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

If you have sold or transferred all your shares in **Pizu Group Holdings Limited**, you should at once hand this circular together with the enclosed form of proxy to the purchaser or transferee or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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Pizu Group Holdings Limited

比優集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8053)

- (1) VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION IN RELATION TO ACQUISITION OF THE SHARES IN, AND SHAREHOLDER'S LOAN DUE BY, AMPLE OCEAN HOLDINGS LIMITED INVOLVING ISSUE OF CONVERTIBLE BONDS**
- (2) GRANT OF SPECIFIC MANDATE TO ISSUE THE CONVERSION SHARES**
- (3) INCREASE IN AUTHORISED SHARE CAPITAL OF THE COMPANY**
- (4) NON-EXEMPT CONTINUING CONNECTED TRANSACTION**
- (5) NOTICE OF EGM**

**Independent Financial Adviser
Octal Capital Limited**



A letter from the Board is set out on pages 10 to 212 of this circular. A notice convening the EGM to be held at Flat A, 11th Floor, Two Chinachem Plaza, 68 Connaught Road Central, Hong Kong, at 3:00 p.m. on Monday, 20 July 2015 is set out on pages EGM-1 to EGM-3 of this circular.

Whether or not you intend to attend the EGM, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

This circular will remain on the "Latest Company Announcements" page of the GEM website at www.hkgem.com for at least seven days from the date of its posting and the Company's website at www.pizugroup.com.

CHARACTERISTICS OF GEM

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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DEFINITIONS

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

“Acquisition”	the acquisition of the Sale Shares and the Sale Loan by the Company pursuant to the SP Agreement
“Ample Ocean HK”	Ample Ocean Group Limited, a company incorporated on 19 November 2013 under the laws of Hong Kong with limited liability and a direct wholly-owned subsidiary by the Target Company
“Announcement”	the announcement of the Company dated 11 May 2015 in relation to the Acquisition, the proposed grant of Specific Mandate, the proposed increase of authorised share capital of the Company and the non-exempt continuing connected transactions under the Transportation Framework Agreement
“Antai Explosives”	巴彥淖爾市安泰民爆器材有限責任公司 (Bayannur City Antai Explosives Equipment Company Limited*), a company incorporated on 15 November 2006 under the laws of the PRC which is owned as to 20% by Shengan Chemical (Inner Mongolia) and the remaining 80% by four individuals who, to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, are Independent Third Parties
“associates”	has the meaning ascribed to it under the GEM Listing Rules
“Board”	the board of Directors
“Bondholder(s)”	the holder(s) of the Convertible Bonds
“Business Day(s)”	a day (other than Saturdays, Sundays, or public holidays and such other days where a “black” rainstorm warning or a tropical cyclone warning signal number 8 or above is in force in Hong Kong), on which licensed banks in Hong Kong are open for business throughout their normal business hours
“BVI”	the British Virgin Islands
“Company”	Pizu Group Holdings Limited, a company incorporated under the laws of the Cayman Islands with limited liability, the issued shares of which are listed on the Growth Enterprise Market of the Stock Exchange (stock code: 8053)
“Completion”	completion of the Acquisition in accordance with the terms and conditions of the SP Agreement
“Completion Date”	the date of Completion

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“connected person(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Consideration”	the aggregate consideration of HK\$837 million for the Acquisition
“Conversion Price”	conversion price of the Convertible Bonds, initially HK\$0.36 per Conversion Share, subject to adjustment
“Conversion Shares”	Shares allotted and issued upon an exercise of the conversion rights attaching to the Convertible Bonds
“Convertible Bonds”	the HK\$837 million zero coupon convertible bonds due on the third anniversary of the Completion Date to be issued by the Company upon Completion, the principal terms of which are set out in the section headed “Letter from the Board – 2. Acquisition – (b) Terms of the Convertible Bonds” in this circular
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened and held on 20 July 2015 at 3:00 p.m. for the Independent Shareholders to consider and, if thought fit, to approve, among others, the Acquisition, the SP Agreement and the transactions contemplated thereunder, the grant of specific mandate, the increase in authorised share capital and the continuing connected transactions under the Transportation Framework Agreement and the related annual caps
“Enlarged Group”	the Group and the Target Group
“GEM Listing Rules”	the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“IFA”	the independent financial advisers appointed by the Independent Board Committee to advise Independent Board Committee and the Independent Shareholders as to the terms of the Acquisition, the SP Agreement and the transactions contemplated thereunder, and the terms of the Transportation Framework Agreement and the related annual caps

