

Head & Shoulders Securities Limited
聯合證券有限公司

29 January 2016

To the Independent Shareholders

Dear Sir or Madam,

**MANDATORY UNCONDITIONAL CASH OFFER BY
HEAD & SHOULDERS SECURITIES LIMITED
FOR AND ON BEHALF OF THE OFFEROR TO ACQUIRE
ALL THE ISSUED SHARES (OTHER THAN THOSE ALREADY
OWNED BY THE OFFEROR AND PARTIES ACTING IN CONCERT
WITH IT) IN DAQING DAIRY HOLDINGS LIMITED**

INTRODUCTION

Reference is made to the Joint Announcement.

Immediately following the Completion, the Offeror and persons acting in concert with it were interested in 610,193,622 Shares, representing approximately 60.39% of the entire issued share capital of the Company as at the Latest Practicable Date. Pursuant to Rule 26.1 of the Takeovers Code, the Offeror is required to make an unconditional mandatory cash offer for all the issued Shares other than those already owned or agreed to be acquired by the Offeror and parties acting in concert with it.

Head & Shoulders Securities has been appointed by the Offeror to make the Offer on its behalf. This letter, Appendix I to this Composite Document and the accompanying Form of Acceptance set out, among other things, the terms and other details of the Offer, information on the Offeror and the intention of the Offeror regarding the Group.

The Independent Shareholders are strongly advised to consider carefully the information contained in the "Letter from the Board", the "Letter from the Independent Board Committee" and the "Letter from Independent Financial Adviser" as set out in this Composite Document before deciding whether to accept the Offer.

THE OFFER

Principal terms of the Offer

We are making the Offer for and on behalf of the Offeror in compliance with the



Takeovers Code on the following basis:

For each Offer Share HK\$0.10 in cash

The Offer is unconditional in all respects.

The Offer Price of HK\$0.10 per Offer Share is the same as the price per Sale Share paid by the Offeror to the Vendor under the Sale and Purchase Agreement, was agreed between the Vendor and the Offeror after arm's length negotiations having taken into account, amongst others, (i) the prolonged suspension of trading in the Shares since 22 March 2012; (ii) the subsequent development of the Company's situation as publicly disclosed in its announcements; and (iii) such acquisition of the controlling stake in the Company having proceeded on the basis that the Offeror was only able to assess the Company's difficult situation based on publicly available information and no guarantee, representation or warranty was given by the Vendor to the Offeror to assure any conditions (financial, operation or otherwise) of the Company including but not limited to continuity of existing business, status of financial statements and resumption of the trading of Shares on the Stock Exchange.

As at the Latest Practicable Date, the Company has 1,010,500,000 Shares in issue. The Company does not have any outstanding options, derivatives, warrants or securities which are convertible or exchangeable into Shares and has not entered into any agreement for the issue of such options, derivatives, warrants or securities which are convertible or exchangeable into Shares as at the Latest Practicable Date.

Comparison of value

The Offer Price of HK\$0.10 per Offer Share represents:

- (i) a discount of approximately 94.05% to the closing price of HK\$1.680 per Share as quoted on the Stock Exchange on 21 March 2012, being the Last Trading Day;
- (ii) a discount of approximately 94.63% to the average of the closing prices of the Shares of HK\$1.862 per Share as quoted on the Stock Exchange for the 5 trading days up to and including the Last Trading Day;
- (iii) a discount of approximately 94.85% to the average of the closing prices of the Shares of HK\$1.941 per Share as quoted on the Stock Exchange for the 10 trading days up to and including the Last Trading Day; and
- (iv) a discount of approximately 94.64% to the average of the closing prices of the Shares of HK\$1.864 per Share as quoted on the Stock Exchange for the 30 trading days up to and including the Last Trading Day.

Highest and lowest Share prices

Trading in the Shares on the Stock Exchange has been suspended since 22 March 2012 and will continue to be suspended until further notice. The closing price of the Shares on the Last Trading Day was HK\$1.680 per Share.

