certificate Number: P05806

Hong Kong, 27 October 2017

HISTORICAL FINANCIAL INFORMATION OF THE TARGET GROUP

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The financial statements of the Target Group for the Relevant Periods, on which the Historical Financial Information is based, have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA.

The Historical Financial Information is presented in Hong Kong dollars ("HK\$") and all values are rounded to the nearest thousand ("HK\$'000") except when otherwise indicated.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended 31 December 2014	Year ended 31 December 2015	Year ended 31 December 2016	6 months ended 30 June 2016	6 months ended 30 June 2017
	Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (unaudited)	HK\$'000
Revenue	8	668,050	740,296	739,596	355,602	373,499
Cost of sales		(453,715)	(486,857)	(491,633)	(231,812)	(254,170)
Gross profit		214,335	253,439	247,963	123,790	119,329
Other gains or losses, net	9	24,347	23,937	30,261	17,292	17,110
Selling and marketing costs		(12,624)	(11,303)	(12,427)	(2,903)	(3,375)
Administrative expenses		(12,331)	(14,847)	(10,839)	(8,084)	(7,434)
Finance costs	10	(9,821)	(10,871)	(8,484)	(4,091)	(4,357)
Profit before income tax	12	203,906	240,355	246,474	126,004	121,273
Income tax expense	11	(48,859)	(57,469)	(56,867)	(32,113)	(31,912)
Profit for the year/period		155,047	182,886	189,607	93,891	89,361
Other comprehensive (loss)/ income for the year/period, net of income tax:						
Exchange difference arising from translation of foreign operations		(20,484)	(57,544)	(91,100)	(30,909)	37,563
Total comprehensive income for the year/period		134,563	125,342	98,507	62,982	126,924

APPENDIX II**ACCOUNTANTS' REPORT OF THE TARGET GROUP**

	Year ended 31 December 2014	Year ended 31 December 2015	Year ended 31 December 2016	6 months ended 30 June 2016 <i>(unaudited)</i>	6 months ended 30 June 2017
<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the year/period attributable to:					
Owners of the Company	100,765	118,858	123,221	61,019	58,076
Non-controlling interests	<u>54,282</u>	<u>64,028</u>	<u>66,386</u>	<u>32,872</u>	<u>31,285</u>
	<u>155,047</u>	<u>182,886</u>	<u>189,607</u>	<u>93,891</u>	<u>89,361</u>
Total comprehensive income for the year/period attributable to:					
Owners of the Company	87,453	81,459	64,015	40,931	82,488
Non-controlling interests	<u>47,110</u>	<u>43,883</u>	<u>34,492</u>	<u>22,051</u>	<u>44,436</u>
	<u>134,563</u>	<u>125,342</u>	<u>98,507</u>	<u>62,982</u>	<u>126,924</u>

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		As at 31 December 2014	As at 31 December 2015	As at 31 December 2016	As at 30 June 2017
	Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non-current assets					
Land use rights	14	16,426	15,321	13,939	14,184
Property, plant and equipment	15	981,804	986,140	932,651	961,216
Intangible assets		—	—	—	51,561
Mining rights	16	57,808	53,746	48,487	49,021
Payment for acquisition of patents		56,237	53,703	50,049	—
Pledged bank deposit		—	—	31,587	24,978
		<u>1,112,275</u>	<u>1,108,910</u>	<u>1,076,713</u>	<u>1,100,960</u>
Current assets					
Inventories	17	18,063	58,560	57,016	67,990
Land use rights	14	382	365	340	350
Trade and other receivables and prepayments	18	98,191	133,925	222,508	294,710
Amounts due from fellow subsidiaries	20	79,291	168,398	—	—
Deposits with banks	19	61,357	15,499	21,874	7,562
Cash and cash equivalents	19	<u>121,181</u>	<u>111,191</u>	<u>44,817</u>	<u>72,448</u>
		<u>378,465</u>	<u>487,938</u>	<u>346,555</u>	<u>443,060</u>
Current liabilities					
Trade and other payables	21	64,678	13,986	8,015	122,452
Income tax payable		9,164	8,123	6,952	20,920
Borrowings	22	<u>74,982</u>	<u>27,728</u>	<u>60,357</u>	<u>61,281</u>
		<u>148,824</u>	<u>49,837</u>	<u>75,324</u>	<u>204,653</u>
Net current assets		<u>229,641</u>	<u>438,101</u>	<u>271,231</u>	<u>238,407</u>
Total assets less current liabilities		<u>1,341,916</u>	<u>1,547,011</u>	<u>1,347,944</u>	<u>1,339,367</u>

APPENDIX II
ACCOUNTANTS' REPORT OF THE TARGET GROUP

		As at 31 December 2014	As at 31 December 2015	As at 31 December 2016	As at 30 June 2017
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current liabilities					
Deferred revenue		70,333	69,551	66,176	68,175
Amounts due to fellow subsidiaries	23	273,000	202,925	—	—
Amounts due to holding companies	23	209,531	318,774	286,774	175,564
Borrowings	22	291,718	333,085	273,811	247,892
		<u>844,582</u>	<u>924,335</u>	<u>626,761</u>	<u>491,631</u>
Net assets		<u>497,334</u>	<u>622,676</u>	<u>721,183</u>	<u>847,736</u>
Capital and reserves attributable to owners of the Company					
Share capital	25	—	—	—	—
Reserves		<u>265,740</u>	<u>347,199</u>	<u>411,214</u>	<u>493,331</u>
		265,740	347,199	411,214	493,331
Non-controlling interests		<u>231,594</u>	<u>275,477</u>	<u>309,969</u>	<u>354,405</u>
Total equity		<u>497,334</u>	<u>622,676</u>	<u>721,183</u>	<u>847,736</u>

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Statutory reserve <i>HK\$'000</i>	Translation reserve <i>HK\$'000</i>	Other reserve <i>HK\$'000</i>	Retained earnings <i>HK\$'000</i>	Sub- total <i>HK\$'000</i>	Non- controlling interests <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 1 January 2014	—	80,557	11,823	20,925	11,442	(34,057)	87,597	178,287	184,484	362,771
Profit for the year	—	—	—	—	—	—	100,765	100,765	54,282	155,047
Other comprehensive loss for the year, net of income tax:										
Exchange difference arising from translation of foreign operation	—	—	—	—	(13,312)	—	—	(13,312)	(7,172)	(20,484)
Total comprehensive (loss)/income for the year	—	—	—	—	(13,312)	—	100,765	87,453	47,110	134,563
Transfer to reserve	—	—	—	15,783	—	—	(15,783)	—	—	—
As at 31 December 2014 and 1 January 2015	—	80,557	11,823	36,708	(1,870)	(34,057)	172,579	265,740	231,594	497,334
Profit for the year	—	—	—	—	—	—	118,858	118,858	64,028	182,886
Other comprehensive loss for the year, net of income tax:										
Exchange difference arising from translation of foreign operation	—	—	—	—	(37,399)	—	—	(37,399)	(20,145)	(57,544)
Total comprehensive(loss)/income for the year	—	—	—	—	(37,399)	—	118,858	81,459	43,883	125,342
Transfer to reserve	—	—	—	18,124	—	—	(18,124)	—	—	—
As at 31 December 2015 and 1 January 2016	—	80,557	11,823	54,832	(39,269)	(34,057)	273,313	347,199	275,477	622,676

APPENDIX II
ACCOUNTANTS' REPORT OF THE TARGET GROUP

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Statutory reserve <i>HK\$'000</i>	Translation reserve <i>HK\$'000</i>	Other reserve <i>HK\$'000</i>	Retained earnings <i>HK\$'000</i>	Sub- total <i>HK\$'000</i>	Non- controlling interests <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 31 December 2015 and 1 January 2016	—	80,557	11,823	54,832	(39,269)	(34,057)	273,313	347,199	275,477	622,676
Profit for the year	—	—	—	—	—	—	123,221	123,221	66,386	189,607
Other comprehensive loss for the year, net of income tax:										
Exchange difference arising from translation of foreign operation	—	—	—	—	(59,206)	—	—	(59,206)	(31,894)	(91,100)
Total comprehensive (loss)/income for the year	—	—	—	—	(59,206)	—	123,221	64,015	34,492	98,507
Transfer to reserve	—	—	—	17,060	—	—	(17,060)	—	—	—
As at 31 December 2016 and 1 January 2017	—	80,557	11,823	71,892	(98,475)	(34,057)	379,474	411,214	309,969	721,183
Profit for the period	—	—	—	—	—	—	58,076	58,076	31,285	89,361
Other comprehensive income for the period, net of income tax:										
Exchange difference arising from translation of foreign operation	—	—	—	—	24,412	—	—	24,412	13,151	37,563
Total comprehensive income for the period	—	—	—	—	24,412	—	58,076	82,488	44,436	126,924
Reorganisation	—	—	—	—	—	(371)	—	(371)	—	(371)
Transfer to reserve	—	—	—	9,766	—	—	(9,766)	—	—	—
As at 30 June 2017	—	80,557	11,823	81,658	(74,063)	(34,428)	427,784	493,331	354,405	847,736

APPENDIX II
ACCOUNTANTS' REPORT OF THE TARGET GROUP

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Statutory reserve <i>HK\$'000</i>	Translation reserve <i>HK\$'000</i>	Other reserve <i>HK\$'000</i>	Retained earnings <i>HK\$'000</i>	Sub- total <i>HK\$'000</i>	Non- controlling interests <i>HK\$'000</i>	Total <i>HK\$'000</i>
(Unaudited)										
As at 1 January 2016	—	80,557	11,823	54,832	(39,269)	(34,057)	273,313	347,199	275,477	622,676
Profit for the period	—	—	—	—	—	—	61,019	61,019	32,872	93,891
Other comprehensive loss for the period, net of income tax:										
Exchange difference arising from translation of foreign operation	—	—	—	—	(20,088)	—	—	(20,088)	(10,821)	(30,909)
Total comprehensive (loss)/income for the period	—	—	—	—	(20,088)	—	61,019	40,931	22,051	62,982
Transfer to reserve	—	—	—	9,456	—	—	(9,456)	—	—	—
As at 30 June 2016	—	80,557	11,823	64,288	(59,357)	(34,057)	324,876	388,130	297,528	685,658

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 December 2014 HK\$'000	Year ended 31 December 2015 HK\$'000	Year ended 31 December 2016 HK\$'000	6 months ended 30 June 2016 HK\$'000 (unaudited)	6 months ended 30 June 2017 HK\$'000
OPERATING ACTIVITIES					
Profit before income tax	203,906	240,355	246,474	126,004	121,273
Adjustment for:					
Depreciation and amortisation	12,372	12,867	12,649	6,409	6,615
Finance costs	9,821	10,871	8,484	4,091	4,357
Gain on disposal of property, plant and equipment	—	(170)	—	—	—
Interest income	(1,201)	(1,699)	(2,270)	(895)	(683)
Operating cash flow before movements in working capital	224,898	262,224	265,337	135,609	131,562
Decrease/(increase) in trade and other receivables and prepayments	9,289	(42,313)	(101,766)	(92,692)	(64,399)
Decrease/(increase) in inventories	1,289	(43,035)	(2,564)	11,465	(9,129)
Increase/(decrease) in trade and other payables	17,265	(49,951)	(7,153)	24,531	112,865
(Increase)/decrease in amounts due from fellow subsidiaries	(85,371)	(98,814)	164,941	63,826	—
(Decrease)/increase in amounts due to fellow subsidiaries	(26,508)	(59,463)	(198,759)	3,566	—
Increase/(decrease) in amounts due to holding companies	89,641	109,243	(32,000)	542	(101,101)
Cash generated from operating activities	230,503	77,891	88,036	146,847	69,798
Tax paid	(47,445)	(58,124)	(57,517)	(17,791)	(18,335)
Net cash generated from operating activities	<u>183,058</u>	<u>19,767</u>	<u>30,519</u>	<u>129,056</u>	<u>51,463</u>
INVESTING ACTIVITIES					
(Increase)/decrease in deposit with banks	(61,922)	45,858	(7,808)	(35,930)	14,775
Purchase of property, plant and equipment	(348,366)	(61,593)	(24,910)	(12,698)	(5,909)
(Increase)/decrease in pledged bank deposit	—	—	(33,197)	(33,756)	7,463
Interest received	704	2,178	1,359	609	375
Proceeds from disposal of property, plant and equipment	—	200	—	—	—

APPENDIX II
ACCOUNTANTS' REPORT OF THE TARGET GROUP

	Year ended 31 December 2014 HK\$'000	Year ended 31 December 2015 HK\$'000	Year ended 31 December 2016 HK\$'000	6 months ended 30 June 2016 HK\$'000 (unaudited)	6 months ended 30 June 2017 HK\$'000
Net cash (used in)/generated from investing activities	<u>(409,584)</u>	<u>(13,357)</u>	<u>(64,556)</u>	<u>(81,775)</u>	<u>16,704</u>
FINANCING ACTIVITIES					
Proceeds from new borrowings	370,074	74,592	15,310	15,568	—
Repayment of borrowings	(75,672)	(74,592)	(26,415)	(5,705)	(31,632)
Interest paid for borrowings	(10,258)	(10,693)	(6,608)	(4,378)	(4,526)
Increase in deferred revenue	<u>46,386</u>	<u>2,486</u>	<u>1,426</u>	<u>—</u>	<u>—</u>
Net cash generated from/(used in) financing activities	<u>330,530</u>	<u>(8,207)</u>	<u>(16,287)</u>	<u>5,485</u>	<u>(36,158)</u>
Net increase/(decrease) in cash and cash equivalents	104,004	(1,797)	(50,324)	52,766	32,009
Cash and cash equivalents at the beginning of the year/period	19,007	121,181	111,191	111,191	44,817
Effect of foreign exchange rate changes	<u>(1,830)</u>	<u>(8,193)</u>	<u>(16,050)</u>	<u>326</u>	<u>(4,378)</u>
Cash and cash equivalents at the end of the year/period	<u><u>121,181</u></u>	<u><u>111,191</u></u>	<u><u>44,817</u></u>	<u><u>164,283</u></u>	<u><u>72,448</u></u>
Analysis of balances of cash and cash equivalent					
Cash and bank balance	45,606	55,519	28,059	92,230	72,448
Non-pledged time deposits	<u>75,575</u>	<u>55,672</u>	<u>16,758</u>	<u>72,053</u>	<u>—</u>
Cash and cash equivalent as stated in consolidated statement of financial position and cash flows	<u><u>121,181</u></u>	<u><u>111,191</u></u>	<u><u>44,817</u></u>	<u><u>164,283</u></u>	<u><u>72,448</u></u>

NOTES TO THE HISTORICAL FINANCIAL INFORMATION**1. GENERAL INFORMATION**

The Target Company was incorporated in the British Virgin Islands (“BVI”) on 2 April 2008 as an exempted company with limited liability. The address of its registered office is 2nd Floor, Abbott Building, Road Town, Tortola, British Virgin Islands.

