



29 January 2016

*To: the Independent Board Committee of Daqing Dairy Holdings Limited*

Dear Sirs,

**UNCONDITIONAL MANDATORY CASH OFFER BY  
HEAD & SHOULDERS SECURITIES LIMITED  
ON BEHALF OF GLOBAL COURAGE LIMITED  
TO ACQUIRE ALL THE ISSUED SHARES OF  
HK\$0.00001 EACH IN THE SHARE CAPITAL OF  
DAQING DAIRY HOLDINGS LIMITED  
(OTHER THAN THOSE ALREADY OWNED OR AGREED TO BE  
ACQUIRED BY  
GLOBAL COURAGE LIMITED AND PARTIES ACTING IN CONCERT  
WITH IT)**

**I. INTRODUCTION**

We refer to our appointment as the independent financial adviser to the Independent Board Committee in respect of the Offer, details of which are set out in the Composite Document, of which this letter forms part. This letter contains our advice to the Independent Board Committee as to whether the Offer is fair and reasonable and as to acceptance of the Offer. Unless otherwise stated, terms used in this letter shall have the same meanings as those defined in the Composite Document.

On 4 May 2015, the Offeror and the Vendor entered into the Sale and Purchase Agreement, pursuant to which the Offeror has agreed to acquire and the Vendor has agreed to sell the Sale Shares, being 610,193,622 Shares, for a total Consideration of HK\$61,019,362.20, equivalent to HK\$0.10 per Sale Share. The Sale Shares represent approximately 60.39% of the 1,010,500,000 Shares in issue of the Company as at the date of the Joint Announcement. Completion took place on 11 May 2015.

Immediately following the Completion, the Offeror and parties 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.



## **II. THE INDEPENDENT BOARD COMMITTEE**

The Board currently consists of two executive Directors, namely, Mr. Ng Kwong Chue Paul and Mr. Wang De Lin; one non-executive Director, namely, Ms. Kou Mei In; and two independent non-executive Directors, namely, Mr. Sze Lin Tang and Mr. Qiu Xiaohua.

An Independent Board Committee comprising all independent non-executive Directors who have no direct or indirect interest in the Offer has been established to advise the Independent Shareholders with an independent opinion and recommendation as to whether the terms of the Offer are fair and reasonable as far as the Independent Shareholders are concerned and whether the Independent Shareholders should, or should not accept the Offer.

VMS Securities has been appointed as the independent financial adviser to advise the Independent Board Committee in respect of the Offer. During the past two years, VMS Securities had no past engagement with the Company. Also, as at the Latest Practicable Date, we were independent from and not connected with the Group. Accordingly, in compliance with Rule 2 of the Takeovers Code, VMS Securities is qualified to give independent advice to the Independent Board Committee in relation to the Offer and as to its acceptance. Apart from the normal advisory fee payable to us in connection with our appointment as the independent financial adviser to the Independent Board Committee, no arrangement exists whereby we shall receive any other fees or benefits from the Company.

## **III. BASIS AND ASSUMPTIONS OF OUR OPINION**

In formulating our advice, we have relied solely on the statements, information, opinions and representations contained in the Composite Document and the information and representations provided to us by the Company and/or the Directors. We have assumed that all such statements, information, opinions and representations contained or referred to in the Composite Document or otherwise provided or made or given by the Company and/or its senior management staff and/or the Directors and for which it is/they are solely responsible were true and accurate and valid at the time they were made and given and continue to be true and valid as at the Latest Practicable Date. We have also assumed that all the opinions and representations made or provided by the Directors and/or the senior management staff of the Company contained in the Composite Document have been reasonably made after due and careful enquiry. In addition, we have sought and obtained confirmation from the Company and/or its senior management staff and/or the Directors that no material facts have been omitted from the information provided and referred to in the Composite Document. Shareholders will be notified of any material changes to such statements, information, opinions and/or representations as soon as possible in accordance with Rule 9.1 of the Takeovers Code if there arises any material changes of information previously provided to us by the Company in which event this letter shall be amended and updated.

We consider that we have reviewed all information and documents which are made available to us to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our advice. We have no reason to doubt the truth, accuracy and completeness of the statements, information, opinions and



representations provided to us by the Company and/or its senior management staff and/or the Directors and their respective advisers or to believe that material information has been withheld or omitted from the information provided to us or referred to in the aforesaid documents. We have not, however, carried out any independent verification of the information provided, nor have we conducted any independent investigation into the business and affairs of the Group.