Total consideration of the Offer

On the basis of the Offer Price of HK\$0.10 per Offer Share and 1,010,500,000 Shares in issue as at the Latest Practicable Date, the entire issued share capital of the Company is valued at HK\$101.05 million. Excluding 610,193,622 Sale Shares having been acquired by the Offeror pursuant to the Sale and Purchase Agreement, 400,306,378 Shares will be subject to the Offer. Assuming there is no change in the issued share capital of the Company prior to the making of the Offer, the Offer is valued at approximately HK\$40.03 million.

Financial resources available for the Offer

The maximum amount of cash payable by the Offeror in respect of the Offer is approximately HK\$40.03 million. The Offeror will finance and satisfy the cash consideration payable under the Offer by the Facility granted by Head & Shoulders Securities. Under the terms of the Facility, (i) the Shares to be acquired pursuant to the Offer, payment of which is financed by the amount drawn from the Facility, as well as the Sale Shares acquired by the Offeror under the Sale and Purchase Agreement shall be, and have been, charged to Head & Shoulders Securities as security; and (ii) Dr. Choi has executed a personal guarantee for the obligations and liabilities of the Offeror under the Facility. The payment of interest on and repayment of any liability (contingent or otherwise) by the Offeror to Head & Shoulders Securities under the Facility will not depend on the business of the Group.

Veda Capital, being the financial adviser to the Offeror in respect of the Offer, is satisfied that there are sufficient financial resources available to the Offeror to satisfy full acceptances of the Offer.

Effects of accepting the Offer

By accepting the Offer, the relevant Shareholders will sell their Shares to the Offeror free from all liens, claims, charges, encumbrances, rights of pre-emption and any third party rights of any nature and together with all rights attached to them, including the right to receive all dividends and distributions declared, made or paid on or after which the Offer is made, that is, the date of despatch of this Composite Document.

The Offer is unconditional in all respects and will open for acceptance from the date of this Composite Document until 4:00 p.m. on the Closing Date. Acceptance of the Offer tendered by the Independent Shareholders shall be irrevocable once given and cannot be withdrawn except in circumstances set out in Rule 19.2 of the Takeovers Code.

Hong Kong stamp duty

The seller's Hong Kong ad valorem stamp duty arising in connection with acceptance of the Offer amounting to 0.1% of the amount payable in respect of the relevant acceptance or if higher, the market value of the Shares, will be deducted from the amount payable to Shareholders who accept the Offer. The Offeror will bear its own portion of buyer's Hong Kong ad valorem stamp duty at the rate of 0.1% of the amount payable in respect of the relevant acceptances or if higher, the market value of the Shares, and will be responsible to account to the Stamp Office of Hong Kong for stamp duty payable for the sale and purchase of the Shares which are validly tendered for acceptance under the Offer.

Payment

Payment in cash in respect of acceptances of the Offer will be made as soon as possible but in any event within seven (7) Business Days of the date on which the duly completed acceptances of the Offer and the relevant documents of title in respect of such acceptances are received by the Offeror (or its agent) to render each such acceptance complete and valid.

Overseas Shareholders

As the Offer to persons not resident in Hong Kong may be affected by the laws of the relevant jurisdiction in which they are resident, the Overseas Shareholders who are citizens or residents or nationals of a jurisdiction outside Hong Kong should satisfy themselves about and observe any applicable legal or regulatory requirements and where necessary seek legal advice. It is the responsibility of the Overseas Shareholders who wish to accept the Offer to satisfy themselves as to the full observance of the laws of the relevant jurisdiction in connection therewith (including the obtaining of any governmental or other consent which may be required or the compliance with other necessary formalities and the payment of any transfer or other taxes due in respect of such jurisdiction for accepting the Offer).

Any acceptance by any Shareholder will be deemed to constitute a representation and warranty from such Shareholder to the Offeror that the local laws and requirements have been complied with. The Shareholders should consult their professional advisers if in doubt.

Taxation advice

Shareholders are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of accepting or rejecting the Offer. None of the Offeror, parties acting in concert with the Offeror, the Company, Head & Shoulders Securities, Veda Capital, VMS Securities and their respective ultimate beneficial owners, directors, officers, advisers, agents or associates or any other person involved in the Offer accepts responsibility for any taxation effects on, or liabilities of, any persons as a result of their acceptance or rejection of the Offer.

Acceptance and settlement

Your attention is drawn to the further details regarding the procedures for acceptance and settlement of the Offer as set out in Appendix I to this Composite Document and the accompanying Form of Acceptance.