The Target Company is investment holding company and principal activities of the Target Group is magnesium product business.

The Historical Financial Information are presented in HK\$, which is also the functional currency of the Target Company.

2. BASIS OF PREPARATION AND PRESENTATION OF HISTORICAL FINANCIAL INFORMATION

The principal accounting policies applied in the preparation of the Historical Financial Information are set out in Note 4. These policies have been consistently applied to all the years presented, unless otherwise stated.

The Historical Financial Information of the Target Group has been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA as set out below. The Historical Financial Information has been prepared under the historical cost convention.

The preparation of Historical Financial Information in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Target Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in Note 5.

The Historical Financial Information has been prepared based on the accounting policies set out in Note 4 which conform with HKFRSs (defined below) issued by HKICPA.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

The following new and revised HKFRSs have been adopted by the Target Group for the first time for the financial year beginning on or after 1 January 2017:

- HKFRS 14 “Regulatory Deferral Accounts”
- Amendment to HKFRS 11 on accounting for acquisitions of interests in joint operations
- Amendments to HKAS 16 and HKAS 38 on clarification of acceptable methods of depreciation and amortisation
- Amendments to HKAS 16 and HKAS 41 on Agriculture: bearer plants
- Amendment to HKAS 27 on equity method in separate financial statements
- Annual improvements 2014
- Amendments to HKFRS 10, HKFRS 12 and HKAS 28 on investment entities: applying the consolidation exception
- Amendments to HKAS 1 for the disclosure initiative

The adoption of these new and revised HKFRSs did not have any material impact on the consolidated financial statements of the Target Group.

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2017 and have not been applied in preparing this consolidated financial statements. None of these is expected to have a material impact on the consolidated financial statements of the Target Group, except for the following as set out below:

HKFRS 9, *'Financial instruments'*

The new standard addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. While the Group has yet to undertake a detailed assessment of the classification and measurement of financial assets, debt instruments currently classified as available-for-sale (AFS) financial assets would appear to satisfy the conditions for classification as at fair value through other comprehensive income (FVOCI) and hence there will be no change to the accounting for these assets. There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from HKAS 39 Financial Instruments: Recognition and Measurement and have not been changed. The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under HKFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. While the Group has not yet undertaken a detailed assessment of how its impairment provisions would be affected by the new model, it may result in an earlier recognition of credit losses. The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Group is yet to assess HKFRS 9's full impact. The Group does not intend to adopt HKFRS 9 before its mandatory date.

The directors of the Target Company anticipate that the application of HKFRS 9 in the future may impact the amounts reported and disclosure made in the Target Group's consolidated financial statement. However, it is not practicable to provide a reasonable estimate of the effect until a detailed review have been completed.

HKFRS 15, *'Revenue from contracts with customers'*

The HKICPA has issued a new standard for the recognition of revenue. This will replace HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption. The Group is currently assessing the impacts of adopting HKFRS 15 on its financial statements. Based on the preliminary assessment, the Group has identified the following area which is likely to be affected:

Sales with a right of return

HKFRS 15 requires separate presentation on the balance sheet of the right to recover the goods from the customer and the refund obligation. Currently when the customers are allowed to return the products, the Target Group estimates the level of returns and makes an adjustment against revenue and cost of sales. The Target Group expects that the adoption of HKFRS 15 will not materially affect how the Target Group recognises revenue and cost of sales when the customers have a right of return. However, the new requirement to recognise separately a return asset for the products expected to be returned will impact the presentation in the consolidated statement of financial position as the Target Group currently adjusts the carrying amounts of inventory for the expected returns, instead of recognising a separate asset.

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

HKFRS 16, 'Leases'

Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The standard will affect primarily the accounting for operating leases. However, the Target Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the group's profit and classification of cash flows. Some of the commitments may be covered by the exception for short-term and low value leases and some commitments may relate to arrangements that will not qualify as leases under HKFRS 16. The Group is assessing the impact of HKFRS 16. The new standard is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Target Group does not intend to adopt the standard before its effective date.

The Target Group is in the process of assessing the potential impact of the other new and revised HKFRSs upon initial application but is not yet in a position to state whether the other new and revised HKFRSs, will have a significant impact on the Target Group's financial performance and position.

4. SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

The Historical Financial Information have been prepared in accordance with HKFRSs issued by the HKICPA. In addition the Historical Financial Information include applicable disclosures required by the Listing Rules and by the Hong Kong Companies Ordinance. The principal accounting policies applied in the preparation of these Historical Financial Information are set out below.

The Historical Financial Information have been prepared on the historical cost basis, except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

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

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Basis of Consolidation

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

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

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 listed above.

When the Target Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Target Company considers all relevant facts and circumstances in assessing whether or not the Target Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Target Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- voting rights held by the Target Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Target Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meeting.

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

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

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

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

Subsidiaries

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 results of subsidiaries are included in the Target Company's profit or loss to the extent of dividends received and receivables. The Target Company's investments in subsidiaries are stated at cost less any impairment.

Changes in the Target Group's Ownership Interests in Existing Subsidiaries

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

When the Target Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Where certain assets of the subsidiary are measured at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Target Company had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 *Financial Instruments: Recognition and Measurement* or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Business Combinations

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

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

- (i) deferred tax assets or liabilities, and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee Benefits* respectively;
- (ii) liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment transactions with share-based payment transactions of the Target Group are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date; and

- (iii) assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Noncurrent Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.

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

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

When the consideration transferred by the Target Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments being made against goodwill or gain on bargain purchase. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period about facts and circumstances that existed as of the acquisition date. Measurement period does not exceed one year from the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, or HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Target Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Target Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

Changes in the value of the previously held equity interest recognised in other comprehensive income and accumulated in equity before the acquisition date are reclassified to profit or loss when the Target Group obtains control over the acquiree.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Target Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Revenue from sale of goods is recognised when the goods are delivered and title has passed, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintain neither managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.

Interest income from a financial asset excluding financial assets at fair value through profit or loss is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Any other income not mentioned above is recognised whenever it is received or receivable.

Government Grants

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

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

Property, Plant and Equipment

Property, plant and equipment, including leasehold land and buildings held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress), are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period in which the item is derecognised.

Land Use Rights

Payment for obtaining land use rights is considered as prepaid operating lease payment. Land use rights are stated at cost less accumulated amortisation and any accumulated impairment losses, amortisation is charged to profit or loss over the period of the rights or the term of the respective enterprise to which the land use rights are granted, whichever is the shorter, using the straight-line method.

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases and amortised over the lease term on a straight-line basis.

Leasing

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

The Group as Lessee

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

Mining Rights

Mining rights, including transferred exploration and evaluation assets, are stated at cost less accumulated amortisation and any impairment losses. The mining rights are amortised on the production quantities over the total estimated mineral reserve. Mining rights are written off to the profit or loss if the mining property is abandoned.

Foreign Currencies

In preparing the financial statements of each individual entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing at the dates of the transactions.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of nonmonetary items carried at fair value, are included in profit or loss for the period.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Target Group's foreign operations are translated into the presentation currency of the Target Group (i.e. HK\$) at the rates of exchange prevailing at the end of the reporting period. Income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (i.e. the translation reserve) (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Target Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and retranslated at the rate of exchange prevailing at the end of the reporting period. Exchange differences arising are recognised in other comprehensive income and accumulated in equity.

Borrowing Costs

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

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

Retirement Benefit Costs*Pension schemes*

The Target Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the “MPF Scheme”) under the Mandatory Provident Fund Schemes Ordinance for all of its employees. Contributions are made based on a percentage of the employees’ basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Target Group in an independently administered fund. The Target Group’s employer contributions vest fully with the employees when contributed into the MPF Scheme.

The Target Group also operates a defined contribution staff retirement scheme registered under the Occupational Retirement Schemes Ordinance (the “ORSO Scheme”) for its employees (including certain directors), the assets of which are held separately from those of the Target Group in an independently administered fund. Contributions are made based on a percentage of the eligible employees’ basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the ORSO Scheme. When an employee leaves the ORSO Scheme prior to his/her interest in the Target Group’s employer contributions vesting fully, the ongoing contributions payable by the Target Group may be reduced by the relevant amount of forfeited contributions.

The employees of the Target Group’s subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

Payments to defined contribution retirement plans are charged as an expense when employees have rendered service entitling them to the contributions.

Cash and Cash Equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprises of cash in hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Target Group’s cash management.

Share-based Payment Transactions*Share Options Granted to Employees*

For grants of share options that are conditional upon satisfying specified vesting conditions, the fair value of services received is determined by reference to the fair value of share options granted at the grant date and is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (employee compensation reserve).

At the end of the reporting period, the Target Group revises its estimates of number of options that are expected to ultimately vest. The impact of the revision of the original estimates during the vesting period, if any, is recognized in profit or loss with a corresponding adjustment to employee compensation reserve.

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

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

Taxation

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

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

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

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

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

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Target Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Current and deferred tax is recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Inventories

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

Financial Instruments

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

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

Financial assets

Financial assets are classified into the following categories, including financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sales financial assets. The classification depends on the nature and purpose of financial assets and is determined at time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Effective interest method

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

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

Financial assets at fair value through profit or loss ("FVTPL")

Financial assets at FVTPL represent investments held for trading.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Target Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from re-measurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets.

Loans and receivables

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

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Target Group's management has the positive intention and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method less any identified impairment losses (see accounting policy on impairment of financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments.

Available-for-sale financial assets are measured at fair value at the end of each reporting period. Changes in fair value are recognised in other comprehensive income and accumulated under the heading of revaluation reserve until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the revaluation reserve is reclassified to profit or loss.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at the end of each reporting period.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For all of the Target Group's financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; and
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Target Group's past experience of collecting payments, an increase in the number of delayed payments as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of impairment loss is impaired, and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

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

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

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss – is removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

Financial liabilities and equity

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

Other financial liabilities

The Target Group's financial liabilities are generally classified into other financial liabilities and subsequently measured at amortised cost, using the effective interest method.

Effective interest method

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

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

Derecognition

The Target Group are derecognises a financial asset when the contractual rights to receive cash flows from the assets expire or, when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Target Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Target Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Target Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Target Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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

On derecognition of a financial asset other than in its entirety (e.g. when the Target Group retains an option to repurchase part of a transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the Target Group retains control), the Target Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

Financial liabilities are derecognised when the obligation specific in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Impairment Losses on Tangible and Intangible Assets other than Goodwill

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

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

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

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

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

Provision

A provision is recognised when the Target Group has a present legal or constructive obligation, as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

When the effect of the time value money is material, the amount of a provision is the present value at the end of the reporting period of the expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

Related Parties Transactions

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

- (1) A person or a close member of that person's family is related to the Target Group if 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.
- (2) An entity is related to the Target Group if any of the following conditions applies:
 - (i) the entity and the Target Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) both entities 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 employees of either the Target Group or an entity related to the Target Group. If the Target Group is itself such a plan, the sponsoring employers are also related to the Target Group.
 - (vi) the entity is controlled or jointly controlled by a person identified in (1).
 - (vii) a person identified in (1)(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); and
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Target Group or to the parent of the Target Group.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

- (a) that person's children and spouse or domestic partner;
- (b) children of that person's spouse or domestic partner; and
- (c) dependants of that person or that person's spouse or domestic partner.

A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Target Group's accounting policies, which are described in Note 4 to the Historical Financial Information, the directors of the Target Company are required to make judgements, estimates and assumptions about the carrying amounts of asset and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Key sources of estimation uncertainty

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

(a) *Estimated Impairment of Mining Rights, Property and Plant and Equipment Carried at Cost*

The Target Group evaluates whether mining rights and property, plant and equipment carried at cost have suffered any impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable, in accordance with the accounting policy stated in Note 4. The recoverable amounts of CGUs represent the higher of the asset's fair value less costs to sell or its value-in-use. The calculations of fair value less costs to sell or value-in-use require the use of estimates. During the years ended 31 December 2014, 2015 and 2016 and the six months ended 30 June 2017, the Target Group did not provide any impairment for mining rights and property, plant and equipment.