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“Independent Board Committee”	an independent board committee comprising the independent non-executive Directors to advise the Independent Shareholders as to the terms of the Acquisition, the SP Agreement and the transactions contemplated thereunder, and the terms of the Transportation Framework Agreement and the related annual caps
“Independent Shareholders”	Shareholders other than the Vendors, Shiny Ocean and their respective associates
“Independent Third Party(ies)”	independent third party(ies) who is/are independent of the Company and its connected persons as defined in the GEM Listing Rules
“Juli Blasting”	巴彥淖爾市聚力爆破服務有限責任公司 (Bayannur Juli Blasting Services Limited*), a company incorporated on 11 July 2008 under the laws of the PRC with limited liability, an indirect 60%-owned subsidiary of the Target Company
“Jungar Banner Lida”	準格爾旗力達投資有限責任公司 (Jungar Banner Lida Investment Limited*), a company incorporated on 10 May 2013 under the laws in the PRC and is wholly owned by 內蒙古生力資源集團有限責任公司 (Inner Mongolia Shengli Resources Group Co., Limited*), which owns 40% equity interest in the registered capital of Shengan Chemical (Inner Mongolia)
“Last Trading Day”	19 January 2015, the date of the SP Agreement
“Latest Practicable Date”	24 June 2015, being the latest practicable date prior to the printing of this circular for ascertaining certain information therein
“MOFCOM”	the Ministry of Commerce of the PRC
“NDRC”	the National Development and Reform Commission of the PRC
“NDSI Office”	內蒙古自治區國防科學技術工業辦公室 (Inner Mongolia National Defence and Science and Industry Office*)
“Ordos Beian”	鄂爾多斯市北安民爆器材有限責任公司司鄂托克旗分公司 (Ordos City Beian Civil Explosive Products Limited Ordos Branch*), a company established on 7 October 2008 under the laws of the PRC, one of the five largest customers of the Target Group during the Relevant Period and is owned as to 55% by 內蒙古生力資源 (集團) 有限責任公司 (Inner Mongolia Shengli Resources Group Co., Limited*), the holding company of Jungar Banner Lida, and as to 45% by an entity, which is, to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, an Independent Third Party

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“Ordos Beian Framework Agreement”	the sale and purchase framework agreement to be entered into between Shengan Chemical (Otog Banner) as vendor and Ordos Beian as purchaser relating to sale and purchase of powder emulsion explosives and ANFO explosives for the term of three years commencing from the date of the agreement
“PRC” or “China”	the People’s Republic of China (for the purpose of this circular, excluding Hong Kong, the Macau Special Administrative Region and Taiwan)
“PRC Subsidiaries”	collectively, Qinghai Fudeyuan, Shengan Chemical (Inner Mongolia), Shengan Chemical (Bayannur), Shengan Chemical (Urad Middle Banner), Juli Blasting, Shengan Chemical (Otog Banner) and Shengan Trading, being subsidiaries of the Target Company
“PRC Legal Advisers”	Jingtian & Gongcheng, the Company’s legal advisers as to PRC laws
“Production License”	民用爆炸物品生產許可證 (civil explosives production license*)
“Production Safety License”	民用爆炸物品安全生產許可證 (production safety license for civil explosives*)
“Qinghai Fudeyuan”	青海福德圓工貿有限公司 (Qinghai Fudeyuan Trading Limited*), a company incorporated under the laws of the PRC on 19 April 2013 with limited liability, an indirect wholly owned subsidiary of the Target Company
“Relevant Period”	the three years ended 31 March 2014 and the nine months ended 31 December 2014
“SAFE”	the State Administration of Foreign Exchange
“Sale Loan”	being such amount equals to 100% of the face value of all debts and liabilities owing by the Target Company to Shiny Ocean pursuant to (i) a loan agreement dated 23 July 2014 entered into between the Target Company as borrower and Richful (China) Resources Co. Limited as lender; and (ii) the sale and purchase agreement dated 28 September 2014 entered into between Richful (China) Resources Co. Limited as vendor and Shiny Ocean as purchaser for the sale and purchase of the loan made pursuant to the loan agreement as referred to in (i) above
“Sale Loan Bonds”	the Convertible Bonds for a principal amount of HK\$63 million to be issued by the Company to Shiny Ocean or its nominee(s) for settlement of the consideration for the Sale Loan