We have not considered the tax consequences on the Independent Shareholders of acceptance of the Offer since these are particular to their individual circumstances. In particular, Independent Shareholders who are resident overseas or subject to overseas taxes or Hong Kong taxation on securities dealings should consider their own tax positions and, if in any doubt, should consult their own professional advisers.

#### **IV. PRINCIPAL FACTORS AND REASONS CONSIDERED**

In formulating our opinion regarding the Offer, we have taken into consideration the following principal factors and reasons:

##### **1. Background to and terms of the Offer**

On 4 May 2015, the Offeror and the Vendor entered into the Sale and Purchase Agreement, pursuant to which the Offeror has agreed to acquire and the Vendor has agreed to sell the Sale Shares, being 610,193,622 Shares, for a total Consideration of HK\$61,019,362.20, equivalent to HK\$0.10 per Sale Share. The Sale Shares represent approximately 60.39% of the 1,010,500,000 Shares in issue of the Company as at the date of the Joint Announcement. Completion took place on 11 May 2015.

Immediately following the Completion, the Offeror and parties 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.

On behalf of the Offeror, Head & Shoulders Securities is making the Offer to acquire all the issued Shares other than those already owned by the Offeror and parties acting in concert with it in accordance with the Takeovers Code on the following basis:

For each Offer Share . . . . . HK\$0.1 in cash

As extracted from the Letter from the Board, save for the 1,010,500,000 Shares in issues, the Company did 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.



The Offer Price of HK\$0.10 per Sale Share, which is the same as the original purchase price of the Sale Shares acquired by the Vendor, 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 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, the status of financial statements and the resumption of trading of the Shares on the Stock Exchange.

Based on the Offer Price and the total number of 400,306,378 Offer Shares subject to the Offer following the completion of the acquisition of the Sales Shares, the total consideration payable by the Offeror under the Offer amounts to approximately HK\$40.03 million.

Details and the terms of the Offer are set out in the "Letter from Head & Shoulders Securities" and Appendix I to the Composite Document.

## **2. Historical financial performance of 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. Trading in the Shares has been suspended since 22 March 2012 due to the resignation of the then auditors, Deloitte Touche Tohmatsu ("Deloitte"). Since the new Board was formed in September 2013, the Board has been encountering difficulties to gain 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 Company's subsidiaries are still operating their ordinary business, i.e. production, marketing and sales of dairy products in the PRC. Details of which are set out in the section headed "*Prospect of the Group*" below.

Due to lack of financial records, the subsidiary incorporated in Singapore, Global Milk is also unable to provide necessary information to the Board for audit purpose. The Company resolved to put Global Milk into winding up in a shareholder's meeting held on 3 December 2015, subject to further legal advice.

Given the uncooperative manner from the previous management of the Group (including the current executive Director Wang De Lin who are now not contactable, the Board currently believes that as regards to the preparation of the Group's financial statements for the years ended 31 December 2011 to 2014 which have been significantly delayed for publication, it is not practical to ascertain the transactions and balances of all the Group's subsidiaries, (i.e., the PRC Subsidiaries and Global Milk, collectively



referred to as the “Deconsolidated Subsidiaries”) for inclusion in the consolidated financial statements of the Group. As such, the results, assets and liabilities of the Deconsolidated Subsidiaries have not been included into the consolidated financial statement of the Group since 1 January 2011.

Set out below is a summary of the Group’s consolidated operating results and financial position, which have excluded the results, assets and liabilities of the Deconsolidated Subsidiaries, extracted from its latest audited accounts (i.e. 31 December 2014) on which the audit opinion has been disclaimed and the latest reviewed accounts for the six months ended 30 June 2015:

	For the year ended 31 December		For the six months ended 30 June	
	2013 (Audited) RMB'000	2014 (Audited) RMB'000	2014 (Reviewed) RMB'000	2015 (Reviewed) RMB'000
Revenues	—	—	—	—
Costs of sales	—	—	—	—
<b>Gross Profit</b>	—	—	—	—
Administration expenses	(1,421)	(2,622)	(1,540)	(1,568)
<b>Loss for the year/period</b>	<b>(3,445)</b>	<b>(2,622)</b>	<b>(1,540)</b>	<b>(1,568)</b>
<b>Loss for the year/period attributable to owners of the Company</b>	<b>(3,445)</b>	<b>(2,622)</b>	<b>(1,540)</b>	<b>(1,568)</b>
			<b>As at 31 December 2013 (Audited) RMB'000</b>	<b>As at 30 June 2015 (Reviewed) RMB'000</b>
Non-current assets		498	429	—
Current assets		517	558	152
<b>Total assets</b>		<b>1,015</b>	<b>987</b>	<b>152</b>
Current liabilities		(19,116)	(21,625)	(22,308)
<b>Total liabilities</b>		<b>(19,116)</b>	<b>(21,625)</b>	<b>(22,308)</b>
<b>Net Liabilities</b>		<b>(18,101)</b>	<b>(20,638)</b>	<b>(22,156)</b>

Since the suspension of trading in the Shares on 22 March 2012, the business of the Group had deteriorated substantially. As depicted by the above table, for the years ended 31 December 2013 and 2014, the Group did not record any revenue because of the exclusion of the operation of the Deconsolidated Subsidiaries. The Group also incurred losses of approximately RMB3,445,000 and RMB2,622,000 for the years ended 31 December 2013 and 2014, respectively. For the year ended 31 December 2013, the loss was attributable to administration expense of approximately RMB1,421,000 and the other suspense account of approximately RMB2,024,000 which represents loss recognised in respect of the aggregate amounts of the credit balances of bank



transactions of which the directors of the Company were unable to locate relevant books and records during the year ended 31 December 2013. For the year ended 31 December 2014, the loss of approximately RMB2,622,000 was mainly attributable to administrative expenses incurred. As for the financial position of the Group, the Group had net liabilities of approximately RMB22.2 million as at 30 June 2015 which mainly comprised of accrued expenses, amounts due to related parties, the Deconsolidated Subsidiaries, a director and an immediate holding company and other payables.

### **3. Prospects of the Group**

With reference to the Composite Document, trading in the Shares on the Stock Exchange has been suspended since 22 March 2012 pending release of an announcement in relation to the resignation of Deloitte, which was price sensitive in nature.

On 29 March 2012, the Company issued an announcement stating that the Company received a letter from Deloitte dated 21 March 2012 advising its resignation as auditors of the Company. Deloitte informed that, during the course of the audit, they found various issues including fraudulent milk procurement transactions which affected the accuracy of the Group's financial statements. Despite Company's effort in providing supporting information and explanations to Deloitte, the Company was unable to allay Deloitte's misgivings nor agree with it as to the next course of action. For details of the resignation of Deloitte, please refer to the aforesaid announcement.

According to the Company's announcement dated 9 November 2012, the Company received a letter from the Stock Exchange informing the resumption conditions which include, among others, engaging an independent forensic specialist to conduct forensic investigation on the concerns raised by Deloitte, including certain potentially fraudulent transactions of the Company as disclosed in the announcement of the Company dated 29 March 2012.

On 6 November 2013, the Company announced that, in order to fulfill the resumption conditions, the Company retained a forensic accountant to provide forensic accounting services to the Company. In 2014, the Company published various announcements stating difficulties encountered for the forensic investigation which included among others, the unwillingness of the management of the PRC subsidiaries to assist in the forensic field work. The Company further announced on 30 April 2015 that, the forensic investigation had been temporarily halted due to insufficient financial resources.

According to the announcement of the Company dated 19 May 2015, the Stock Exchange issued a letter dated 14 May 2015 informing the Company that in view of, among others, the fact that: (i) all the Company's businesses were carried out by the PRC Subsidiaries of the Company; (ii) the Company had been facing difficulties in exercising control over the PRC Subsidiaries; (iii) the Company was refused to access to their offices and factories and was not provided with any information, books and records; and (iv) the request for changing the PRC Subsidiaries' legal representatives



was not entertained, the Company had lost its control on the PRC Subsidiaries and the Stock Exchange considered that the Company was 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. Other than the resumption conditions imposed by the Stock Exchange which were announced on 9 November 2012, the Company also had to demonstrate that it had a sufficient level of operations or assets of sufficient value as required under Rule 13.24 of the Listing Rules in the resumption proposal (the “Resumption Proposal”).