Other arrangements

For the six months immediately prior to 23 June 2015 (being the date of commencement of the Offer Period pursuant to Rule 3.7 of the Takeovers Code), save for the Share Transfer, the Offeror and parties acting in concert with it had not dealt in nor did they hold any Shares or other relevant securities of the Company.

The Offeror confirms that as at the Latest Practicable Date:

- (i) save for the Offeror's interest in the Sale Shares under the Share Transfer, none of the Offeror, its ultimate beneficial owners and/or parties acting in concert with any of them owns or has control or direction over any voting rights or rights over the Shares or convertible securities, options, warrants or derivatives, of the Company;
- (ii) the Offeror, its ultimate beneficial owners, and/or parties acting in concert with any of them have not received any irrevocable commitment to accept or reject the Offer;
- (iii) there is no outstanding derivative in respect of securities in the Company which has been entered into by the Offeror, its ultimate beneficial owners and/or any person acting in concert with any of them;
- (iv) save for the Share Transfer and the deposit of the Sale Shares and the Offer Shares to be acquired by the Offeror through the Offer in favour of Head & Shoulders Securities as security for the Facility granted by Head & Shoulders Securities, there is no arrangement (whether by way of option, indemnity or otherwise) in relation to the shares of the Offeror or the Company and which may be material to the Offer (as referred to in Note 8 to Rule 22 of the Takeovers Code);
- (v) there is no agreement or arrangement to which the Offeror, its ultimate beneficial owners and/or parties acting in concert with any of them is a party which relates to circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the Offer; and
- (vi) there is no relevant security (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company which the Offeror, its ultimate beneficial owners, and/or any party acting in concert with any of them has borrowed or lent.

Shareholders and potential investors are advised to exercise caution when dealing in the Shares during the Offer Period. If the Shareholders and potential investors are in any doubt about their position, they should consult their professional advisers.

INFORMATION ON THE OFFEROR

The Offeror was incorporated in the BVI with limited liability and is wholly and beneficially owned by Head and Shoulders Direct Investment. The sole director of the Offeror is Head and Shoulders Direct Investment.

Head and Shoulders Direct Investment was incorporated in the BVI with limited liability and is wholly and beneficially owned by Dr. Choi who is also the sole director of Head and Shoulders Direct Investment.

Dr. Choi possesses about 23 years of experience in financial service and merger and acquisition projects. Apart from working at senior positions for different financial groups in Hong Kong, Dr. Choi has also served as a member of the senior management of various listed companies in Hong Kong. Dr. Choi is currently an executive director of Target Insurance (Holdings) Limited (Stock Code: 6161). Dr. Choi is also a director of ZhongAn Online P&C Insurance Co., Ltd., a leading online insurance company in PRC.

INFORMATION ON THE GROUP

The Company is principally engaged in investment holding and was incorporated in the Cayman Islands with limited liability, the issued Shares of which are listed on the Main Board of the Stock Exchange.

Since the new Board was formed in September 2013, the Board has been encountering difficulties to gain a management control over the PRC Subsidiaries. Access to the PRC Subsidiaries by the new Board was denied and there has been a lack of cooperation by the existing management of the PRC Subsidiaries. Based on the information retrieved and the site inspection conducted by an independent PRC agency arranged by the forensic accountant in late 2014, the Board has reasonable belief that some of the members of the Group are still operating their ordinary business, i.e. production, marketing and sales of dairy products in the PRC. As disclosed in the previous announcements of the Company, the Company has engaged forensic accountant to conduct an investigation on the matters raised by the ex-auditors of the Company, Deloitte Touche Tohmatsu but the progress is not satisfactory given the lack of support by the management of the PRC Subsidiaries. Such forensic investigation has been temporarily halted due to insufficient financial resources of the Company. Given the lack of effective control by the Board over the operating subsidiaries of the Company, attempts have also been made by the Board to effect the change of the legal representatives of the PRC Subsidiaries but it is not optimistic that such change can be effected in a short period of time.