DEFINITIONS

“Sale Shares”	such number of Target Shares as shall represent the entire issued share capital in the Target Company immediately before Completion
“Sale Shares Bonds”	the Convertible Bonds for an aggregate principal amount of HK\$774 million to be issued by the Company to the Vendors or their respective nominee(s) for settlement of the consideration for the Sale Shares
“Security Framework Agreement”	the security services framework agreement to be entered into between Shengan Security as services provider and Shengan Chemical (Bayannur) as customer relating to the provision of security services by Shengan Security to Shengan Chemical (Bayannur) for the term of three years commencing from the date of the agreement
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Shengan Chemical (Bayannur)”	巴彥淖爾盛安化工有限責任公司 (Bayannur Shengan Chemical Limited*), a company incorporated on 30 March 2006 under the laws of the PRC with limited liability, an indirect 60%-owned subsidiary of the Target Company
“Shengan Chemical (Inner Mongolia)”	內蒙古盛安化工有限責任公司 (Inner Mongolia Shengan Chemical Limited*), a company incorporated on 18 July 2007 under the laws of the PRC with limited liability, an indirect 60%-owned subsidiary of the Target Company
“Shengan Chemical (Otog Banner)”	鄂托克旗盛安九二九化工有限責任公司 (Otog Banner Shengan 929 Chemical Limited*), a company incorporated on 21 August 2002 under the laws of the PRC with limited liability, an indirect 60%-owned subsidiary of the Target Company
“Shengan Chemical (Urad Middle Banner)”	巴彥淖爾盛安化工有限責任公司烏拉特中旗分公司 (Bayannur Shengan Chemical Limited Urad Middle Banner Branch*), a company established on 11 July 2008 under the laws of the PRC, being the branch company of Shengan Chemical (Bayannur)
“Shengan Real Estate”	烏拉特後旗盛安房地產開發有限責任公司 (Urad Rear Banner Shengan Real Estate Development Co., Ltd.*), a company established in the PRC on 2 December 2008 under the laws of the PRC, which is indirectly wholly owned by the Vendors

DEFINITIONS

“Shengan Security”	內蒙古盛安保安有限責任公司 (Inner Mongolia Shengan Security Limited*), a company incorporated on 10 July 2013 under the laws of the PRC with limited liability whose registered capital is wholly owned by Shengan Real Estate
“Shengan Trading”	內蒙古烏拉特中旗盛安工貿有限責任公司 (Inner Mongolia Urad Middle Banner Shengan Trading Limited*), a company incorporated on 27 March 2012 under the laws of the PRC with limited liability, an indirect 60%-owned subsidiary of the Target Company
“Shengan Transport”	巴彥淖爾盛安運輸有限責任公司 (Bayannur Shengan Transportation Limited*), a company incorporated on 12 June 2012 under the laws of the PRC with limited liability whose registered capital is owned as to approximately 90.91% by Mr. Dong Haibin (董海濱), who is the brother-in-law of Mr. Ma Qiang, and as to approximately 9.09% by Mr. Bai Yongming (白永明), one of the Vendors
“Shiny Ocean”	Shiny Ocean Holdings Limited, a company incorporated on 8 February 2012 in the BVI with limited liability whose entire registered capital is owned by Mr, Ma Qiang, a non-executive Director, the seller of the Sale Loan
“SP Agreement”	the agreement entered into between the Company, the Vendors and Shiny Ocean after close of trading hours on 19 January 2015 in relation to the Acquisition
“Specific Mandate”	a specific mandate to be granted to the Directors by the Independent Shareholders at the EGM to allot and issue the Conversion Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“STND Commission”	國防科學技術工業委員會 (Commission of Science and Technology for National Defence*)
“subsidiaries”	has the meaning ascribed to it under the GEM Listing Rules
“substantial shareholder”	has the meaning ascribed to it under the GEM Listing Rules
“Takeovers Code”	the Code on Takeovers and Mergers in Hong Kong
“Target Company”	Ample Ocean Holdings Limited, a company incorporated under the laws of the BVI with limited liability and is wholly owned by the Vendors before the Completion
“Target Group”	the Target Company and its subsidiaries
“Target Group Companies”	any company in the Target Group