On 23 November 2015, the Company announced that it had received a further letter dated 19 November 2015 from the Stock Exchange 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 Stock Exchange has also informed the Company that it is required to address certain issues as detailed in the aforesaid announcement, including but not limited to the submission of the Resumption Proposal before any application for resumption of trading in the Shares can be considered.

Also set out in the Company’s announcement dated 23 November 2015, firstly, the Company was considering winding up its immediate subsidiary (i.e. Global Milk), which was incorporated in Singapore as the Company is unable to ascertain the completeness and accuracy of its books and records so as to exercise management control over such Singapore subsidiary; and that such Singapore subsidiary has failed to serve as an intermediate holding company to exercise an effective control over its subsidiaries in the PRC (i.e. the PRC Subsidiaries). In this regard, the Company passed a resolution to wind up Global Milk on 3 December 2015. Secondly, the Company was trying its best endeavours, in working with its auditors, to prepare its annual financial statements for the years ended 31 December 2011 to 2014 and the interim financial statements thereof as soon as possible. In this regard, the annual financial statements for the years ended 31 December 2011 to 2014 and the interim financial statements thereof were published on 25 January 2016. Thirdly, the Board is in the process of identifying suitable target for business cooperation and/or acquisition.

As set out in the Company’s announcement dated 23 November 2015, the second delisting stage will expire on 18 May 2016. We understand that at the end of second delisting stage, the Stock Exchange will determine whether it is appropriate to proceed to the third stage of the delisting procedures. In making such decision, the Stock Exchange will consider any proposal made by or on behalf of the Company. Where the Stock Exchange determines to proceed to the third stage delisting procedure, it will publish an announcement naming the Company, indicating that it does not have sufficient assets or operations for listing and imposing a deadline (generally six months) for the submission of Resumption Proposals. During the third stage delisting procedure, the Company would again be required to provide monthly progress reports



to the Stock Exchange. At the end of the third stage delisting procedure, where no proposals have been received for resumption, the listing will be cancelled, and this would be announced by both the Stock Exchange and the Company concerned.

In light of all of the above and the fact that there is currently no information to us regarding any Resumption Proposal or any concrete business plan by the Offeror that may be able to assist the Company in applying for resumption in trading of the Shares (details on the Offeror and its intention regarding the Company are set out in the sections headed “*Information on the Offeror*” and “*Intention of the Offeror on the Group*” below), we consider that there are significant uncertainties regarding the timing and possibility of resumption of trading in the Shares.

#### **4. Information on the Offeror**

Set out below is the information on the Offeror as extracted from the Composite Document:

The Offeror was incorporated in the British Virgin Islands 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 British Virgin Islands 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.

#### **5. Intentions of the Offeror on The Group**

We note from the “*Letter from Head & Shoulders Securities*” that 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 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 that the Stock Exchange has decided to place the Company in the second delisting stage pursuant to Practice Note 17 to the Listing Rules.

We also understand that 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.





However, as at the Latest Practicable Date, no such investment or business opportunities have been identified nor has the Offeror entered into any agreement, arrangements, understanding, intention or negotiation in relation to the injection of any assets or business into the Group. 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. 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 Deconsolidated Subsidiaries.

In addition, we note that 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, if any, will be disclosed in the resumption proposal to be submitted by the Company to the Stock Exchange in due course. However, 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 mentioned previously, trading in the Shares had remained suspended as at the Latest Practicable Date. According to the Letter from the Board, the Offeror has no intention to privatize the Group and intends to maintain the listing of the Shares on the Stock Exchange after the close of the Offer. 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.

Having taken into account (i) the absence of any business operations as indicated in the Company's latest available financial statements; and (ii) the uncertainty in the timing and possibility of resumption of trading in the Shares, we are of the opinion that the Offer provides a ready exit for the Independent Shareholders to release their investments in Shares.

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.

Independent Shareholders who believe in any possible resumption of trading in the Shares in the future may consider not accepting the Offer. However, they should carefully consider the relevant risks and uncertainties in doing so based on their risk preference and tolerance level.