(b) *Estimated Useful Lives of Mining Rights and Property, Plant and Equipment*

The Target Group's management determines the estimated useful lives and related depreciation/amortisation charges for its mining rights and property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of investment properties, property, plant and equipment and intangible assets of similar nature and functions and the mineral reserve determined by independent technical adviser. It could change significantly as a result of technical innovations and competitor actions in response to market conditions. Management will increase the depreciation/amortisation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

During the years ended 31 December 2014, 2015 and 2016 and the six months ended 30 June 2017, the Target Group did not change the estimated useful lives of mining rights and property, plant and equipment.

(c) *Estimated Impairment of Inventories*

The director of the Target Group reviews the inventories listing on a product-by-product basis at the end of each reporting period. The directors estimates the net realisable value for such items based primarily on the latest invoice prices and current market conditions. During the years ended 31 December 2014, 2015 and 2016 and the six months ended 30 June 2017, the Target Group did not provide any impairment for inventories.

(d) *Income Tax*

The Target Group is subject to income taxes in several jurisdictions. There are certain transactions and calculations for which the ultimate tax determination may be uncertain. The Target Group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

(e) *Impairment of Trade and Other Receivables*

The impairment of trade and other receivables are based on the ongoing evaluation of collectability and ageing analysis of the outstanding receivables and on management's judgment. From time to time, the Target Group may experience delays in collection. Where recoverability of trade and other receivables are called into doubts, resulting in an impairment of their ability to make payments, provision may be required. Certain receivables may be initially identified as collectable, yet subsequently become uncollectable and result in a subsequent write-off of the related receivables to the consolidated statement of profit or loss and other comprehensive income. Changes in the collectability of trade and other receivables for which provisions are not made could affect our results of operations. During the years ended 31 December 2014, 2015 and 2016 and the six months ended 30 June 2017, the Target Group did not provide any impairment for trade and other receivables.

6. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments:

	As at 31 December 2014 HK\$ '000	As at 31 December 2015 HK\$ '000	As at 31 December 2016 HK\$ '000	As at 30 June 2017 HK\$ '000
Financial assets				
Loans and receivables (including cash and cash equivalents)	360,020	420,547	235,394	357,396
Financial liabilities				
Amortised cost	913,909	896,498	628,957	607,189

(b) Financial risk management objectives and policies

The Target Group's major financial instruments include trade and other receivables, amounts due from fellow subsidiaries deposits with banks, cash and cash equivalents, trade and other payables, amounts due to holding companies and borrowings. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include foreign exchange risk, interest rate risk, credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The Target Group's overall risk management programme focus on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Target Group's financial performance.

Market risk(i) *Foreign exchange risk*

The Target Group mainly operate in the People's Republic of China (the "PRC") and Hong Kong and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to HK\$, USD and RMB. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities. The Target Group's management does not expect the net foreign currency risk from these activities to be significant and hence, the Target Group does not presently hedge the foreign exchange risks. The Target Group periodically review liquid assets and liabilities held in currencies other than functional currencies to evaluate its foreign exchange risk exposure.

(ii) *Interest rate risk*

The Target Group is mainly exposed to fair value interest rate risk in relation to deposits with banks and borrowings.

Sensitivity analysis

As at 31 December 2014, 2015 and 2016 and 30 June 2017, if interest rates on deposits with banks, cash and cash equivalent and borrowings had been 10 basis points (0.1% per annum) higher/lower than the actual effective interest rate, the Target Group's profit for the year would have been approximately HK\$108,000, HK\$234,000, HK\$268,000 and HK\$229,000 higher/lower respectively, as a result of net decrease/increase in fair value of deposits with banks and borrowings.

As management considers the Target Group's exposure to the above fair value interest rate risk is not significant, no interest-rate swaps or other hedging activities are undertaken by management during the year.

The Target Group is also exposed to cash flow interest rate risk in relation to bank balances carried at prevailing market rate. However, such exposure is minimal to the Target Group as the bank balances are mainly short-term in nature.

Credit risk

The Target Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations at the end of the reporting period in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position.

The Target Group trades only with recognised, creditworthy third parties. It is the Target Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis.

With respect to credit risk arising from the other financial assets of the Target Group which comprise cash and cash equivalents, the Target Group's exposure to credit risk arising from default of the counterparties is limited as the counterparties have good credit standing and the Target Group does not expect to incur significant loss for unallocated advances/deposits from these entities.

The Target Group has no significant concentrations of credit risk. It has policies in place to ensure that sales of goods and provision of services are made to customers with an appropriate credit history. The Target Group's deposits in bank and deposits placed with a financial institution are placed in high quality financial institutions without significant exposure to credit risk.

The directors consider that there is no significant credit risk in respect of the Target Group's deposits in banks and deposits placed with a financial institution as the financial institution has no record of default payment.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Target Group aims to maintain flexibility in funding by keeping adequate facilities available.

APPENDIX II

ACCOUNTANTS' REPORT OF THE TARGET GROUP

The table below analyses the Target Group's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months upon recognition equal their carrying balances, as the impact of discounting is not significant.

At 31 December 2014

	Undiscounted cash flows			Carrying amount HK\$ '000
	Less than 1 year HK\$ '000	Over 1 year HK\$ '000	Total HK\$ '000	
Trade and other payables	64,678	—	64,678	64,678
Amounts due to fellow subsidiaries	—	273,000	273,000	273,000
Amounts due to holding companies	—	209,531	209,531	209,531
Borrowings	366,700	—	366,700	366,700
	<u>431,378</u>	<u>482,531</u>	<u>913,909</u>	<u>913,909</u>

At 31 December 2015

	Undiscounted cash flows			Carrying amount HK\$ '000
	Less than 1 year HK\$ '000	Over 1 year HK\$ '000	Total HK\$ '000	
Trade and other payables	13,986	—	13,986	13,986
Amounts due to fellow subsidiaries	—	202,925	202,925	202,925
Amounts due to holding companies	—	318,774	318,774	318,774
Borrowings	45,064	380,506	425,570	360,813
	<u>59,050</u>	<u>902,205</u>	<u>961,255</u>	<u>896,498</u>

At 31 December 2016

	Undiscounted cash flows			Carrying amount HK\$ '000
	Less than 1 year HK\$ '000	Over 1 year HK\$ '000	Total HK\$ '000	
Trade and other payables	8,015	—	8,015	8,015
Amounts due to holding companies	—	286,774	286,774	286,774
Borrowings	75,766	305,052	380,818	334,168
	<u>83,781</u>	<u>591,826</u>	<u>675,607</u>	<u>628,957</u>

At 30 June 2017

	Undiscounted cash flows			Carrying amount HK\$'000
	Less than 1 year HK\$'000	Over 1 year HK\$'000	Total HK\$'000	
Trade and other payable	122,452	—	122,452	122,452
Amounts due to holding companies	—	175,564	175,564	175,564
Borrowings	73,421	314,464	387,885	309,173
	<u>195,873</u>	<u>490,028</u>	<u>685,901</u>	<u>607,189</u>

(c) Fair value of financial instruments

The Target Group adopted a three-level hierarchy for fair value measurement disclosures and additional disclosures about the relative reliability of fair value measurements.

The hierarchy groups financial assets and liabilities into three levels based on the relative reliability of significant inputs used in measuring the fair value of these financial assets and liabilities. The fair value hierarchy has the following levels:

Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities;

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: inputs for the asset and liability that are not based on observable market data (unobservable inputs).

No analysis is disclosed since the Target Group has no financial instruments that are measured subsequent to initial recognition at fair value at the end of the reporting period.

7. CAPITAL RISK MANAGEMENT

The Target Group's objectives when managing capital are to safeguard the Target Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other shareholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Target Group may adjust the amount of dividend paid to shareholders, return of capital to shareholders, issue of new shares or sale of assets to reduce debt.

8. REVENUE

The Target Group is principally engaged in magnesium product business.

	Year ended 31 December 2014 HK\$'000	Year ended 31 December 2015 HK\$'000	Year ended 31 December 2016 HK\$'000	6 months ended 30 June 2016 HK\$'000 (unaudited)	6 months ended 30 June 2017 HK\$'000
Sales of magnesium products	<u>668,050</u>	<u>740,296</u>	<u>739,596</u>	<u>355,602</u>	<u>373,499</u>

Information about major customers

No information about major customers is presented as no single customer contributed over 10% of the total revenue of the Target Group during the years ended 31 December 2014, 2015 and 2016 and the six months ended 30 June 2017.

9. OTHER GAINS OR LOSSES, NET

	Year ended 31 December 2014 HK\$'000	Year ended 31 December 2015 HK\$'000	Year ended 31 December 2016 HK\$'000	6 months ended 30 June 2016 HK\$'000 (unaudited)	6 months ended 30 June 2017 HK\$'000
Interest income	1,201	1,699	2,270	895	683
Sales of scrap materials	22,829	21,941	25,852	16,397	16,398
Sundry income	<u>317</u>	<u>297</u>	<u>2,139</u>	<u>—</u>	<u>29</u>
	<u>24,347</u>	<u>23,937</u>	<u>30,261</u>	<u>17,292</u>	<u>17,110</u>

10. FINANCE COSTS

	Year ended 31 December 2014 HK\$'000	Year ended 31 December 2015 HK\$'000	Year ended 31 December 2016 HK\$'000	6 months ended 30 June 2016 HK\$'000 (unaudited)	6 months ended 30 June 2017 HK\$'000
Interest on borrowings wholly repayable within 5 years	5,111	3,105	8,484	4,091	4,357
Interest on borrowings wholly repayable after 5 years	6,729	17,390	9,083	4,866	3,912
Total borrowing costs	11,840	20,495	17,567	8,957	8,269
Less: Amount capitalised in the cost of qualifying assets	(2,019)	(9,624)	(9,083)	(4,866)	(3,912)
	<u>9,821</u>	<u>10,871</u>	<u>8,484</u>	<u>4,091</u>	<u>4,357</u>

11. INCOME TAX EXPENSE

The amount of income tax expenses charged to the consolidated statement of profit or loss and other comprehensive income represents:

	Year ended 31 December 2014 HK\$'000	Year ended 31 December 2015 HK\$'000	Year ended 31 December 2016 HK\$'000	6 months ended 30 June 2016 HK\$'000 (unaudited)	6 months ended 30 June 2017 HK\$'000
Current tax					
— Hong Kong Profits Tax	—	—	—	—	—
— PRC Enterprise Income Tax	48,859	57,469	56,867	32,113	31,912
	<u>48,859</u>	<u>57,469</u>	<u>56,867</u>	<u>32,113</u>	<u>31,912</u>

(a) Hong Kong Profits Tax

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for the years ended 31 December 2014, 2015 and 2016 and the six months ended 30 June 2017.

(b) The PRC Enterprise Income Tax

The PRC Enterprise Income Tax is calculated at 25% on the estimated assessable profits arising in the PRC for the years ended 31 December 2014, 2015 and 2016 and the six months ended 30 June 2017.

APPENDIX II

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The tax on the Target Group's profit before income tax differs from the theoretical amount that would arise using a tax rate of 25%, the standard income tax rate of the PRC enterprises, as follows:

	Year ended 31 December 2014 HK\$ '000	Year ended 31 December 2015 HK\$ '000	Year ended 31 December 2016 HK\$ '000	6 months ended 30 June 2016 HK\$ '000 (unaudited)	6 months ended 30 June 2017 HK\$ '000
Profit before income tax	203,906	240,355	246,474	126,004	121,273
Tax charge at domestic income tax rate of 25%	50,977	60,089	61,619	31,501	30,318
Effect of different tax rates of subsidiaries operating in other jurisdictions	(685)	(1,362)	(2,059)	30	698
Tax effect of income not taxable for tax purpose	(2,259)	(3,932)	(5,792)	(1,016)	(1,746)
Tax effect of expenses not deductible for tax purpose	715	2,633	3,001	1,554	2,572
Tax effect of estimated tax losses not recognised	111	41	98	44	70
Income tax expenses	<u>48,859</u>	<u>57,469</u>	<u>56,867</u>	<u>32,113</u>	<u>31,912</u>

12. PROFIT BEFORE INCOME TAX

Profit before tax has been arrived at after charging/(crediting):

	Year ended 31 December 2014 HK\$ '000	Year ended 31 December 2015 HK\$ '000	Year ended 31 December 2016 HK\$ '000	6 months ended 30 June 2016 HK\$ '000 (unaudited)	6 months ended 30 June 2017 HK\$ '000
Wages and salaries	36,712	40,243	39,235	21,513	15,754
Payment to defined contribution retirement plans	<u>360</u>	<u>272</u>	<u>222</u>	<u>46</u>	<u>100</u>
Total staff costs (including directors' emoluments)	37,072	40,515	39,457	21,559	15,854
Auditors' remuneration (note (i))	—	—	—	—	—
Depreciation and amortisation	12,372	12,867	12,649	6,409	6,615
Gain on disposal of property, plant and equipment	—	(170)	—	—	—
Cost of inventories recognised as an expense	<u>399,988</u>	<u>417,153</u>	<u>422,094</u>	<u>194,470</u>	<u>259,294</u>

note:

- (i). Auditors' remuneration was borne by Century Sunshine Group Holdings Limited, the intermediate holding company of the Target Group.

13. PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at the end of each reporting periods is as follow:

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of paid up/ registered capital	Proportion ownership interest of held by the Target Company	
China Rare Earth Magnesium Technology Holdings Limited	Hong Kong, limited liability company	Investment holdings in Hong Kong	2014: HK\$163,091,532 2015: HK\$163,091,532 2016: HK\$163,091,532 Jun 2017: HK\$163,091,532	Direct 2014: 64.99% 2015: 64.99% 2016: 64.99% Jun 2017: 64.99%	Indirect 2014: — 2015: — 2016: — Jun 2017: —
Baishan City Tianan Magnesium Resources Company Limited	The PRC, limited liability company	Manufacturing and sale of magnesium related products in the PRC	2014: RMB180,332,000 2015: RMB280,332,000 2016: RMB280,332,000 Jun 2017: RMB280,332,000	2014: — 2015: — 2016: — Jun 2017: —	2014: 64.99% 2015: 64.99% 2016: 64.99% Jun 2017: 64.99%

14. LAND USE RIGHTS

The Target Group's interests in land use rights represent prepaid operating lease payments and their net carrying values are analysed as follows:

	Year ended 31 December 2014 HK\$ '000	Year ended 31 December 2015 HK\$ '000	Year ended 31 December 2016 HK\$ '000	6 months ended 30 June 2017 HK\$ '000
In the PRC, held on:				
Medium term leases	16,808	15,686	14,279	14,534
Current assets	382	365	340	350
Non-current assets	16,426	15,321	13,939	14,184
	16,808	15,686	14,279	14,534

As at 31 December 2014, 2015 and 2016 and 30 June 2017, land use rights with a net carrying value of approximately HK\$16,808,000, HK\$15,686,000, HK\$14,279,000 and HK\$14,534,000 have been pledged to secure bank borrowings (Note 22).

APPENDIX II

ACCOUNTANTS' REPORT OF THE TARGET GROUP

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings (note (i)) HK\$'000	Plant and machinery HK\$'000	Furniture and office equipment HK\$'000	Motor vehicles HK\$'000	Construction- in-progress (note (ii)) HK\$'000	Total HK\$'000
Cost						
As at 1 January 2014	75,507	195,776	878	1,740	406,035	679,936
Additions	610	—	—	—	350,385	350,995
Transfers	4,929	—	—	—	(4,929)	—
Exchange alignment	(1,895)	(4,779)	(21)	(43)	(13,071)	(19,809)
As at 31 December 2014 and 1 January 2015	79,151	190,997	857	1,697	738,420	1,011,122
Additions	—	—	—	277	61,316	61,593
Transfers	19,357	15,739	—	—	(35,096)	—
Disposals	—	—	—	(769)	—	(769)
Exchange alignment	(4,341)	(9,239)	(39)	(57)	(34,317)	(47,993)
As at 31 December 2015 and 1 January 2016	94,167	197,497	818	1,148	730,323	1,023,953
Additions	—	804	2	—	24,104	24,910
Transfers	—	9,110	801	—	(9,911)	—
Exchange alignment	(6,407)	(13,919)	(95)	(77)	(50,380)	(70,878)
As at 31 December 2016 and 1 January 2017	87,760	193,492	1,526	1,071	694,136	977,985
Additions	—	—	—	—	5,909	5,909
Exchange alignment	2,651	5,845	46	32	21,049	29,623
As at 30 June 2017	90,411	199,337	1,572	1,103	721,094	1,013,517
Accumulated depreciation and impairment						
As at 1 January 2014	4,156	14,002	499	924	—	19,581
Charge for the year	1,757	8,230	130	188	—	10,305
Exchange alignment	(118)	(413)	(13)	(24)	—	(568)
As at 31 December 2014 and 1 January 2015	5,795	21,819	616	1,088	—	29,318
Charge for the year	2,061	8,605	101	200	—	10,967
Written off on disposal	—	—	—	(739)	—	(739)
Exchange alignment	(343)	(1,331)	(32)	(27)	—	(1,733)
As at 31 December 2015 and 1 January 2016	7,513	29,093	685	522	—	37,813
Charge for the year	2,084	8,149	171	204	—	10,608
Exchange alignment	(612)	(2,375)	(55)	(45)	—	(3,087)

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	Buildings <i>(note (i))</i> <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Furniture and office equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Construction- in-progress <i>(note (ii))</i> <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 31 December 2016						
1 January 2017	8,985	34,867	801	681	—	45,334
Charge for the period	1,008	4,290	128	98	—	5,524
Exchange alignment	285	1,112	24	22	—	1,443
As at 30 June 2017	10,278	40,269	953	801	—	52,301
Net carrying values						
As at 31 December 2014	73,356	169,178	241	609	738,420	981,804
As at 31 December 2015	86,654	168,404	133	626	730,323	986,140
As at 31 December 2016	78,775	158,625	725	390	694,136	932,651
As at 30 June 2017	80,133	159,068	619	302	721,094	961,216

notes:

- (i) The buildings are situated in the PRC.
- (ii) As at 31 December 2014, 2015 and 2016 and 30 June 2017, interest expenses of approximately HK\$2,019,000, HK\$9,624,000, HK\$9,083,000 and HK\$3,912,000 was capitalised and included in construction-in-progress. An analysis of construction-in-progress is as follows:

	As at 31 December 2014 <i>HK\$'000</i>	As at 31 December 2015 <i>HK\$'000</i>	As at 31 December 2016 <i>HK\$'000</i>	As at 30 June 2017 <i>HK\$'000</i>
Buildings	99,501	155,468	154,525	160,511
Plant and machinery	638,919	574,855	539,611	560,583
	738,420	730,323	694,136	721,094

- (iii) As at 31 December 2014, 2015, 2016 and 30 June 2017, buildings and plant and machinery with a carrying amount of approximately HK\$160,334,000, HK\$156,499,000, HK\$140,635,000 and HK\$141,941,000 have been pledged to secure bank borrowings (Note 22).

The useful lives of property, plant and equipment adopted for the current year are as follows:

— Buildings	Over the lease terms
— Plant and machinery	5 to 25 years
— Furniture and office equipment	5 years
— Motor vehicles	5 years

16. MINING RIGHTS

HK\$ '000

Cost

As at 1 January 2014	63,385
Exchange alignment	(1,549)
As at 31 December 2014 and 1 January 2015	61,836
Exchange alignment	(2,786)
As at 31 December 2015 and 1 January 2016	59,050
Exchange alignment	(4,017)
As at 31 December 2016 and 1 January 2017	55,033
Exchange alignment	1,662
As at 30 June 2017	56,695

Accumulated amortisation

As at 1 January 2014	2,421
Charge for the year	1,681
Exchange alignment	(74)
As at 31 December 2014 and 1 January 2015	4,028
Charge for the year	1,519
Exchange alignment	(243)
As at 31 December 2015 and 1 January 2016	5,304
Charge for the year	1,684
Exchange alignment	(442)
As at 31 December 2016 and 1 January 2017	6,546
Charge for the period	918
Exchange alignment	210
As at 30 June 2017	7,674

Net carrying values

As at 31 December 2014	57,808
As at 31 December 2015	53,746
As at 31 December 2016	48,487
As at 30 June 2017	49,021

The amount represents the mining rights of the dolomite mine located in Baishan City of Jilin Province, the PRC, which is amortised by the production quantity over the ore reserve.

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17. INVENTORIES

	As at 31 December 2014 HK\$'000	As at 31 December 2015 HK\$'000	As at 31 December 2016 HK\$'000	As at 30 June 2017 HK\$'000
Raw materials	6,383	40,577	27,125	7,164
Finished goods	11,680	17,983	29,891	60,826
	<u>18,063</u>	<u>58,560</u>	<u>57,016</u>	<u>67,990</u>

18. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	As at 31 December 2014 HK\$'000	As at 31 December 2015 HK\$'000	As at 31 December 2016 HK\$'000	As at 30 June 2017 HK\$'000
Trade receivables	96,291	123,931	166,954	274,854
Bill receivables	913	1,196	—	—
	97,204	125,127	166,954	274,854
Other receivables and prepayments (note)	987	8,798	55,554	19,856
	<u>98,191</u>	<u>133,925</u>	<u>222,508</u>	<u>294,710</u>

note:

As at 31 December 2014, 2015 and 2016 and 30 June 2017, other receivables and prepayments mainly comprised of prepayment of inventories in the PRC of approximately HK\$Nil, HK\$Nil, HK\$53,805,000 and HK\$17,323,000 and value-added tax recoverable in the PRC of approximately HK\$Nil, HK\$8,466,000, HK\$Nil and HK\$Nil respectively.

As at 31 December 2014, 2015, 2016 and 30 June 2017, none of the other receivables are past due and impaired.

Trade and other receivables and prepayment were denominated in the following currencies:

	As at 31 December 2014 HK\$'000	As at 31 December 2015 HK\$'000	As at 31 December 2016 HK\$'000	As at 30 June 2017 HK\$'000
RMB	98,191	133,925	222,508	287,832
HK\$	—	—	—	6,878
	<u>98,191</u>	<u>133,925</u>	<u>222,508</u>	<u>294,710</u>

The ageing analysis of the trade receivables of the Target Group presented based on the invoice date was as follows:

	As at 31 December 2014 HK\$'000	As at 31 December 2015 HK\$'000	As at 31 December 2016 HK\$'000	As at 30 June 2017 HK\$'000
Within 30 days	54,255	39,900	35,318	118,509
31 to 60 days	29,372	31,144	81,138	95,231
61 to 90 days	8,917	34,460	45,613	57,365
Over 90 days	3,747	18,427	4,885	3,749
	<u>96,291</u>	<u>123,931</u>	<u>166,954</u>	<u>274,854</u>

The Target Group allows a credit period normally not more than 180 days to its trade customers over the Relevant Period.

None of the trade receivables were past due nor impaired. Trade receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

In determining the recoverability of trade receivables, the Target Group considers any change in credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to the customer base being large and unrelated.

19. DEPOSITS WITH BANKS AND CASH AND CASH EQUIVALENTS

	As at 31 December 2014 HK\$'000	As at 31 December 2015 HK\$'000	As at 31 December 2016 HK\$'000	As at 30 June 2017 HK\$'000
Deposits with banks	61,357	15,499	21,874	7,562
Cash at bank and on hand	121,181	111,191	44,817	72,448
	<u>182,538</u>	<u>126,690</u>	<u>66,691</u>	<u>80,010</u>

As at 31 December 2014, 2015 and 2016 and 30 June 2017 the effective interest rate on short-term bank deposits was 1.35%, 1.52%, 1.52% and 1.50% respectively. These deposits have an average maturity of less than three months.

Cash and cash equivalents were denominated in the following currencies:

	As at 31 December 2014 HK\$'000	As at 31 December 2015 HK\$'000	As at 31 December 2016 HK\$'000	As at 30 June 2017 HK\$'000
RMB	85,678	95,690	48,540	72,315
HK\$	1,657	1,526	668	1,403
USD	95,203	29,474	17,483	6,292
	<u>182,538</u>	<u>126,690</u>	<u>66,691</u>	<u>80,010</u>

The remittance of cash and cash equivalents denominated in RMB out of the PRC is subject to the foreign exchange control restrictions imposed by the government of the PRC.

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20. AMOUNTS DUE FROM FELLOW SUBSIDIARIES

Name of fellow subsidiaries	Highest balance during				As at 31 December 2014 HK\$'000	As at 31 December 2015 HK\$'000	As at 31 December 2016 HK\$'000	As at 30 June 2017 HK\$'000
	Year ended 31 December	Year ended 31 December	Year ended 31 December	6 months ended 30 June				
	2014	2015	2016	2017				
	HK\$'000	HK\$'000	HK\$'000	HK\$'000				
世紀陽光(漳州)生態科技有限公司	21,730	21,730	6,716	—	21,730	6,716	—	—
江蘇湛藍科技開發有限公司	51,313	160,993	314,134	—	51,313	160,993	—	—
連雲港綠滴肥料有限公司	—	689	689	—	—	689	—	—
江蘇龍騰化工有限公司	25,544	6,248	—	—	6,248	—	—	—
					79,291	168,398	—	—

The amounts due are unsecured, interest-free and recoverable on demand.