DEFINITIONS

“Tianrun Blasting”	烏海市天潤爆破服務有限責任公司 (Wuhai City Tianrun Blasting Services Company Limited*), a company incorporated on 1 February 2010 under the laws of the PRC which is owned as to 35% by Shengan Chemical (Inner Mongolia) and the remaining 65% by an individual and an entity, which, to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, are Independent Third Parties
“Transportation Framework Agreement”	the transportation services framework agreement dated 22 June 2015 entered into between Shengan Transport as services provider and Shengan Chemical (Otog Banner), Shengan Chemical (Bayannur) and Shengan Chemical (Urad Middle Banner) as customers relating to the provision of transportation services of civil explosives, blasting equipment and/or other production materials by Shengan Transport to Shengan Chemical (Otog Banner), Shengan Chemical (Bayannur) and Shengan Chemical (Urad Middle Banner) for the term of three years commencing from the date of the agreement
“Vendors”	the sellers of the Sale Shares whose names are set out in the section headed “Letter from the Board – 2. Acquisition – (a) SP Agreement” in this circular
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent

Unless otherwise specified in this circular, for illustration purpose only, amounts quoted in RMB has been converted into HK\$ at the rate of HK\$1.00 to RMB0.80. Such exchange rate has been used, where applicable, for purposes of illustration only and does not constitute a representation that any amounts were or may have been exchanged at this or any other rates or at all.

* *The English translation of the Chinese name is for identification purposes only, and should not be regarded as the official English translation of such name.*

GLOSSARY

This glossary contains explanations of certain terms used in this circular in connection with the Target Group and its business. These terms and their given meanings may not correspond to those standard meanings and usage adopted in the industry.

“ANFO”	acronym for ammonium nitrate/fuel oil, a widely used bulk explosive mixture consisting of PPAN and fuel oil
“ANFO explosives”	explosives mainly composed by ANFO, which is manufactured by site mix
“ammonium nitrate”	a chemical compound which is highly soluble in water and in solid form, a major compound used in explosive and a main component of ANFO explosives
“binary explosive”	explosive consisting of two components, neither of which is explosive by itself, which have to be mixed in order to become explosive
“borehole”	deep, narrow hole drilled in the ground for the purpose in which explosives would be poured for blasting
“diesel fuel”	liquid fuel, a major compound used in explosives
“electronic detonator”	an electronic equipment used to initiate explosion
“emulsifier”	a substance that stabilises an emulsion by increasing its kinetic stability
“emulsion”	a mixture of two or more liquids that are normally immiscible
“emulsion explosive”	explosive made by emulsifier consisting of ammonium nitrate, water phase and oil phase, which is water-proof
“mobile processing unit”	a vehicle mounted plant which carries and mixes components of binary explosive on the site of blasting, after which the explosives are pumped or drilled into boreholes
“nonel”	a shock tube non-electronic explosive initiator used to initiate explosion
“paraffin wax”	a white or colourless soft solid, a component used in explosives

GLOSSARY

“perlite”	an amorphous volcanic glass, a component used in explosives
“PPAN”	acronym for porous prills ammonium nitrate, a component used in explosives
“powder emulsion explosive”	a derivative of emulsion explosive in powder form
“sensitiser”	material to be added to components of explosive to make the mixture explosive
“sensitivity”	in the context of explosives, refers to the amount of heat or pressure requires to trigger explosion
“site mix” or “site mixing”	the procedure of mixing different components of binary explosives on the site of blasting
“site mixed emulsion explosive”	a derivative of emulsion explosive which is binary explosive and manufactured by site mix using mobile processing unit
“water gel emulsion explosive”	a derivative of emulsion explosive in water gel form

LETTER FROM THE BOARD

Pizu Group Holdings Limited

比優集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8053)

Executive Directors:

Mr. Ding Baoshan (*Chairman*)
Mr. Xiong Zeke (*Chief Executive Officer*)
Ms. Qin Chunhong