## 6. Proposed change of board composition of the Company

As at the date of the Composite Document, the Board comprised two executive Directors, namely, Mr. Ng Kwong Chue, Paul and Mr. Wang De Lin; 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 date of 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 new Directors to be nominated by the Offeror to the Board will only take effect from the earliest time permitted under the Takeovers Code. Any changes to the Board will be made in compliance with the Takeovers Code and the Listing Rules and further announcement(s) will be made by the Company as and when appropriate.

The biographical details of the nominated Directors are set out in the "Letter from Head & Shoulders Securities".

## 7. The Offer

On behalf of the Offeror, Head & Shoulders Securities is making an unconditional mandatory cash offer to acquire all Offer Shares, subject to the terms, conditions and procedures set out in this letter, Appendix I to the Composite Document and the accompanying Form of Acceptance, on the following basis:

For each Offer Share . . . . . HK\$0.1 in cash

As at the Latest Practicable Date, save for the 1,010,500,000 Shares in issues, the Company did not have any other shares nor any outstanding options, derivatives, warrants or securities which are convertible or exchangeable into Shares. Also, the Company 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.



The Offer Price of HK\$0.1 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.

The audited consolidated net liabilities of the Group attributable to Shareholders were approximately HK\$13.38 million as at 31 December 2014.



## 8. Historical Share price performance of the Shares

The highest and lowest closing prices and the average daily closing price of the Shares as quoted on the Stock Exchange in each of the 12 months during the period commencing from 28 October 2010, being the date at which dealings in the Shares first commenced on the Main Board, up to and including the Last Trading Day (the “Review Period”) are shown as follows:

Month	Highest closing price (HK\$)	Lowest closing price (HK\$)	Average daily closing price (HK\$)	No. of trading days in each month
<b>2010</b>				
October	3.940	3.850	3.895	2
November	4.000	2.740	3.499	22
December	3.250	2.480	2.777	22
<b>2011</b>				
January	2.750	2.480	2.624	21
February	2.490	2.070	2.307	18
March	3.170	2.100	2.625	23
April	3.720	2.990	3.306	18
May	3.360	2.760	3.056	20
June	2.990	2.560	2.701	21
July	2.840	2.280	2.575	20
August	2.910	2.220	2.483	23
September	2.290	1.110	1.618	20
October	1.910	0.900	1.440	20
November	2.030	1.360	1.674	22
December	1.540	1.390	1.467	20
<b>2012</b>				
January	1.600	1.350	1.454	18
February	2.020	1.520	1.736	21
March (up to and including the Last Trading Day) ( <i>Note</i> )	2.130	1.680	1.947	15

Source: Bloomberg

Note: Trading in the Shares was suspended on 22 March 2012.



During the Review Period, the average daily closing price of the Shares ranged from HK\$1.440 to HK\$3.895 per Share in each month and followed a general downward moving trend since April 2011.

Independent Shareholders should note that due to the prolonged suspension of trading in the Shares on the Stock Exchange for more than three years, comparison of the Offer Price with the closing prices of the Shares prior to the suspension of trading in the Shares may not provide a relevant or appropriate reference. Therefore, the analysis on the share prices and movement shown above are for information only and, in particular, we are of the view that such share prices and movement are not able to give any benchmark for the evaluation of the fairness and reasonableness of the Offer Price.



## 9. Historical liquidity of the Shares

The average daily number of Shares traded per month, and the respective percentages of the Shares' monthly trading volume during the Review Period as compared to (i) the total number of issued Shares held by the public as at the Latest Practicable Date; and (ii) the number of issued Shares as at the Latest Practicable Date are tabulated as follows:

Month	Average daily trading volume (the "Average Volume") (HK\$)	% of the Average Volume to total no. of issued Shares held by the public as at the Latest Practicable Date (Note 2) (HK\$)	% of the Average Volume to total no. of issued Shares at the Latest Practicable Date (Note 3) (HK\$)	No. of trading days in each month
<b>2010</b>				
October	120,138,400	0.30	0.119	2
November	8,332,356	0.02	0.008	22
December	5,633,040	0.01	0.006	22
<b>2011</b>				
January	3,390,014	0.01	0.003	21
February	2,329,778	0.01	0.002	18
March	7,097,220	0.02	0.007	23
April	15,047,113	0.04	0.015	18
May	4,629,677	0.01	0.005	20
June	4,917,868	0.01	0.005	21
July	3,771,031	0.01	0.004	20
August	2,542,334	0.01	0.003	23
September	3,988,054	0.01	0.004	20
October	12,651,121	0.03	0.013	20
November	6,148,000	0.02	0.006	22
December	2,105,050	0.01	0.002	20
<b>2012</b>				
January	1,561,444	0.004	0.004	18
February	5,916,530	0.01	0.006	21
March (up to and including the Last Trading Day) (Note 1)	14,261,467	0.04	0.014	15