On 14 May 2015, the Stock Exchange issued a letter informing the Company that in view of, among others, the fact that: (a) all the Company's businesses are carried out by the PRC Subsidiaries; (b) the Company has been facing difficulties in exercising control over the PRC Subsidiaries; (c) the Company was refused by the PRC Subsidiaries to access to their offices and factories and was not provided with any information, books and records; and (d) the request for changing the PRC Subsidiaries' legal representatives was not entertained, the Company has lost its control on the PRC Subsidiaries and the Stock Exchange considers that the Company is unable to maintain a sufficient level of operations

or assets required under rule 13.24 of the Listing Rules to support a continued listing. Accordingly, the Stock Exchange has decided to place the Company in the first delisting stage pursuant to Practice Note 17 to the Listing Rules. The first delisting stage expired on 13 November 2015.

On 19 November 2015, the Stock Exchange issued a letter to the Company stating that: (i) the first delisting stage has expired on 13 November 2015 but the Company has not submitted any resumption proposal before the deadline; and (ii) the Stock Exchange decided to place the Company in the second delisting stage under Practice Note 17 to the Listing Rules.

The second delisting stage will expire on 18 May 2016. The Company should provide a viable resumption proposal at least 10 business days before the second delisting stage expires (i.e. 3 May 2016) to:

- (i) demonstrate sufficient operations of assets under rule 13.24 of the Listing Rules;
- (ii) conduct forensic investigation on the issues raised by Deloitte Touche Tohmatsu, disclose the findings of the investigation and take any remedial actions;
- (iii) demonstrate that there is no reasonable regulatory concern about the character, level of due care and integrity the Company's management which will pose a risk to investors and damage market confidence;
- (iv) publish all outstanding financial results and address any audit qualifications;
- (v) demonstrate that the Company has put in place adequate financial reporting procedures and internal control systems to meet obligations under the Listing Rules; and
- (vi) inform the market of material information for the shareholders and the investors to appraise the Group's position.

It was further stated that the Stock Exchange may modify any of the resumption conditions above and/or impose further resumption conditions if necessary.

On 3 December 2015, the Company resolved to wind up its immediate Singapore incorporated subsidiary (i.e. Global Milk) as the Company was unable to ascertain the completeness and accuracy of its books and records so as to exercise management control over such subsidiary; and that such Singapore subsidiary had failed to serve as an intermediate holding company to exercise an effective control over its operating subsidiaries in the PRC (i.e. the PRC Subsidiaries).

Reference are made to the announcements of the Company dated 29 March 2012 and 28 December 2012 with regards to the resignation of the then auditors, Deloitte Touche Tohmatsu, with effect from 21 March 2012 and the announcement dated 9 January 2013 with regards to extensive damages to the computers and financial documents of Da Qing Dairy Ltd.* (大慶乳品廠有限責任公司). In view of the above, the outstanding annual

results for the four years ended 31 December 2011, 2012, 2013 and 2014 and interim results for the six months ended 30 June 2012, 2013, 2014 and 2015, were published on 21 January 2016 and the respective annual and interim reports were published on 25 January 2016.

OFFEROR'S INTENTION ON THE COMPANY

The trading of the Shares has been suspended since 22 March 2012. Notwithstanding the Board's on-going effort to investigate into opportunities that can re-vitalise the Company's operation, the Offeror will conduct a detailed review on the operations of the Group with a view to formulating a comprehensive business strategy for the Group and subject to the result of the review, the Offeror may explore other business opportunities and consider whether any assets and/or business acquisitions by the Group will be appropriate in order to maintain the listing status of the Company and to resume trading of the Shares from prolonged suspension in view of the fact that the Stock Exchange has decided to place the Company in the second delisting stage pursuant to Practice Note 17 to the Listing Rules since 19 November 2015. In addition, in order to broaden its income source and to accelerate the Group's growth and future development, the Offeror will explore and consider any other investment and business opportunities that may arise in the market, which does not limit to any particular industry, from time to time that it considers value-enhancing to Shareholders and/or otherwise in the best interests of the Group. If any possible investment materialises, the Company will make further announcement(s) as and when required under the Listing Rules. However, as of the Latest Practicable Date, no such investment or business opportunities have been identified nor has the Offeror entered into any agreement, arrangements, understandings, intention or negotiation in relation to the injection of any assets or business into the Group and therefore the Offeror is not able to estimate the time schedule for the Company to fulfill the resumption conditions and resume trading of the Shares. Shareholders should note that any acquisition(s) identified by the Company in the future will constitute a reverse takeover for the Company under the Listing Rules. Accordingly, the Company will be treated as if it were a new listing applicant and the Company must comply with the procedures and requirements for new listing applicants as set out in Chapter 9 of the Listing Rules. The acquisition(s) is/are therefore subject to the approval of the Listing Committee of the Stock Exchange of the new listing application made by the Company. The Offeror and/or the Company will make announcement(s) to update Shareholders and potential investors in relation to the Group's business update in compliance with the Listing Rules as and when appropriate.