Registered office:

Royal Bank of Canada
Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road
George Town
Grand Cayman
KY1-1110
Cayman Islands

Non-executive Director:

Mr. Ma Qiang

Principal office in Hong Kong:

Flat A, 11/F.
Two Chinachem Plaza
68 Connaught Road Central
Hong Kong

Independent non-executive Directors:

Ms. Zhang Lin
Ms. Liu Talin
Mr. Enhe Bayaer

28 June 2015

To the Shareholders

Dear Sir or Madam,

- (1) VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION IN RELATION TO ACQUISITION OF THE SHARES IN, AND SHAREHOLDER'S LOAN DUE BY, AMPLE OCEAN HOLDINGS LIMITED INVOLVING ISSUE OF CONVERTIBLE BONDS**
- (2) GRANT OF SPECIFIC MANDATE TO ISSUE THE CONVERSION SHARES**
- (3) INCREASE IN AUTHORISED SHARE CAPITAL OF THE COMPANY**
- (4) NON-EXEMPT CONTINUING CONNECTED TRANSACTION**
- (5) NOTICE OF EGM**

1. INTRODUCTION

As stated in the Company's announcement dated 11 May 2015, after the close of trading hours on 19 January 2015, the Company, the Vendors and Shiny Ocean entered into the SP Agreement pursuant to which the Vendors and Shiny Ocean have conditionally agreed to sell and the Company conditionally agreed to purchase the Sale Shares and the Sale Loan at the aggregate consideration of HK\$837 million. The total consideration for the acquisition of the Sale Shares is HK\$774 million, which shall be satisfied by the Company issuing to each of the Vendors or (in respect of Mr. Ma Qiang and Mr. Xiong Zeke) to Shiny Ocean and Fabulous Seeker Holdings Limited (a company incorporated in the British Virgin Islands which is wholly owned by Mr. Xiong Zeke), respectively, at their respective directions the Sale Share Bonds (proportional to the Vendors' respective holdings in the Target Company) upon Completion. The consideration for the purchase of the Sale Loan is HK\$63 million, which shall be satisfied by the Company issuing to Shiny Ocean or its nominee(s) the Sale Loan Bonds upon Completion.

LETTER FROM THE BOARD

2. ACQUISITION

(a) SP Agreement

The date and the parties

Date: 19 January 2015

Parties:

Purchaser: The Company

Sellers:

- (1) the Vendors, comprising 26 individuals who are the existing shareholders of the Target Company, each holding the corresponding percentage of the issued share capital of the Target Company immediately prior to Completion, being the sellers of the Sale Shares:

Name of the Vendors	Percentage of shareholding	Principal amount of Sale Shares Bonds to be issued by the Company (HK\$)
<i>Vendors who are connected persons of the Company</i>		
Ma Qiang (馬強)	33.00%	255,420,000
Ma Ye (馬擘)	15.07%	116,641,800
Ma Suocheng (馬鎖程)	7.00%	54,180,000
Ma Xia (馬霞)	5.06%	39,164,400
Liu Fali (劉發利)	7.06%	54,644,400
Xiong Zeke (熊澤科)	2.62%	20,278,800
Qin Chunhong (秦春紅)	1.00%	7,740,000

LETTER FROM THE BOARD

Name of the Vendors	Percentage of shareholding	Principal amount of Sale Shares Bonds to be issued by the Company (HK\$)
<i>Vendors who are independent third parties to the Group</i>		
Yang Tao (楊濤)	8.00%	61,920,000
Li Man (李滿)	8.00%	61,920,000
Lv Wenhua (呂聞華)	7.06%	54,644,400
Ma Gangling (馬綱領)	1.00%	7,740,000
Zhang Yong (張勇)	1.00%	7,740,000
Yang Hongling (楊紅嶺)	0.80%	6,192,000
Bai Yongming (白永明)	0.50%	3,870,000
Yang Shuguang (楊曙光)	0.50%	3,870,000
Du Xiaoli (杜曉麗)	0.41%	3,173,400
Lin Zhanxiang (林占祥)	0.40%	3,096,000
Zhou Ruiping (周瑞平)	0.32%	2,476,800
Han Juan (韓娟)	0.30%	2,322,000
Li Shiyuan (李世元)	0.20%	1,548,000
Du Hu (杜虎)	0.18%	1,393,200
Jin Shuliang (靳樹良)	0.16%	1,238,400
Kou Yelong (寇葉龍)	0.10%	774,000
Sun Qiaolian (孫巧蓮)	0.10%	774,000
Du Fenxia (杜粉霞)	0.08%	619,200
Yang Manlin (楊滿林)	0.08%	619,200

- (2) Shiny Ocean, a company incorporated in the British Virgin Islands, being the seller of the Sale Loan, and an investment holding company.