*Source: Bloomberg*

*Notes:*

1. Trading in the Shares was suspended on 22 March 2012.
2. Based on 400,306,378 Shares held in public hands as at the Latest Practicable Date.
3. Based on 1,010,500,000 Shares in issue as at the Latest Practicable Date.

The above table illustrates that the average daily trading volume of the Shares per month was thin during the Review Period. Except for October 2010, the trading average of the Shares was below 0.1% of the total number of issued Shares held by the public as at the Latest Practicable Date during the entire Review Period. Given that the Shares were illiquid during the Review Period, the disposal of large block of Shares held by the Independent Shareholders in the open market (assuming trading in Shares on the Stock Exchange was resumed) is expected to be difficult (if not possible at all) without triggering price slump of the Shares.

For the above reason, there is no guarantee that Independent Shareholders would be able to realise their investment in the Shares (especially those with relatively sizable shareholdings) at the price level prior to the Last Trading Day or at a price higher than the Offer Price when trading in the Shares on the Stock Exchange is resumed in the future. Independent Shareholders are also reminded that resumption of trading in the Shares on the Stock Exchange is uncertain at the moment. We, therefore, consider that the Offer provides an exit alternative for the Independent Shareholders who would like to realise their investments in the Shares.

## **10. Other offers in Hong Kong**

In order to provide Shareholders and investors with information on general trend of mandatory general offers in the recent market, we have, on a best effort basis, conducted a search for the recent mandatory general offers announced within the three-month period from 2 February 2015 up to the Latest Practicable Date (the "Comparison Period"). As the capital market may change rapidly, we consider that the Comparison Period reflects a fair and recent period of comparison for the mandatory general offers. During the Comparison Period and based on our research conducted, we identified a total of 11 general offers announced by companies listed on the Stock Exchange (the "Other Offers"). To the best of our knowledge, effort and endeavor and based on the information disclosed on the Stock Exchange's website (<http://www.hkexnews.hk/index.htm>), the list of the Other Offers is an exhaustive list of recent mandatory general offers for comparison purpose based on our selection criteria mentioned above. The Other Offers are the most relevant recent mandatory general offers announced, we consider that the Other Offers represent the recent trend of the mandatory general offers in the prevailing market condition and provide a general reference in respect of the common market practice on mandatory general offers conducted by listed companies in Hong Kong.



Summarised below are our relevant findings:

<b>Date of offer document</b>	<b>Company Name</b>	<b>Stock Code</b>	<b>Premium/(discount) represented by offer price over/(to) share closing price as at the last trading day preceding the commencement date of offer periods (the "Price Premium/Discount Rate") (%)</b>
10 February 2015	Jin Bao Bao Holdings Limited	1239	15.25
18 February 2015	Gamma Logistics Corporation	8310	(15.56)
5 March 2015	Group Sense (International) Limited	601	45.78
6 March 2015	New Media Group Holdings Limited	708	(67.40)
16 March 2015	ASR Logistics Holdings Limited	1803	(57.30)
17 March 2015	TeleEye Holdings Limited	8051	14.37
25 March 2015	IDT International Limited	167	(56.38)
15 April 2015	HKC (Holdings) Limited	190	17.92
16 April 2015	Shanghai Zendai Property Limited,	755	9.29
20 April 2015	Proview International Holdings Limited	334	(82.67)
24 April 2015	Magnum Entertainment Group Holdings Limited	2080	6.21
<b>Maximum</b>			45.78
<b>Minimum</b>			(82.67)
<b>Median</b>			6.21
<b>As at Latest Practicable Date</b>	The Company	1007	(94.05)

As demonstrated by the above table, the Price Premium/Discount Rate of the Other Offers ranged from a premium of approximately 45.78% to a discount of approximately 82.67%. The Offer Price of HK\$0.1 represents a discount of approximately 94.05% to the closing price of the Shares on the Last Trading Day, and hence falls outside the range of the Price Premium/Discount Rate of the Other Offers and such discount is higher than any of the Other Offers with a discounted offer price.