The Offeror is aware of the difficulties faced by the Board in relation to the loss of control over the PRC Subsidiaries and it is the preliminary intention of the Offeror to dispose of the PRC Subsidiaries after the Offeror has identified new business project(s) to be injected into the Group. Details of the disposal of the PRC Subsidiaries will be disclosed in the resumption proposal to be submitted by the Company to the Stock Exchange in due course and as at the Latest Practicable Date, no resolution, agreement or arrangement whatsoever in relation to the disposal of the PRC Subsidiaries has been reached or entered into by the Board. As it is the intention for the Offeror to dispose of the PRC Subsidiaries, the new Board, which shall be preliminary appointed by the Offeror, may not deploy additional time and costs on the forensic investigation in relation to the PRC Subsidiaries if the PRC Subsidiaries will be disposed before the resumption of trading of the Shares.

Shareholders and potential investors of the Company should note that the conduct of the forensic investigation in relation to the PRC Subsidiaries is one of the resumption conditions previously imposed by the Stock Exchange and the disposal of the PRC Subsidiaries by the Company may constitute a modification of the resumption conditions which shall be subject to the approval of the Stock Exchange which may or may not grant such approval. The release of this Composite Document is not an indication that the trading of the Shares will be resumed eventually. Further announcement(s) will be made by the Company on business development as and when appropriate.

Save for the loss of control by the Company over the PRC Subsidiaries and save as required for the implementation of the Offeror's intention regarding the Group as aforementioned, the Offeror has no intention to terminate any employment of the employees of the Group or to make significant changes to any employment (except for the proposed nomination of new directors to the Board and the resignation of Directors as detailed in the section headed "Proposed change of Board composition" below in this Composite Document) or to dispose of or re-allocate the Group's assets which are not in the ordinary and usual course of business of the Group. Notwithstanding the foregoing, the Offeror has not entered into any agreement, arrangements, understandings or negotiations in relation to the continued employment of the employees, disposal and/or re-deployment of the assets (including fixed assets) of the Group, or termination or scaling down of any Group's business.

The Offeror has no intention to privatise the Group and intends to maintain the listing of the Shares on the Stock Exchange. The Offeror and the proposed new Directors to be nominated by the Offeror will jointly and severally undertake to the Stock Exchange to take appropriate steps as soon as possible following the close of the Offer to ensure that a sufficient public float exists for the Shares if the public float of the Company falls below 25% upon the close of the Offer.

The Stock Exchange has stated that if, upon closing of the Offer, less than the minimum prescribed percentage applicable to the Company, being 25% of the Shares, are held by the public or if the Stock Exchange believes that (i) a false market exists or may exist in the trading of the Shares; or (ii) there are insufficient Shares in public hands to maintain an orderly market, it will consider exercising its discretion to suspend trading in the Shares until the prescribed level of public float is restored.

PROPOSED CHANGES TO THE BOARD OF THE COMPANY

The Board currently comprises two executive Directors, namely Mr. Ng Kwong Chue, Paul and Mr. Wang Delin; one non-executive Director, namely Ms. Kou Mei In; and two independent non-executive Directors, namely Mr. Sze Lin Tang and Mr. Qiu Xiaohua. Upon Completion, it is intended that all the members of the Board will be changed, either by way of voluntary resignation and/or removal by ordinary resolution at general meeting. As at the Latest Practicable Date, all Directors have tendered their resignation from their office with effect from the earliest time permitted under the Takeovers Code, the Listing Rules or other applicable laws.