Among the Vendors and Shiny Ocean, (i) Mr. Ma Qiang is the non-executive Director and the controlling Shareholder of the Company; (ii) Mr. Ma Suocheng is the father of Mr. Ma Qiang; (iii) Ms. Ma Xia and Ms. Ma Ye are sisters of Mr. Ma Qiang; (iv) Mr. Liu Fali is cousin of Mr. Ma Qiang; (v) Mr. Xiong Zeke and Ms. Qin Chunhong are executive Directors; and (vi) the entire issued share capital of Shiny Ocean is owned by Mr. Ma Qiang. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, save as aforesaid, the other Vendors are third parties independent of the Company and its connected persons.

LETTER FROM THE BOARD

Assets to be acquired

- (1) the Sale Shares, being the entire issued share capital of the Target Company immediately before Completion; and
- (2) the Sale Loan, being such amount that equals to 100% of the face value of all debts and liabilities owing by the Target Company to Shiny Ocean pursuant to (i) a loan agreement dated 23 July 2014 entered into between the Target Company as borrower and Richful (China) Resources Co. Limited (“**Richful China**”) as lender, in relation to a loan (the “**Restructuring Loan**”) of HK\$63 million granted by Richful China to the Target Company to finance the acquisition (the “**Qinghai Fudeyuan Acquisition**”) of the entire equity interest of Qinghai Fudeyuan by the Target Company at a consideration of HK\$63 million as part of the corporate restructuring exercise of the Target Group. Under the corporate restructuring exercise, the Vendors established the Target Company and Ample Ocean HK for the acquisition by Ample Ocean HK of the entire equity interest of Qinghai Fudeyuan from 青海博洋科貿集團有限公司 (Qinghai Boyang Trading Group Limited*) (“**Qinghai Boyang**”), which is indirectly wholly owned by the Vendors. As it needed additional time for the Vendors to arrange for offshore financing to finance the Qinghai Fudeyuan Acquisition by the Target Company, in order to meet the payment obligation by the prescribed deadline, the Target Company obtained the Restructuring Loan from Richful China as bridging facility; and (ii) the sale and purchase agreement dated 28 September 2014 entered into between Richful China as vendor and Shiny Ocean as purchaser for the sale and purchase of the Restructuring Loan for refinancing the Restructuring Loan by Shiny Ocean immediately after Mr. Ma Qiang, being one of the Vendors, has arranged for the requisite financing for repaying Richful China in respect of the Restructuring Loan. To the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, save that Richful China was a customer of the Group’s trading business of mineral products for the year ended 31 March 2014, Richful China is a third party independent of the Group and its connected persons. The Sale Loan is an unsecured, interest bearing loan with a principal amount of HK\$63 million and an interest rate of 6% per annum, repayable by the Target Company on 22 July 2017.

Please refer to the paragraph headed “7. Information on the Target Group” in this letter for further details of the Target Group.

The consideration

The total consideration for the acquisition of the Sale Shares is HK\$774 million, which shall be satisfied by the Company issuing to each of the Vendors or (in respect of Mr. Ma Qiang and Mr. Xiong Zeke) to Shiny Ocean and Fabulous Seeker Holdings Limited (a company incorporated in the British Virgin Islands which is wholly owned by Mr. Xiong Zeke), respectively, at their respective directions the Sale Share Bonds (proportional to the Vendors’ respective holdings in the Target Company) upon Completion.

LETTER FROM THE BOARD

The consideration for the purchase of the Sale Loan is HK\$63 million, which shall be satisfied by the Company issuing to Shiny Ocean or its nominee(s) the Sale Loan Bonds upon Completion.