Independent Shareholders should be reminded that due to the prolonged suspension of trading in the Shares on the Stock Exchange for more than three years and the Company's subsequent loss of control over all its subsidiaries, direct comparison of the Offer Price with the closing prices of the Shares prior to the suspension of trading in the Shares may be irrelevant.

It should be noted that the businesses, operations and prospects of the Company are not the same as those under the Other Offers as set out in the above table. In particular, the offer price in a general offer exercise may also vary due to factors including but not limited to the unique business, operation, financial standings and prospects of each individual company, and the arm's length negotiations between the





offeror and the vendor. Accordingly, the Other Offers are only used to provide a general reference for recent general offer exercises by companies listed on the Stock Exchange.

In view of (i) the Group's recorded net liabilities of approximately HK\$12.7 million as at 30 June 2015; (ii) the absence of any business operations as indicated in the Company's latest financial statements; and (iii) the uncertainty in the timing and possibility of resumption of trading in the Shares, we are of the opinion that the discount as represented by the Offer Price which falls outside the range of the Price Premium/Discount Rate of the Other Offers is still fair and reasonable.

#### **11. Other commonly used benchmarks**

Other commonly used benchmarks for evaluating the value of companies include the price to book ratio, price to earnings ratio and dividend yield. However, taking into account (i) the net deficit position of the Group as at 31 December 2014; (ii) the loss making history of the Group; and (iii) that the Company had never paid dividend to the Shareholders, we consider that such commonly used benchmarks are not applicable in this case.

#### **V. RECOMMENDATION**

Having considered the principal factors and reasons as discussed above, in particular:

- (i) the prolonged suspension of share trading of the Company which has been placed in the second stage of delisting;
- (ii) net liabilities of approximately HK\$13.38 million as at 31 December 2014 and the absence of any business operations as indicated in the Company's latest available financial statements;
- (iii) loss of control over all the Group's operating subsidiaries as the Company has resolved to wind up Global Milk, the intermediate holding Company holding the PRC Subsidiaries which the Group had lost control; and
- (iv) the uncertainty in the timing and possibility of resumption of trading in the Shares in light of the fact that no information on any Resumption Proposal was available as at the Latest Practicable Date,

we consider that the terms of the Offer (including the Offer Price) are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to accept the Offer.

Please note, however, that the Shares were traded above the Offer Price before the suspension of trading in the Shares on the Stock Exchange in March 2012. Accordingly, after accepting the Offer, the Independent Shareholders cannot consider selling their Shares



in the open market after the resumption of trading in the Shares even if the net proceeds obtainable from such disposal of the Shares (after deducting all transactions costs) would be higher than the net proceeds from accepting the Offer.

The Independent Shareholders may consider searching for other potential purchaser(s) to purchase the Shares and to consider selling their Shares to those potential purchaser(s), if possible, instead of accepting the Offer, if the net proceeds from such sales exceed the amount receivable under the Offer.

Those Independent Shareholders who decide to retain part or all of their investment in the Shares should carefully monitor the intentions of the Offeror regarding the Group in the future and the potential difficulties the Independent Shareholders may encounter in disposing of their investments in the Shares after the close of the Offer. Further details and terms of the Offer are set out in the "Letter from Head & Shoulders Securities" and Appendix I to the Composite Document.

As different Shareholders would have different investment criteria, objectives, risk preference and tolerance level and/or circumstances, we would recommend any Shareholder who may require advice in relation to any aspect of the Composite Document, or as to the action to be taken, to consult a licensed securities dealer, bank manager, solicitor, professional accountant, tax adviser or other professional adviser.

Yours faithfully,  
For and on behalf of  
**VMS Securities Limited**

A handwritten signature in black ink, appearing to be 'Nick Man', written over a vertical line that extends from the signature down to the name below.

**Nick Man**  
*Managing Director*  
*Corporate Finance*

*Note:* Mr. Nick Man is a licensed person registered with the Securities and Future Commission of Hong Kong and a responsible officer of VMS Securities Limited to carry out type 6 (advising on corporate finance) regulated activities under the SFO and has over 10 years of experience in corporate finance industry.