The Offeror currently intends to nominate 5 (five) new members to the Board, namely Dr. CHOI Chiu Fai, Stanley and Mr. CHOI Ka Wai as executive Directors and Mr. HA Kee Choy, Eugene, Mr. SZETO Tat Kwan, Brandon and Mr. FOK Wai Ming, Eddie as independent non-executive Directors. Such appointments will only take effect after the date of despatch of this Composite Document in accordance with the requirements of the Takeovers Code.

The Offeror may nominate additional Directors to the Board on or after the Closing Date, but such persons have not been determined as at the Latest Practicable Date. Details of any such further changes to the composition of the Board will be announced in accordance with the Listing Rules. Set out below are the proposed candidates to be nominated by the Offeror as the executive Director and independent non-executive Directors:

Proposed executive Directors

Dr. CHOI Chiu Fai Stanley, aged 46, possesses about 23 years of experience in financial service and merger and acquisition projects. He is chairman of Head & Shoulders Financial Group. Apart from working at senior positions for different financial groups in Hong Kong, Dr. Choi has also served as a member of the senior management of several companies which are listed on The Stock Exchange of Hong Kong Limited. He is currently an executive director of Target Insurance (Holding) Limited (stock code: 6161). He is also a director of ZhongAn Online P&C Insurance Co. Ltd., a leading online insurance company in China. Dr. Choi was an executive director of Media Asia Group Holdings Limited (stock code: 8075) from October 2011 to September 2015. Dr. Choi obtained a Bachelor Degree of Business Administration (Magna Cum Laude) majoring in finance from Wichita State University in 1995 and a Degree of Master of Science from University of Illinois at Urbana-Champaign in 1996, both of which are in United States of America. He has also obtained a Doctor Degree of Business Administration from the City University of Hong Kong in 2013.

Mr. CHOI Ka Wai, aged 27, is a sales and marketing director at Samko Concept Asia Limited. He obtained his Bachelor Degree of Arts majoring in Economics from Hunter College City University of New York in 2012. Since graduation, Mr. CHOI has been actively engaged in sales and marketing business in the United States and China.

Proposed independent non-executive Directors

Mr. HA Kee Choy Eugene ("Mr. Ha"), aged 58, holds a master's degree in business administration and is a fellow member of the Association of Chartered Certified Accountants. He has over 20 years of experience in the finance and banking industry and acts or/and acted as director of a number of private and listed companies in Hong Kong. Mr. Ha is the director of a certified public accountants corporate practice and the director of an advisory services limited in Hong Kong. He is currently an independent non-executive director of China Optoelectronics Holding Group Co., Limited (stock code: 1332). Mr. Ha was an independent non-executive director of China Innovative Finance Group Limited (stock code: 412) (formerly known as Heritage International Holdings Limited) from October 2005 to April 2015.

Mr. SZETO Tat Kwan Brandon (“Mr. Szeto”), aged 43, is currently a senior executive with ACE Life Insurance Company Limited, holding the title of Head of Market Development, Wealth Management, Asia Pacific Region. He has previously held senior positions in other international life insurance companies with offices in Hong Kong. Mr. Szeto is an Associate Member of the Society of Actuaries in USA since 2009 and also a Member of the Actuarial Society of Hong Kong. Mr. Szeto received his Honors degree majoring in Econometrics from Monash University in Australia in 1997.

Mr. FOK Wai Ming, Eddie (“Mr. Fok”), aged 48, is currently the company secretary and the authorised representative of China Fortune Holdings Limited (stock code: 110), a company which is listed on The Stock Exchange of Hong Kong Limited. Mr. Fok graduated from the University of Hong Kong with a bachelor degree of Science in Engineering and the University of Wolverhampton with a bachelor degree in laws and is a member of the Hong Kong Institute of Certified Public Accountants. Mr. Fok has years of practical experience in accounting, finance and corporate management of both listed and unlisted companies in Hong Kong. Mr. Fok was also the company secretary of South West Eco Development Limited (stock code: 1908) from May 2013 to December 2013.

Save as disclosed above, each of the five new Directors has not held any other directorship in other public companies, the securities of which are listed on any securities market in Hong Kong or overseas for the last three years.

Save as disclosed above, so far as the Directors are aware, as at the Latest Practicable Date, each of the five new Directors does not have any interest in the Shares (within the meaning of Part XV of the SFO).