21. TRADE AND OTHER PAYABLES

	As at 31 December 2014 HK\$'000	As at 31 December 2015 HK\$'000	As at 31 December 2016 HK\$'000	As at 30 June 2017 HK\$'000
Trade payables	50,325	7,409	1,279	105,591
Accruals and other payables	14,353	6,577	6,736	16,861
	64,678	13,986	8,015	122,452

The ageing analysis of trade payables of the Target Group presented based on the invoice date was as follows:

	As at 31 December 2014 HK\$'000	As at 31 December 2015 HK\$'000	As at 31 December 2016 HK\$'000	As at 30 June 2017 HK\$'000
Within 30 days	25,980	6,176	1,183	35,967
31 to 60 days	1,854	323	—	47,275
61 to 90 days	18,927	417	9	11,638
Over 90 days	3,564	493	87	10,711
	50,325	7,409	1,279	105,591

The average credit period on purchases of goods is 90 days over the Relevant Periods. The Target Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

22. BORROWINGS

	As at 31 December 2014 HK\$'000	As at 31 December 2015 HK\$'000	As at 31 December 2016 HK\$'000	As at 30 June 2017 HK\$'000
Bank borrowings (note (i))	174,959	167,077	145,141	140,132
Other borrowings (note (ii))	191,741	193,736	189,027	169,041
	<u>366,700</u>	<u>360,813</u>	<u>334,168</u>	<u>309,173</u>
Borrowings:				
Within one year	74,982	27,728	60,357	61,281
More than one year but not exceeding five years	182,520	248,074	246,228	241,303
More than five years	109,198	85,011	27,583	6,589
	<u>366,700</u>	<u>360,813</u>	<u>334,168</u>	<u>309,173</u>
Less: Amounts shown under current liabilities	<u>(74,982)</u>	<u>(27,728)</u>	<u>(60,357)</u>	<u>(61,281)</u>
	<u>291,718</u>	<u>333,085</u>	<u>273,811</u>	<u>247,892</u>
	As at 31 December 2014 HK\$'000	As at 31 December 2015 HK\$'000	As at 31 December 2016 HK\$'000	As at 30 June 2017 HK\$'000
Borrowings:				
Secured	<u>366,700</u>	<u>360,813</u>	<u>334,168</u>	<u>309,173</u>

notes:

- (i) As at 31 December 2014, 2015 and 2016 and 30 June 2017, the borrowings were secured by property, plant and equipment, land use rights of the Target Group and corporate guarantee by a fellow subsidiary. As at 31 December 2014, 2015 and 2016 and 30 June 2017, the property, plant and equipment secured for borrowings was approximately HK\$160,334,000, HK\$156,499,000, HK\$140,635,000 and HK\$141,941,000 respectively and the land use rights secured for borrowings was approximately HK\$16,808,000, HK\$15,686,000, HK\$14,279,000 and HK\$14,534,000 respectively.
- (ii) Pursuant to a loan agreement entered into by a wholly owned subsidiary of the Company and International Finance Corporation ("IFC") on 30 May 2014, IFC had granted a loan of US\$25,000,000 to the subsidiary. The agreement was amended and restated on 7 December 2015 with increase in the loan granted from US\$25,000,000 to US\$27,000,000.

As at 31 December 2014, 2015 and 2016 and 30 June 2017, US\$25,000,000 (approximately HK\$191,741,000), US\$25,000,000 (approximately HK\$193,736,000), US\$24,500,000 (approximately HK\$189,027,000) and US\$21,778,000 (approximately HK\$169,041,000) remained outstanding respectively. The loan bears interest at LIBOR plus 3.5% per annum and the amounts due are based on the scheduled repayment dates set out in the loan agreements.

The loan granted by IFC was secured by (i) corporate guarantee given by Century Sunshine; (ii) pledges of shares in the Century Sunshine as owned by Alpha Sino International Limited ("Alpha Sino"), the substantial shareholder of Century Sunshine and (iii) deposit with banks of approximately HK\$Nil, HK\$Nil, HK\$36,703,000 and HK\$32,540,000 as at 31 December 2014, 2015 and 2016 and 30 June 2017 respectively.

In addition, Mr. Chi Wen Fu, a director and controlling shareholder of Century Sunshine (through his interest in Alpha Sino), has given an undertaking to IFC to maintain a minimum level of shareholding in Century Sunshine. Century Sunshine and the subsidiary had complied with certain covenants, including, among other things, certain financial covenants, under the guarantee and loan arrangements.

(iii) The effective interest rate at 31 December 2014, 2015 and 2016 and 30 June 2017 was 3.80%, 4.97%, 5.04% and 5.05% respectively.

(iv) The carrying amount and fair value of the Target Group's borrowings are as follows:

	Carrying amount			
	As at 31 December 2014 HK\$'000	As at 31 December 2015 HK\$'000	As at 31 December 2016 HK\$'000	As at 30 June 2017 HK\$'000
Borrowings	<u>366,700</u>	<u>360,813</u>	<u>334,168</u>	<u>309,173</u>
	Fair Value			
	As at 31 December 2014 HK\$'000	As at 31 December 2015 HK\$'000	As at 31 December 2016 HK\$'000	As at 30 June 2017 HK\$'000
Borrowings	<u>366,700</u>	<u>360,813</u>	<u>334,168</u>	<u>309,173</u>

23. AMOUNTS DUE TO FELLOW SUBSIDIARIES AND HOLDING COMPANIES

The amounts due are unsecured, interest-free and have no fixed term for repayment.

24. MATERIAL RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the Historical Financial Information, the Target Group entered into the following material related party transaction during the Relevant Periods.

	Year ended 31 December 2014 HK\$'000	Year ended 31 December 2015 HK\$'000	Year ended 31 December 2016 HK\$'000	6 months ended 30 June 2016 HK\$'000 (unaudited)	6 months ended 30 June 2017 HK\$'000
Purchase of goods from a fellow subsidiary	—	—	17,114	1,134	17,460
Sale of goods to a fellow subsidiary	—	—	(8,467)	—	(15,392)
Consultancy fee paid to an intermediate holding company	<u>11,336</u>	<u>14,847</u>	<u>14,027</u>	<u>—</u>	<u>—</u>

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ACCOUNTANTS' REPORT OF THE TARGET GROUP

25. SHARE CAPITAL

	As at 31 December 2014 HK\$'000	As at 31 December 2015 HK\$'000	As at 31 December 2016 HK\$'000	As at 30 June 2017 HK\$'000
Issued and fully paid:				
2,000 ordinary shares of US\$0.01 each	—	—	—	—

26. STATEMENTS OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE TARGET COMPANY

(a) Statements of financial position of the Target Company

	As at 31 December 2014 HK\$'000	As at 31 December 2015 HK\$'000	As at 31 December 2016 HK\$'000	As at 30 June 2017 HK\$'000
Non-current asset				
Investment in a subsidiary	80,557	80,557	80,557	80,557
Current liability				
Amount due to a subsidiary	—	—	(12)	(14)
Total assets less total liability	80,557	80,557	80,545	80,543
Capital and reserves				
Share capital	—	—	—	—
Reserves	80,557	80,557	80,545	80,543
Total equity	80,557	80,557	80,545	80,543

(b) Movement of reserves of the Target Company

	Accumulated losses HK\$'000
As at 1 January 2014, 31 December 2014, 1 January 2015, 31 December 2015 and 1 January 2016	80,557
Loss and total comprehensive loss for the year	<u>(12)</u>
As at 31 December 2016 and 1 January 2017	80,545
Loss and total comprehensive loss for the period	<u>(2)</u>
As at 30 June 2017	<u><u>80,543</u></u>

27. DIVIDEND

No dividend have been proposed or paid by the Target Company during the Relevant Periods.

28. CAPITAL COMMITMENTS

	As at 31 December 2014 HK\$'000	As at 31 December 2015 HK\$'000	As at 31 December 2016 HK\$'000	As at 30 June 2017 HK\$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	<u>54,924</u>	<u>5,675</u>	<u>—</u>	<u>—</u>

29. EVENTS AFTER THE REPORTING PERIOD

There were no significant events that have occurred subsequent to the end of the reporting period.

SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Target Company or any subsidiaries of the Target Company have been prepared in respect of any period subsequent to 30 June 2017 and up to the date of this report. In addition, no dividends or other distributions have been declared, made or paid by the Target Company in respect of any period subsequent to 30 June 2017.

The information sets out in this Appendix does not form part of the Accountants' Report prepared by HLB Hodgson Impey Cheng Limited, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, as set out in Appendix II to this circular, and is included herein for information purpose only.

The unaudited pro forma financial information should be read in conjunction with the Accountants' Report set out in Appendix II to this circular.

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

The following is an illustrative unaudited pro forma consolidated statement of financial position, unaudited pro forma consolidated statement of profit or loss and other comprehensive income, and unaudited pro forma consolidated statement of cash flows (the **"Unaudited Pro Forma Financial Information"**) of Century Sunshine Group Holdings Limited (the **"Company"**) and its subsidiaries (collectively referred to as the **"Group"**) which have been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the proposed reorganisation plan by the Group (the **"Transaction"**) as if it had taken place on 30 June 2017 for the unaudited pro forma consolidated statement of financial position and as if it had taken place on 1 January 2016 for the unaudited pro forma consolidated statement of profit or loss and other comprehensive income and the unaudited pro forma consolidated statement of cash flows.

The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of the Group had the Transaction been completed on 30 June 2017 and financial performance and cash flows of the Group had the Transaction been completed on 1 January 2016, or any future dates.

The Unaudited Pro Forma Financial Information has been prepared based on the unaudited condensed interim consolidated statement of financial position of the Group as at 30 June 2017, which has been extracted from the Company's published interim report for the six months ended 30 June 2017, the audited consolidated statement of profit or loss and other comprehensive income and audited consolidated statement of cash flows of the Group for the year ended 31 December 2016, which has been extracted from the Company's published annual report for the year ended 31 December 2016.

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**UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE GROUP**

The Unaudited Pro Forma Financial Information has been prepared under accounting policies consistent with those of the Group as set out in the published annual report of the Company for the year ended 31 December 2016.

Unaudited Pro Forma Consolidated Statement of Financial Position of the Group

	Unaudited condensed consolidated statement of financial position of the Group as at 30 June 2017 HK\$'000 Note 1	Pro forma adjustments HK\$'000 Note 3		HK\$'000 Note 4	Unaudited pro forma consolidated statement of financial position of the Group as at 30 June 2017 HK\$'000
Non-current assets					
Land use rights	297,446	—	—	—	297,446
Property, plant and equipment	2,917,740	—	—	—	2,917,740
Investment properties	115,887	—	—	—	115,887
Goodwill	197,375	—	—	—	197,375
Intangible assets	378,683	—	—	—	378,683
Mining rights	474,321	—	—	—	474,321
Deposits for acquisition of property, plant and equipment	17	—	—	—	17
Investments in joint ventures	5,349	—	—	—	5,349
Investments in an associate	17	—	—	—	17
Available-for-sale investments	6,840	—	—	—	6,840
Pledged bank deposits	24,978	—	—	—	24,978
	<u>4,418,653</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>4,418,653</u>

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**UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE GROUP**

	Unaudited condensed consolidated statement of financial position of the Group as at 30 June 2017 HK\$'000 Note 1	Pro forma adjustments HK\$'000 Note 3		Unaudited pro forma consolidated statement of financial position of the Group as at 30 June 2017 HK\$'000
		HK\$'000 Note 4		
Current assets				
Available-for-sale investments	5,537	—	—	5,537
Inventories	493,405	—	—	493,405
Land use rights	14,703	—	—	14,703
Trade and other receivables, prepayments and deposits	767,317	—	—	767,317
Income tax recoverable	1,757	—	—	1,757
Investment held for trading	—	—	—	—
Amount due from a joint venture	129	—	—	129
Bank and cash balances	877,821	(2,360)	(4,070)	871,391
	<u>2,160,669</u>	<u>(2,360)</u>	<u>(4,070)</u>	<u>2,154,239</u>
Current liabilities				
Trade and other payables	945,379	—	—	945,379
Income tax payable	50,455	—	—	50,455
Borrowings	712,979	—	—	712,979
Derivative financial liabilities	32,600	—	—	32,600
	<u>1,741,413</u>	<u>—</u>	<u>—</u>	<u>1,741,413</u>
Net current assets	<u>419,256</u>	<u>(2,360)</u>	<u>(4,070)</u>	<u>412,826</u>
Total assets less current liabilities	<u>4,837,909</u>	<u>(2,360)</u>	<u>(4,070)</u>	<u>4,831,479</u>

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**UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE GROUP**

	Unaudited condensed consolidated statement of financial position of the Group as at 30 June 2017 <i>HK\$ '000</i> <i>Note 1</i>	Pro forma adjustments <i>HK\$ '000</i> <i>Note 3</i> <i>HK\$ '000</i> <i>Note 4</i>		Unaudited pro forma consolidated statement of financial position of the Group as at 30 June 2017 <i>HK\$ '000</i>
Non-current liabilities				
Deferred revenue	68,175	—	—	68,175
Other payable	190,966	—	—	190,966
Exchangeable bonds	217,747	—	—	217,747
Borrowings	890,300	—	—	890,300
Deferred tax liabilities	139,759	—	—	139,759
	<u>1,506,947</u>	<u>—</u>	<u>—</u>	<u>1,506,947</u>
Net assets	<u>3,330,962</u>	<u>(2,360)</u>	<u>(4,070)</u>	<u>3,324,532</u>
Capital and reserves attributable to owners of the Company				
Share capital	101,756	—	—	101,756
Reserves	<u>2,866,694</u>	<u>(68,010)</u>	<u>(3,361)</u>	<u>2,795,323</u>
	2,968,450	(68,010)	(3,361)	2,897,079
Non-controlling interests	<u>362,512</u>	<u>65,650</u>	<u>(709)</u>	<u>427,453</u>
Total equity	<u>3,330,962</u>	<u>(2,360)</u>	<u>(4,070)</u>	<u>3,324,532</u>

APPENDIX III

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

Unaudited Pro Forma Consolidated Statement of Profit or Loss and Other Comprehensive Income of the Group