It is the present intention of the Company to finance the redemption of the Convertible Bonds at maturity (to the extent that the conversion rights under the Convertible Bonds is not exercised) by the internal resources of the Enlarged Group. Taking into account (i) the aggregate cash balances of the Enlarged Group which amounted to approximately RMB70.13 million as of 31 December 2014; and (ii) the cash inflow generated by the Target Group from its operating activities which amounted to approximately RMB458.81 million in aggregate for the three years ended 31 March 2014 and nine months ended 31 December 2014, the Directors consider that the Group will have sufficient internal resources to finance the redemption of the Convertible Bonds at maturity. In addition, the Group may obtain external financing such as bank borrowings if and when necessary for redemption of the Convertible Bonds at maturity.

The consideration for the Sale Shares was determined after arm's length negotiations between the Company and the Vendors and was determined at the agreed historical price to earnings multiple of approximately 7.26 times based on the profit attributable to owners of the Target Company for the year ended 31 March 2014, after taking into consideration of (i) historical financial performance and future development potential of the Target Group; (ii) the average historical price to earnings multiples of companies listed in the PRC engaging in businesses similar to that of the Target Group of approximately 25 times as of the date of the SP Agreement; (iii) the discount between the average historical price to earnings multiple of Hang Seng Index to that of Shanghai Stock Exchange A Share Index of approximately 32.49% as of the date of the SP Agreement; (iv) further discount in the applicable price to earnings multiple as the Target Group is currently under an unlisted group; and (v) the recent trading price of the Shares prior to the entering into of the SP Agreement as quoted on the Stock Exchange. The selected comparable companies are listed in the PRC and are engaged in the production of civil explosive products and/or provision of blasting services. The Directors believed that the principal business of these selected companies are in line with that of the Target Group and are of the view that the selection basis are fair and the selected companies are representative.

The following table sets forth the historical price to earnings multiples of the selected comparable companies as of the date of the SP Agreement:

Company Name	Stock Code	Price to earnings multiple (x)
Hunan Nanling Industry Explosive Material Co Ltd	002096 CH	23.3
Guizhou Jiulian Industrial Explosive Material Development Co Ltd	002037 CH	27.2
Anhui Leimingkehua Co Ltd	600985 CH	29.8
Sichuan Yahua Industrial Group Co Ltd	002497 CH	25.1
Anhui Jiangnan Chemical Industry Co Ltd	002226 CH	20.2
Guangdong Hongda Blasting Co Ltd	002683 CH	33.8
Shanxi Tond Chemical Co Ltd	002360 CH	16.5
Average		<u>25.1</u>

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The consideration for the Sale Loan was determined after arm's length negotiations between the Company and Shiny Ocean taking into account (i) the principal amount of the loan that remains outstanding under the Sale Loan; and (ii) the recent trading price of the Shares prior to the entering into of the SP Agreement as quoted on the Stock Exchange. The Directors (including the independent non-executive Directors) are of the opinion that the Consideration is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The original acquisition costs of the Sale Shares by the Vendors is nil as the Vendors has been the ultimate beneficial owners of the PRC Subsidiaries before becoming shareholders of the Target Group pursuant to the restructuring exercise of the shareholding structure of the Target Group. The original acquisition costs of the Sale Loan by Shiny Ocean is HK\$63,041,425, being the consideration pursuant to a sale and purchase agreement dated 28 September 2014 entered into between Richful China as vendor and Shiny Ocean as purchaser for the sale and purchase of the loan made pursuant to a loan agreement dated 23 July 2014 entered into between the Target Company as borrower and Richful (China) Resources Co. Limited as lender. As at the date of the SP Agreement, the aggregate outstanding principal amount of the Sale Loan and the accrued interest thereon amounted to approximately HK\$64.2 million.