Save for Dr. Choi Chiu Fai Stanley, who is the beneficial owner of the Offeror and as disclosed above, so far as the Directors are aware, as at the Latest Practicable Date, each of the five new Directors (i) does not hold any other positions in the Company or its subsidiaries; and (ii) does not have any other relationship with any other Directors, senior management, substantial shareholders or controlling shareholders of the Company.

There are no service contracts entered into between each of the five new Directors and the Company in relation to their respective appointments as Directors. The emolument of each of the five new Directors will be determined by the Board with reference to their position, their level of responsibilities, remuneration policy of the Company and prevailing market conditions. Each of the five new Directors has no fixed term of service with the Company and shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election at that meeting in accordance with the bye-laws of the Company.

Each of the five new Directors confirmed that there is no information which is discloseable nor is/was he/she involved in any of the matters required to be disclosed pursuant to Rule 13.51(2)(h) to 13.51(2)(v) of the Listing Rules; and there is no other matter that needs to be brought to the attention of the Shareholders.

Details of the changes to composition of the Board and the appointment of new Directors will be further announced as and when appropriate in compliance with the Takeovers Code and the Listing Rules.

DISCLOSURE IN DEALINGS

In accordance with Rule 3.8 of the Takeovers Code, the respective associates (as defined under the Takeovers Code and including a person who owns or controls 5% or more of any class of relevant securities) of the Company and the Offeror are hereby reminded to disclose their dealings in the securities of the Company pursuant to the Takeovers Code.

In accordance with Rule 3.8 of the Takeovers Code, the full text of Note 11 to Rule 22 of the Takeovers Code is reproduced below:

“Responsibilities of stockbrokers, banks and other intermediaries

Stockbrokers, banks and others who deal in relevant securities on behalf of clients have a general duty to ensure, so far as they are able, that those clients are aware of the disclosure obligations attaching to associates and other persons under Rule 22 of the Takeovers Code and that those clients are willing to comply with them. Principal traders and dealers who deal directly with investors should, in appropriate cases, likewise draw attention to the relevant rules of the Takeovers Code. However, this does not apply when the total value of dealings (excluding stamp duty and commission) in any relevant security undertaken for a client during any 7-day period is less than HK\$1 million.

This dispensation does not alter the obligation of principals, associates and other persons themselves to initiate disclosure of their own dealings, whatever total value is involved.

Intermediaries are expected to co-operate with the Executive in its dealings enquiries. Therefore, those who deal in relevant securities should appreciate that stockbrokers and other intermediaries will supply the Executive with relevant information as to those dealings, including identities of clients, as part of that co-operation.”

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Company has established the Independent Board Committee comprising all the independent non-executive Directors who have no direct or indirect interest in the Offer, namely Mr. Sze Lin Tang and Mr. Qiu Xiaohua, to advise the Independent Shareholders in relation to the terms and conditions of the Offer, in particular as to whether the terms of the Offer are, or are not, fair and reasonable and as to the acceptance of the Offer.

As Ms. Kou Mei In, the chairlady of the Company and the non-executive Director, is the wife of Mr. Kyan, who is the sole owner and director of the Vendor, therefore Ms. Kou Mei has an indirect interest in the Offer and has not been included in the Independent Board Committee.

VMS Securities has been appointed as the independent financial adviser to advise the Independent Board Committee as to whether the terms of Offer are, or are not fair and reasonable and as to acceptance. The appointment of VMS Securities as the independent financial adviser has been approved by the Independent Board Committee.

COMPULSORY ACQUISITION

The Offeror does not intend to exercise any right which may be available to it to acquire compulsorily any outstanding Offer Shares not acquired under the Offer after the close of the Offer.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information regarding the Offer, set out in the appendices to this Composite Document and the accompanying Form of Acceptance, which form part of this Composite Document. In particular, your attention is draw to the "Letter from the Board", the "Letter from the Independent Board Committee" and the letter of advice by Independent Financial Adviser to the Independent Board Committee as set out in the "Letter from Independent Financial Adviser" contained in this Composite Document.

Yours faithfully,
For and on behalf of
Head & Shoulders Securities Limited



Chan Wai Sang
Director