	Audited consolidated statement of profit or loss and other comprehensive income of the Group for the year ended 31 December 2016 HK\$'000 Note 2	Pro forma adjustments			Unaudited pro forma consolidated statement of profit or loss and other comprehensive income of the Group for the year ended 31 December 2016 HK\$'000
		HK\$'000 Note 5	HK\$'000 Note 6	HK\$'000 Note 7	
Revenue	2,589,221	—	—	—	2,589,221
Cost of sales	(1,829,360)	—	—	—	(1,829,360)
Gross profit	759,861	—	—	—	759,861
Other gains or losses, net	57,399	—	—	—	57,399
Selling and marketing costs	(93,911)	—	—	—	(93,911)
Administrative expenses	(159,379)	—	(4,070)	—	(163,449)
Net realised and unrealised gain on investments held for trading	8,791	—	—	—	8,791
Share of profits or losses of joint ventures	1,695	—	—	—	1,695
Share of loss of an associate	(1)	—	—	—	(1)
Finance costs	(117,564)	—	—	—	(117,564)
Profit before income tax	456,891	—	(4,070)	—	452,821
Income tax expense	(143,839)	—	—	—	(143,839)

APPENDIX III

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

	Audited consolidated statement of profit or loss and other comprehensive income of the Group for the year ended 31 December 2016 HK\$'000 Note 2	Pro forma adjustments			Unaudited pro forma consolidated statement of profit or loss and other comprehensive income of the Group for the year ended 31 December 2016 HK\$'000
		HK\$'000 Note 5	HK\$'000 Note 6	HK\$'000 Note 7	
Profit for the year	313,052	—	(4,070)	—	308,982
Other comprehensive expenses, net of income tax:					
<i>Items may be reclassified subsequently to profit or loss:</i>					
Net loss arising on revaluation of available-for-sale investment during the year	(3,138)	—	—	—	(3,138)
Reclassification adjustments relating to disposal of available-for-sale investment during the year	(2,419)	—	—	—	(2,419)
Exchange differences arising from translation of foreign operations	(279,303)	—	—	—	(279,303)
Other comprehensive expenses for the year, net of income tax	(284,860)	—	—	—	(284,860)
Total comprehensive income for the year	28,192	—	(4,070)	—	24,122

APPENDIX III

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

	Audited consolidated statement of profit or loss and other comprehensive income of the Group for the year ended 31 December 2016 HK\$'000 Note 2	Pro forma adjustments			Unaudited pro forma consolidated statement of profit or loss and other comprehensive income of the Group for the year ended 31 December 2016 HK\$'000
		HK\$'000 Note 5	HK\$'000 Note 6	HK\$'000 Note 7	
Profit for the year attributable to:					
Owners of the Company	302,334	(42,570)	(3,361)	14,183	270,586
Non-controlling interests	10,718	42,570	(709)	(14,183)	38,396
	<u>313,052</u>	<u>—</u>	<u>(4,070)</u>	<u>—</u>	<u>308,982</u>
Total comprehensive income/(loss) for the year attributable to:					
Owners of the Company	44,908	(29,907)	(3,361)	14,183	25,823
Non-controlling interests	(16,716)	29,907	(709)	(14,183)	(1,701)
	<u>28,192</u>	<u>—</u>	<u>(4,070)</u>	<u>—</u>	<u>24,122</u>

APPENDIX III

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

Unaudited Pro Forma Consolidated Statement of Cash Flows the Group

	Audited consolidated statement of cash flows of the Group for the year ended 31 December 2016 HK\$'000 Note 2	Pro forma adjustments HK\$'000 Note 5		Unaudited pro forma consolidated statement of cash flows of the Group for the year ended 31 December 2016 HK\$'000 Note 6
Operating activities				
Profit before income tax	456,891	—	(4,070)	452,821
Adjustments for:				
Depreciation and amortisation	129,378	—	—	129,378
Finance costs	117,564	—	—	117,564
Net gain on disposal of property, plant and equipment	(257)	—	—	(257)
Realised and unrealised gain on investments held for trading	(8,790)	—	—	(8,790)
Dividend income	(769)	—	—	(769)
Interest income	(23,970)	—	—	(23,970)
Equity settled share-based payments	1,075	—	—	1,075
Fair value change on financial derivatives	487	—	—	487
Share of loss of an associate	1	—	—	1
Reversal of impairment and written off of trade receivables	(279)	—	—	(279)
Provision of inventories	7,058	—	—	7,058
Impairment of trade receivables	784	—	—	784
Impairment of an available-for-sale investment	460	—	—	460
Impairment of intangible assets	359	—	—	359
Gain on disposal of available-for-sale investment	(2,848)	—	—	(2,848)
Write back of long-aged accounts	(3,059)	—	—	(3,059)
Reversal of written off of other receivables	(5,495)	—	—	(5,495)
Share of profit of joint ventures	(1,695)	—	—	(1,695)

APPENDIX III**UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE GROUP**

	Audited consolidated statement of cash flows of the Group for the year ended 31 December 2016	Pro forma adjustments		Unaudited pro forma consolidated statement of cash flows of the Group for the year ended 31 December 2016
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>Note 2</i>	<i>Note 5</i>	<i>Note 6</i>	
Operating cash flows before movements in working capital	666,895	—	(4,070)	662,825
Proceeds from disposal of investments held for trading	39,750	—	—	39,750
Decrease in amount due from a joint venture	1,375	—	—	1,375
Purchase of investments held for trading	(3,429)	—	—	(3,429)
Increase in inventories	2,620	—	—	2,620
Increase in trade and other receivables, prepayment and deposits	(65,304)	—	—	(65,304)
Increase in trade and other payables	26,296	—	—	26,296
Cash generated from operations	668,203	—	(4,070)	664,133
Income tax refund	1,102	—	—	1,102
Income tax paid	(146,664)	—	—	(146,664)
Net cash generated from operating activities	522,641	—	(4,070)	518,571

APPENDIX III
**UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE GROUP**

	Audited consolidated statement of cash flows of the Group for the year ended 31 December 2016 <i>HK\$'000</i> <i>Note 2</i>	Pro forma adjustments <i>HK\$'000</i> <i>Note 5</i> <i>HK\$'000</i> <i>Note 6</i>		Unaudited pro forma consolidated statement of cash flows of the Group for the year ended 31 December 2016 <i>HK\$'000</i>
Investing activities				
Decrease in deposits with banks	56,867	—	—	56,867
Increase in pledged bank deposits	(33,197)	—	—	(33,197)
Purchases of property, plant and equipment	(479,013)	—	—	(479,013)
Decrease in deposits for acquisition of property, plant and equipment	10,316	—	—	10,316
Interest received	26,464	—	—	26,464
Dividend received	769	—	—	769
Proceeds from disposal of property, plant and equipment	1,278	—	—	1,278
Net cash outflow on acquisition of subsidiaries	(63,212)	—	—	(63,212)
Purchase of addition land use right	(53,059)	—	—	(53,059)
Proceeds from disposal of available-for-sale investments	68,864	—	—	68,864
Payments to acquire available-for-sale investments	(22,245)	—	—	(22,245)
Advance of loans to a company subsequently acquired as subsidiary	(233,780)	—	—	(233,780)
Net cash used in investing activities	(719,948)	—	—	(719,948)

APPENDIX III
**UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE GROUP**

	Audited consolidated statement of cash flows of the Group for the year ended 31 December 2016 <i>HK\$'000</i> <i>Note 2</i>	Pro forma adjustments <i>HK\$'000</i> <i>Note 5</i> <i>HK\$'000</i> <i>Note 6</i>		Unaudited pro forma consolidated statement of cash flows of the Group for the year ended 31 December 2016 <i>HK\$'000</i>
Financing activities				
Proceeds from new borrowing	379,016	—	—	379,016
Repayments of borrowings	(201,318)	—	—	(201,318)
Net proceeds from issue of exchangeable bonds	229,504	—	—	229,504
Interest paid	(93,993)	—	—	(93,993)
Final dividend paid	(59,774)	—	—	(59,774)
Net cash flow in respect of changes in ownership interest of subsidiaries	(275,338)	—	—	(275,338)
Increase in deferred revenue	1,426	—	—	1,426
Proceeds from loan from a non-controlling shareholder of a subsidiary	11,000	—	—	11,000
Increase in amount due to a non-controlling shareholder of a subsidiary	216	—	—	216
Payment for redemption of convertible bonds	(207,748)	—	—	(207,748)
Payment for shares repurchase	(4,211)	—	—	(4,211)
Transaction cost attributable to issue of ordinary shares of a subsidiary	—	(2,360)	—	(2,360)
Net cash generated from financing activities	(221,220)	(2,360)	—	(223,580)

APPENDIX III
**UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE GROUP**

	Audited consolidated statement of cash flows of the Group for the year ended 31 December 2016 <i>HK\$'000</i> <i>Note 2</i>	Pro forma adjustments <i>HK\$'000</i> <i>Note 5</i> <i>HK\$'000</i> <i>Note 6</i>		Unaudited pro forma consolidated statement of cash flows of the Group for the year ended 31 December 2016 <i>HK\$'000</i>
Net decrease in cash and cash equivalents	(418,527)	(2,360)	(4,070)	(424,957)
Cash and cash equivalent at beginning of the year	1,189,255	—	—	1,189,255
Effect of foreign exchange rate changes	(61,418)	—	—	(61,418)
Cash and cash equivalents at end of year	709,310	(2,360)	(4,070)	702,880
Analysis of balances of cash and cash equivalents				
Bank and cash balances as stated in the audited consolidated statement of financial position	901,198	(2,360)	(4,070)	894,768
Pledged deposits with banks pledged as security for borrowings	(25,116)	—	—	(25,116)
Non-pledged deposits with banks with original maturity of more than three months when acquired	(166,772)	—	—	(166,772)
Cash and cash equivalents as stated in the consolidated statement of cash flows	709,310	(2,360)	(4,070)	702,880

Notes:

1. The balances are extracted from the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2017, as set out in the published interim report of the Company for the six months ended 30 June 2017.
2. The balances are extracted from the audited consolidated statement of profit or loss and other comprehensive income, consolidated statement of cash flows for the year ended 31 December 2016 as set out in the published annual report of the Company for the year ended 31 December 2016.
3. In order to implement the Transaction, Group Sense (International) Limited (“GS”) and Sure Sino Global Limited (“**Sure Sino**”), a wholly-owned subsidiary of GS entered into (i) the a sale and purchase agreement with Capital Idea Investments Limited (“**CIIL**”), the Company and Ming Xin Developments Limited (“**Ming Xin**”) (the “**CIIL SPA**”) and (ii) another sale and purchase agreement with Win Union Limited (“**Win Union**”) (the “**WU SPA**”), pursuant to which Sure Sino conditionally agreed to acquire and both CIIL and Win Union conditionally agreed to sell their respective entire equity interest in Fullocean Group Limited (“**FGL**”) and China Rare Earth Magnesium Technology Holdings Limited (“**CRE**”) by the transfer of 100% equity interest in FGL and CRE to Sure Sino, upon completion of the Transaction, FGL and its subsidiaries (“**FGL Group**”) will become an indirect wholly owned subsidiaries of GS.

The pro forma adjustment represents the dilution of non-controlling interest in FGL Group and GS upon the completion of the Transaction as follow:

- (a) Pursuant to CIIL SPA, the consideration is to be settled by the issue of 3,269,919,980 ordinary shares of GS (the “**Consideration Shares**”) and convertible bond (“**Convertible Bond**”) with a principal amount of HK\$420,000,000 to Ming Xin; and pursuant to the WU SPA, the consideration is to be settled by the issue of 430,080,020 Consideration Shares to Win Union. The estimated transaction cost in relation to the issuance of Consideration Share by GS was approximately HK\$2,360,000 will be included in other reserve and settled by cash.
- (b) Under the WU SPA, Win Union will transfer its equity interest in FGL and CRE to Sure Sino. The non-controlling interest of approximately HK\$79,035,000 will be de-recognised.
- (c) Upon completion of the Transaction, the effective equity interest in GS held by the Company will increase from 51.88% to 72.42%. Non-controlling interest in GS will be decreased by approximately HK\$89,120,000 and FGL Group will become the indirect wholly owned subsidiaries of GS. Non-controlling interest of 27.58% in FGL Group of approximately HK\$233,805,000 will be recognised.
- (d) Recognition of other reserve of approximately HK\$68,010,000 calculated as the difference between adjustment (a), (b) and (c) above which is due to the Transaction are accounted as business combinations under common control and will be accounted for using the principles of merger accounting in accordance with Accounting Guideline 5 “Merger Accounting for Common Control Combinations” issued by the Hong Kong Institute of Certified Public Accountants.

4. The pro forma adjustments represent the estimated transaction cost of approximately HK\$4,070,000 that are directly attributable to the Transaction, as if the Transaction had been completed on 30 June 2017. The transaction cost of approximately HK\$2,570,000 are directly related to GS. As the effective equity interest held by the Company in GS will change to 72.42% upon the completion of the Transaction, approximately HK\$709,000 of the transaction cost will be attributable to the non-controlling interest.
5. Upon completion of the Transaction, the effective equity interest held by the Company in GS will increase from 51.88% to 72.42%. The pro forma adjustment represents the dilution of profit for the year and total comprehensive income attributable to non-controlling interest in FGL Group and GS upon the completion of the Transaction as follow:
 - (a) Pursuant to CIIL SPA, the consideration is to be settled by the issue of 3,269,919,980 Consideration Shares and Convertible Bond with a principal amount of HK\$420,000,000 to Ming Xin; and pursuant to the WU SPA, the consideration is to be settled by the issue of 430,080,020 Consideration Shares to Win Union. The estimated transaction cost in relation to the issuance of Consideration Shares by GS was approximately HK\$2,360,000 and was settled by cash.
 - (b) Under the WU SPA, Win Union will transfer its equity interest in FGL and CRE to Sure Sino. The profit for the year and total comprehensive income attributable to WU of approximately HK\$15,974,000 and approximately HK\$9,062,000 respectively will be derecognised.
 - (c) Upon completion of the Transaction, the effective equity interest in GS held by the Company will increase from 51.88% to 72.42%. The loss for the year and total comprehensive loss for the year attributable to the non-controlling interest in GS will be decreased by approximately HK\$6,315,000 and approximately HK\$11,865,000 respectively. The FGL Group will become the subsidiaries of GS upon completion of the Transaction. Profit for the year and total comprehensive income attributable to non-controlling interest in FGL Group of approximately HK\$52,229,000 and approximately HK\$27,104,000 will be recognised.
6. The pro forma adjustments represent the estimated transaction cost of approximately HK\$4,070,000 that are directly attributable to the Transaction, as if the Transaction had been completed on 1 January 2016. The transaction cost of approximately HK\$2,570,000 are directly related to GS. As the effective equity interest held by the Company in GS will increase to 72.42% upon the completion of the Transaction, approximately HK\$709,000 of the transaction cost will be attributable to the non-controlling interest.
7. Under the CIIL SPA, GS will issue the Convertible Bond to Ming Xin as consideration. The pro forma adjustment represents the effect of imputed interest expenses of approximately HK\$51,425,000 of the Convertible Bonds charged to the profit or loss in GS. In preparation of the Unaudited Pro Forma Financial Information, it is assumed that the effective interest rate of the Convertible Bonds was approximately 17.31%. These interest expenses will have a continuing effect on the financial statements of GS in subsequent years. As the effect equity interest held by the Company in GS was 72.42% upon the completion of the Transaction, the imputed interest expenses of approximately HK\$14,183,000 will be attributable to the non-controlling interest.

The effective interest rate shall be assessed in the Completion date with reference to the valuation to be carried out by an independent valuer on that day and is therefore subject to change upon completion of the Transaction.
8. Apart from the above, no other adjustment has been made to reflect any results or other transaction of the Group entered into subsequent to 30 June 2017.

B. REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from the independent reporting accountants, HLB Hodgson Impey Cheng Limited, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular, in connection with the unaudited pro forma financial information.



國衛會計師事務所有限公司
Hodgson Impey Cheng Limited

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

27 October 2017

**INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT
ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL
INFORMATION INCLUDED IN AN INVESTMENT CIRCULAR****TO DIRECTORS OF CENTURY SUNSHINE GROUP HOLDINGS LIMITED**

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Century Sunshine Group Holdings Limited (the “**Company**”) and its subsidiaries (collectively the “**Group**”) by the directors for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of financial position as at 30 June 2017, the unaudited pro forma consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2016, the unaudited pro forma consolidated statement of cash flows for the year ended 31 December 2016, and related notes as set out on pages III-2 to III-14 of the investment circular issued by the Company dated 27 October 2017 (the “**Circular**”). The applicable criteria on the basis of which the directors have compiled the unaudited pro forma financial information are described in Appendix III of the Circular.

The unaudited pro forma financial information has been compiled by the directors to illustrate the impact of the proposed reorganisation plan in relation to the disposal of the direct and indirect shareholdings in China Rare Earth Magnesium Technology Holdings Limited on the Group's financial position as at 30 June 2017 and the

Group's financial performance and cash flows for the year ended 31 December 2016 as if the transaction had taken place on 30 June 2017 and 1 January 2016 respectively. As part of this process, information about the Group's unaudited condensed consolidated statement of financial position has been extracted by the directors from the Group's unaudited condensed consolidated financial statements for the period ended 30 June 2017, on which an interim report of the Group for the period ended 30 June 2017 has been published and the audited consolidated statement of profit or loss and other comprehensive income, consolidated statement of cash flows for the year ended 31 December 2016 have been extracted by the directors from the Group's audited financial statements for the year ended 31 December 2016, on which an annual report of the Group for the year ended 31 December 2016 has been published.

Directors' Responsibility for the Unaudited 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, "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("**AG 7**") issued by the Hong Kong Institute of Certified Public Accountants ("**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.

The firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms that Perform Audits and Review 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 the purpose 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 unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction 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 event or transaction at 30 June 2017 or 1 January 2016 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 event or 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' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the event or 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 compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Wong Sze Wai, Basilia
Practising Certificate Number: P05806

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. DISCLOSURE OF INTERESTS**(a) Interests and short positions of the Directors and chief executives in the Company and its associated corporations**

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executives of the Company in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meanings of Part XV of the SFO) which were required (i) 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 were deemed or taken to have under the provisions of the SFO); (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies had been notified to the Company and the Stock Exchange were as follows:

(i) *Long positions in the Shares or underlying Shares of the Company and its associated corporations*

Name of Director	Capacity and nature of interests	Number of Shares held	Number of Shares which may be allotted and issued upon the exercise of options held	Total Shares and underlying Shares	Approximate percentage of interest (%) (Note 1)
Chi Wen Fu ("Mr. Chi")	Beneficial owner	237,235,548	25,556,580	262,792,128	5.74%
	Interest in controlled corporation (Note 2)	1,341,871,364	—	1,341,871,364	29.29%
Shum Sai Chit ("Mr. Shum")	Beneficial owner	14,666,305	11,500,461	26,166,766	0.57%
Chi Bi Fen	Beneficial owner	12,352,499	19,167,435	31,519,934	0.69%
Guo Mengyong	Beneficial owner	2,625,000	3,833,487	6,458,487	0.14%
Kwong Ping Man	Beneficial owner	—	6,389,145	6,389,145	0.14%
Sheng Hong	Beneficial owner	1,775,000	3,611,316	5,386,316	0.12%
Lau Chi Kit	Beneficial owner	—	6,389,145	6,389,145	0.14%

Notes:

- Based on 4,581,116,843 Shares in issue as at the Latest Practicable Date.
- Mr. Chi, an executive Director and the chairman of the Company, was deemed to be interested in the 1,341,871,364 Shares held by Alpha Sino International Limited ("Alpha Sino") by virtue of Mr. Chi's holding of 83.74% of the issued share capital of Alpha Sino.

(ii) *Long positions in debentures*

Name of Director	Capacity and nature of interest	Amount of debentures held (SGD)
Mr. Chi	Beneficial owner	2,500,000

Save as disclosed above, to the best knowledge of the Directors as at the Latest Practicable Date, none of the Directors and chief executive of the Company had any interests or short positions in any Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required (i) 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 he is taken or deemed to have under such provisions of the SFO); (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange.

3. DISCLOSURE OF INTERESTS OF SUBSTANTIAL SHAREHOLDERS OF THE COMPANY

As at the Latest Practicable Date, according to the register kept by the Company pursuant to Section 336 of the SFO and, so far as is known to the Directors, the persons (other than a Director or chief executive of the Company or their respective associates) or entities who had, or were deemed or taken to have, an interest or a short position in the Shares or the underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company, or of any other company which is a member of the Group, or in any options in respect of such share capital were as follows:

Name of Shareholder	Number of shares (Note 1)	Approximate percentage of interest (%)
Alpha Sino (Note 1)	1,341,871,364	29.29%
International Finance Corporation (Note 2)	793,526,275	17.32%

Notes:

1. Alpha Sino is owned as to 83.74% by Mr. Chi and its directors are Mr. Chi and Mr. Shum. Pursuant to a share mortgage agreement (“Share Mortgage Agreement”) dated 10 July 2014, Alpha Sino had mortgaged 549,280,000 Shares (representing approximately 12% of the issued share capital of the Company as at the Latest Practicable Date) to International Finance Corporation (“IFC”) as security for a loan agreement dated 30 May 2014 (as amended and restated on 7 December 2015) entered into between IFC and Baishan City Tianan Magnesium Resources Co. Ltd, a 87.95% owned subsidiary of the Company.
2. IFC has interest in an aggregate of 793,526,275 Shares of which (a) 244,246,275 Shares are beneficially owned by it and registered in its name; and (b) 549,280,000 Shares pursuant to the Share Mortgage Agreement.

Save as disclosed herein, so far as is known to the Directors, as at the Latest Practicable Date, no person (other than a Director or chief executive of the Company or their respective associates) had, or were deemed or taken to have, an interest or a short position in the Shares or the underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company, or of any other company which is a member of the Group, or any options in respect of such share capital.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors was a director or employee of a company which had an interest or a short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

4. DIRECTORS’ SERVICE CONTRACTS

As at the Latest Practicable Date, no Director had a service contract with the Company or any member of the Group which is not determinable by the Group within one year without payment of any compensation (other than statutory compensation).

There will be no variation to the remuneration payable to and benefits in kind receivable by the Directors in consequence of the Transactions.

5. INTERESTS IN ASSETS AND CONTRACTS AND COMPETING INTERESTS

As at the Latest Practicable Date,

1. none of the Directors had any interest, either directly or indirectly, in any assets which has since 31 December 2016 (being the date to which the latest published audited consolidated financial statements of the Group were made up) up to the Latest Practicable Date, been acquired or disposed of by or leased to, any member of the Group or are proposed to be acquired or disposed of by, or leased to, any member of the Group; and
2. none of the Directors was materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Group subsisting at the Latest Practicable Date and which is significant in relation to the business of the Group.

As at the Latest Practicable Date, none of the Directors or their respective close associates had any interests in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group.

6. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2016, the date to which the latest published 2016 full year results of the Group were made up.

7. QUALIFICATION AND CONSENT OF EXPERT

The following is the qualification of the expert who has given advice, letter or opinion for incorporation and as contained in this circular:

Name	Qualification
HLB Hodgson Impey Cheng Limited	Certified Public Accountants

As at the Latest Practicable Date, the expert identified above has no shareholding, direct or indirect, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, the expert identified above had no direct or indirect interest in any assets which had been, since 31 December 2016 (the date to which the latest published audited consolidated financial statements of the Group were made up), acquired, disposed of by, or leased to any member of the Group, or were proposed to be acquired, disposed of by, or leased to any member of the Group.

The expert identified above has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which they are included.

8. LITIGATION

(a) Mr. Miao Xi Zhu against Mr. Shum Sai Chit, Mr. Chi Wen Fu, CIIL and Win Union

On 15 January 2013, CIIL acquired 2,180 CRE Shares from Mr. Miao Xi Zhu (“Mr. Miao”) at a consideration of HK\$32,089,382 (“CRE Transaction”).

Mr. Miao considered that he was misled to enter into the transaction at an undervalue. On 6 October 2014, Mr. Miao lodged a claim in relation to the transaction at the High Court of Hong Kong (“Court”) against Mr. Shum, Mr. Chi, CIIL and Win Union for the losses arising from selling shares at an undervalue. Mr. Shum, Mr. Chi and CIIL considered that the allegation of Mr. Miao went against the facts seriously. Prior to the completion of the transaction, Mr. Miao has been the second largest shareholder and director of CRE with a full knowledge of its overall operation and development plans. The consideration of the transaction was determined after over one month’s negotiation between the parties based on the assets, liabilities and performance of CRE, and thus there was no so-called sales at undervalue. To the best knowledge of the Company, as of Latest Practicable Date, the writ of summons of the litigation (“Writ”) has been served on Mr. Shum, Mr. Chi, but not CIIL. The Writ has to be served on CIIL within 12 calendar months from its issue (i.e. 6 October 2014) unless renewed by the order of the Court. The renewal of the Writ is at the discretion of the Court upon application by the plaintiff of the case and after considering the grounds for the application submitted by

the plaintiff. As at the Latest Practicable Date, the service period of the Writ has expired and the Directors are not aware of any renewal of the Writ by the order of the Court. In light of the above, the Directors considered the claim by Mr. Miao against, among others, CIIL will not affect the Transactions nor have a material adverse impact on the business operation and financial position of the Group. In addition, in any event, the Directors considered the claim of Mr. Miao to have no ground nor merit. The Directors are of the opinion that no provision is required to be made.

(b) Shandong Hongri as defendant

***Contract Dispute with 平安銀行大連分行 (Ping An Bank Dalian Branch*)
("Ping An Bank Dalian")***

On 29 August 2014, Ping An Bank Dalian, as the plaintiff, filed a lawsuit to 大連市中級人民法院 (Dalian Intermediate People's Court) ("Dalian Court") against (i) 遼寧天成豐農農業發展有限公司 (Liaoning Tiancheng Agricultural Development Co., Ltd.*) ("Liaoning Tiancheng") to demand for the repayment of loan ("Loan") in the principal amount of RMB20,000,000 and the late interests; and (ii) the other five defendants, including Shandong Hongri in respect of the repayment obligations under the respective guarantee agreements entered into among Ping An Bank Dalian, Liaoning Tiancheng and each of the five defendants for the provision of guarantee in respect of the Loan up to a maximum amount of RMB20,000,000.

On 6 March 2015, Dalian Court dismissed the plaintiff's request against Shandong Hongri.

On 14 April 2015, Ping An Bank Dalian filed an appeal to 遼寧省高級人民法院 (Liaoning High People's Court*) ("Liaoning Court") to demand for the confirmation of Shandong Hongri's repayment obligations under the guarantee agreement. On 10 December 2015, Liaoning Court issued the final judgment that Shandong Hongri shall be responsible for the payment of outstanding principal and interest of the Loan under the guarantee agreement.

In 2016, Shandong Hongri submitted a request for a retrial to 中華人民共和國最高人民法院 (The Supreme People's Court of The PRC) (the "Supreme Court") in order to revoke the judgment made by Liaoning Court and to dismiss the claim against Shandong Hongri by Ping An Bank Dalian. On 24 June 2016, the Supreme Court dismissed Shandong Hongri's request.

As informed by the management of Shandong Hongri, Shandong Hongri is in negotiation on the claims from Ping An Bank Dalian and it has made full provision of approximately RMB19,231,000 (equivalent to approximately HK\$21,539,000) in respect of claims for the accounting year/period.

(c) Shandong Hongri as plaintiff

Contract dispute case with 遼寧錦豐農業生產資料有限公司 (Liaoning Jinfeng Agricultural Production Ltd., “Liaoning Jinfeng”) and Liaoning Tiancheng*

On 12 May 2014, Shandong Hongri, as the applicant, filed an application to Linyi Arbitration Committee for the ruling of (i) payment of RMB 9 million as compensation as well as interest and penalty to Shandong Hongri for breach of contract by Liaoning Jinfeng and/or Liaoning Tiancheng as the guarantor of the obligation by Liaoning Jinfeng under the said contract; and (ii) payment of litigation cost by both Liaoning Jinfeng and Liaoning Tiancheng.

On 28 May 2014, Shandong Hongri lodged a complaint to 臨沂市公安局羅莊分局 (Linyi Luozhuang Public Security*) and demanded for (i) an investigation by the Linyi Luozhuang Public Security as to whether there are criminal liabilities of Liaoning Jinfeng, Liaoning Tiancheng and their responsible officers in relation to the breach of contract; and (ii) the return of advance payment of RMB 9 million and compensation for economic losses to Shandong Hongri by Liaoning Jinfeng and/or Liaoning Tiancheng.

On 2 July 2014, Linyi Luozhuang Public Security notified 陳桂平 (Chen Guiping*), the controller of both Liaoning Jinfeng and Liaoning Tiancheng that the contract fraud case was being investigated. On 26 August 2014, Linyi Luozhuang Public Security issued a warrant to detain Chen Guiping at 臨沂市看守所 (Linyi City Detention Centre*).

On 23 July 2015, Luozhuang Court issued a ruling in favour of the applicant and ordered that (i) the property of Shandong Hongri shall be preserved, and (ii) the bank deposit of RMB10,000,000 of Liaoning Jinfeng and Liaoning Tiancheng or assets with equivalent value shall be frozen.

As advised by the management of Shandong Hongri, the case is still being investigated by the police as at Latest Practicable Date.

Save for the contractual dispute with Ping An Bank Dalian which results in the provision of the claims made in the accounts of the Group, the Board does not envisage that the above legal proceedings will have any material adverse impact on the financial performance and trading position of the Group.

Save as disclosed above, so far as the Directors are aware, as at the Latest Practicable Date, no member of the Group was involved in any litigation or claim of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened by or against any member of the Group.

9. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business of the Group) were entered into by member(s) of the Group within the two years immediately preceding the date of this circular which are or may be material:

- (i) the guarantee agreement dated 13 November 2015 entered into between Shandong Hongri and 臨沭縣農村信用合作聯社 (Linshu Agricultural Credit Cooperation Union*) (the “Linshu Credit Union”), a licensed financial institution in the PRC and an Independent Third Party, for the provision of the guarantee by Shandong Hongri in favour of 臨沂美聯重工有限公司 (Linyi Meilian Zhonggong Co. Ltd.*) (“Linyi Meilian”), an Independent Third Party for the maximum amount of RMB58,500,000 (equivalent to approximately HK\$65,520,000) in respect of a loan granted by Linshu Credit Union to Linyi Meilian for a principal loan amount of RMB39,000,000 (equivalent to approximately HK\$43,680,000) for the period from 13 November 2015 to 12 November 2016;
- (ii) the guarantee agreement dated 19 November 2015 entered into between Shandong Hongri and 平安銀行臨沂分行 (Ping An Bank Linyi Branch*) (the “Ping An Bank Linyi”) for the provision of the guarantee by Shandong Hongri in favour of Linyi Yehua for the maximum amount of RMB48,000,000 (equivalent to approximately HK\$53,760,000) in respect of a loan granted by Ping An Bank Linyi to Linyi Yehua for a principal amount of RMB48,000,000 (equivalent to approximately HK\$53,760,000) for a period from 19 November 2015 to 19 May 2016;
- (iii) the guarantee agreement dated 16 January 2016 entered into between Shandong Hongri and 中國農業銀行股份有限公司臨沂羅莊支行 (Agricultural Bank of China, Linyi Luozhuang Branch*) (the “Agricultural Bank Linyi”), a

licensed financial institution in the PRC and an Independent Third Party, for the provision of the guarantee by Shandong Hongri in favour of Huasheng, an Independent Third Party for the maximum amount of RMB41,000,000 (equivalent to approximately HK\$45,920,000) in respect of a loan granted by Agricultural Bank Linyi to Huasheng for a principal amount of RMB41,000,000 (equivalent to approximately HK\$45,920,000) for the period from 16 January 2016 to 16 May 2016;

- (iv) the guarantee agreement dated 20 March 2016 entered into between Shandong Hongri and Agricultural Bank Linyi for the provision of the guarantee by Shandong Hongri in favour of Huasheng for the maximum amount of RMB50,000,000 (equivalent to approximately HK\$56,000,000) in respect of a loan granted by Agricultural Bank Linyi to Huasheng for a principal amount of RMB50,000,000 (equivalent to approximately HK\$56,000,000) for the period from 20 March 2016 to 19 March 2017;
- (v) the guarantee agreement dated 6 May 2016 entered into between Shandong Hongri and Agricultural Bank Linyi and Huasheng for the provision of the guarantee by Shandong Hongri in favour of Huasheng for the maximum amount of RMB50,000,000 (equivalent to approximately HK\$56,000,000) in respect of a loan granted by Agricultural Bank Linyi to Huasheng for a principal amount of RMB50,000,000 (equivalent to approximately HK\$56,000,000) for the period from 6 May 2016 to 5 November 2016;
- (vi) the subscription agreement dated 26 April 2016 entered into among the Company (as issuer), Wan Tai Investments Limited (an indirectly and wholly-owned subsidiary of CCB International (Holdings) Limited, as investor) and Mr. Chi (as obligor) for the issuance of a fixed rate exchangeable bonds in the principal amount of HK\$232,000,000;
- (vii) the acquisition agreement dated 3 August 2016 entered into among Long Xiang Enterprises Limited (a direct wholly-owned subsidiary of the Company, as the purchaser), Prosperous Rich Holdings Limited (a company indirectly held by the Company's former executive director, Mr. Yang Yuchuan, as the vendor) and Acronagrotrans Ltd (as the target company, which directly holds 50.5% interests in Shandong Hongri), pursuant to which, the purchaser conditionally agreed to buy, and the vendor conditionally agreed to sell the entire equity interest in the target company, at the cash consideration of US\$1 (equivalent to approximately HK\$7.8), and the Group agreed to procure financing from

banks and financial institutions and/or shall provide any forms of guarantee or securities (upon request by such banks and financial institutions) in aggregate loan amount not exceeding RMB250,000,000 (equivalent to approximately HK\$280,000,000) to Shandong Hongri; and

(viii) the CIIL SPA.

10. DOCUMENTS AVAILABLE FOR INSPECTION

A copy of the following documents will be available for inspection during the normal business hours from 9:00 a.m. to 5:00 p.m. at the principal place of business of the Company in Hong Kong at Unit 2605, Harbour Centre, 25 Harbour Road, Wanchai, Hong Kong from the date of this circular up to and including 21 November 2017 (save for Saturday and public holidays):

- (i) the memorandum of association and articles of association of the Company;
- (ii) the annual reports of the Company for the three years ended 31 December 2016 and the interim report of the Company for the six months ended 30 June 2017;
- (iii) the material contracts referred to in the section headed “Material Contracts” in this appendix;
- (iv) the accountants’ report of the Target Group, the text of which is set out in Appendix II to this circular;
- (v) the report on the unaudited pro forma financial information of the Group, the text of which is set out in Appendix III to this circular;
- (vi) the letter of consent from the expert identified in the section headed “Qualification and Consent of Expert” above in this appendix;
- (vii) the CIIL SPA; and
- (viii) this circular.

11. GENERAL

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

- (2) The company secretary of the Company is Mr. LUK Sai Wai, Simon who holds a bachelor's degree in business administration from Hong Kong Baptist University and a master's degree in business administration from University of Strathclyde. He is an associate member of The Institute of Chartered Accountants in England and Wales, an associate member of Hong Kong Institute of Certified Public Accountants, and a member of Society of Registered Financial Planners, Hong Kong. Mr. Luk has joined the Group since May 2010.

NOTICE OF EXTRAORDINARY GENERAL MEETING



世紀陽光

世紀陽光集團控股有限公司 CENTURY SUNSHINE GROUP HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 509)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “EGM”) of Century Sunshine Group Holdings Limited (the “**Company**”) will be held at Boardroom 3-4, Mezzanine Floor, Renaissance Harbour View Hotel Hong Kong, 1 Harbour Road, Wanchai, Hong Kong on Tuesday, 21 November 2017 at 4 p.m. for the purpose of considering and, if thought fit, passing with or without modifications, the following resolution as ordinary resolution of the Company:

ORDINARY RESOLUTION

“**THAT:**

- (a) the CIIL SPA (as defined in the circular dated 27 October 2017 despatched to the shareholders of the Company (the “**Circular**”), a copy of the CIIL SPA marked “A” together with a copy of the Circular marked “B” being tabled before the meeting and initialled by the chairperson of the meeting for the purpose of identification) and the terms and the transactions contemplated under the CIIL SPA, be and are hereby approved, confirmed and ratified; and
- (b) any one director of the Company (the “**Director**”) or (if affixing of seal is required) any two Directors be and are hereby authorised to execute all such other documents and agreements and to do all such acts or things deemed by him/her to be incidental to, ancillary to or in connection with the matters contemplated under the CIIL SPA

NOTICE OF EXTRAORDINARY GENERAL MEETING

and completion of the CIIL SPA as he/she may consider necessary, desirable or expedient to give effect to the CIIL SPA and the CIIL Transaction (as defined in the Circular), including, without limitation, exercising or enforcing any right under the CIIL SPA and to agree to any amendments to any of the terms of the CIIL SPA.”

By Order of the Board
Century Sunshine Group Holdings Limited
Chi Wen Fu
Chairman

Hong Kong, 27 October 2017

Notes:

- (1) Any member of the Company entitled to attend and vote at the EGM (or any adjournment of EGM) is entitled to appoint one proxy or more proxies (for member of the Company who is the holder of two or more shares) to attend and vote in his or her stead. A proxy need not be a member of the Company.
- (2) In order to be valid, the form of proxy completed in accordance with the instructions set out in the form, together with the power of attorney or other authority (if any) under which it is signed (or a certified copy of that power or authority) must be deposited at the Company’s branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong not less than 48 hours before the time appointed for holding the EGM or any adjournment of EGM.
- (3) Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or any adjournment of EGM (as the case may be) should you so wish, and in such event, the form of proxy shall be deemed to be revoked.
- (4) In case of joint holders of any share, any one of such joint holders may vote at the EGM, either in person or by proxy, in respect of such share as if he were solely entitled to vote at EGM, but if more than one of such joint holders are present at the EGM in person or by proxy, then one of the said persons to present whose name stands first on the register of members in respect of such share shall alone be entitled to vote in respect of such share.
- (5) A form of proxy for use at the EGM is enclosed with this notice.
- (6) In compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the resolution to be proposed at the meeting convened by this notice will be voted on by way of poll with Mr. Shum Sai Chit and Ms. Chi Bi Fen abstaining from voting.
- (7) If there is a “black” rainstorm warning or a tropical cyclone warning signal number 8 or above in force at or after 12:00 noon on date of the EGM and/or the Hong Kong Observatory has announced at or after 10:00 a.m. on date of the EGM that either of the above mentioned warnings is to be issued within the next two hours, the EGM shall be postponed. The Company will post an announcement on the websites of the Company and The Stock Exchange of Hong Kong Limited to notify the Shareholders of the date, time and place of the rescheduled meeting.
- (8) The EGM will be held as scheduled when an amber or red rainstorm warning signal is in force. Shareholders should make their own decision as to whether they would attend the EGM under bad weather conditions bearing in mind their own situations and if they choose to do so, they are advised to exercise care and caution.

NOTICE OF EXTRAORDINARY GENERAL MEETING

- (9) For determining the entitlement to attend and vote at the EGM, the Company's register of members will be closed from Monday, 13 November 2017 to Tuesday, 21 November 2017, both days inclusive, during which time no transfer of shares will be registered. In order to ensure that the shareholders are entitled to attend and vote at the EGM, the shareholders must deliver their duly stamped instruments of transfer, accompanied by the relevant share certificates, to the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong by no later than 4:30 p.m. on Friday, 10 November 2017 for registration of the relevant transfer.

As at the date of this notice, the directors of the Company are:

Executive Directors: *Mr. Chi Wen Fu, Mr. Shum Sai Chit and Ms. Chi Bi Fen*

Non-executive Director: *Mr. Guo Mengyong*

Independent non-executive Directors: *Mr. Kwong Ping Man, Mr. Sheng Hong and Mr. Lau Chi Kit*