Conditions precedent

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

- (1) the Company being satisfied with the results of its due diligence review of the Target Group;
- (2) the approval by the Shareholders of the SP Agreement and the transactions contemplated hereby (including without limitation the increase in the authorised share capital of the Company for the purpose of the issue of the Conversion Shares upon exercise of the conversion rights under the Convertible Bonds) and all other consents and acts required under the GEM Listing Rules being obtained and completed or, as the case may be, the relevant waiver from compliance with any of such rules being obtained from the Stock Exchange;
- (3) the Listing Committee having granted listing of and permission to deal in the Conversion Shares;
- (4) all approvals, consents and acts (whether required under laws, codes, regulations, the GEM Listing Rules or otherwise) for the purpose of or in connection with the Completion being obtained and completed or, as the case may be, the relevant waiver from compliance with any of such provisions being obtained from the relevant authority (including without limitation the Stock Exchange);

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- (5) no indication being received from the Stock Exchange that the transactions contemplated under the SP Agreement will be treated or, as the case may be, ruled by the Stock Exchange as a “reverse takeover” under the GEM Listing Rules; and
- (6) the Company being satisfied that, as at Completion, there has not been any material adverse change in respect of any member of the Target Group since the date of the SP Agreement.

The Company may (but is not obliged to) waive and/or vary any of the conditions (1), (5) and (6) as stated above. All other conditions as set out above may not be waived or varied by any of the parties to the SP Agreement. The Company may consider exercising its right to waive or vary any of such conditions if and only if the disinterested Directors consider that the grant of such waiver is not of a material nature but in the interest of the Group and the Shareholders as a whole. For example, the Company may consider waiving such condition if, (a) in relation to condition (1) above, any deficiency identified in its due diligence review is not material in nature and can be sufficiently remedied by way of seeking compensation or indemnities from the Vendors pursuant to the SP Agreement; (b) in relation to condition (5) above, the Target Group would be able to comply with the requisite requirements under the GEM Listing Rules in relation to a “reverse takeover” without incurring such additional time and costs on the Group which cannot be justified by the expected benefits to be brought by the Acquisition to the Group; and (c) in relation to condition (6) above, such material adverse change is expected to have short term impact on the Target Group only, or such adverse impact can be effectively mitigated or remedied by the Group.

In relation to condition (1) above, during the due diligence review of the Target Group, the Directors were aware that there were some non-compliance incidents by the Target Group of the applicable laws and regulations during the Relevant Period and up to the Latest Practicable Date. Please refer to the paragraph headed “7. Information on the Target Group – (f) Business of the Target Group – Legal compliance” in this letter for details of such non-compliance incidents and the Directors’ view on such non-compliance incidents.

As advised by the PRC Legal Advisers, based on the applicable rules and regulations in the PRC as at the Latest Practicable Date, no approvals, consents and acts are required to be obtained and completed for the purpose of the Completion as stated in condition (4) above.

If any of the conditions (1), (2), (3) or (4) is not fulfilled or, as the case may be, waived or varied by the Company on or before 12:00 noon on 30 September 2015, or any of the conditions set out in (5) and (6) is not fulfilled or, as the case may be, waived or varied by the Company on or before Completion, then (with prejudice to any other remedies available to the other party), the obligations of the parties shall cease and determine (save and except the provisions on confidentiality which shall continue to have full force and effect) and neither party shall have any claim under the SP Agreement against the other save in respect of any antecedent breaches of the SP Agreement.

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Completion

Completion shall take place on the date falling on the third Business Day after the fulfillment or, where applicable, waiver and/or variation of the relevant conditions precedent to the SP Agreement. The Directors have no present plan to change the composition of the Board as a result of the SP Agreement. Upon Completion, the Target Company will become a wholly-owned subsidiary of the Company and the financial results of the Target Group will be consolidated into the accounts of the Group.

(b) Terms of the Convertible Bonds

The principal terms of the Convertible Bonds to be issued by the Company are as follows:

Issuer:	the Company
Principal amount:	HK\$837 million in aggregate, comprising the aggregate principal amount of HK\$774 million for the Sale Shares Bonds and the principal amount of HK\$63 million for the Sale Loan Bonds
Form and denomination:	the Convertible Bonds will be issued in registered form and in the denomination of HK\$1,000,000 each
Maturity date:	the Business Day falling on the third anniversary from the date of the issue date of the Convertible Bonds, that is, the Completion Date
Interest:	the Convertible Bonds shall accrue no interest
Conversion Shares:	up to 2,325,000,000 Conversion Shares in aggregate (subject to adjustment)
Transferability:	the Convertible Bonds will be freely transferable provided that where the Convertible Bonds are intended to be transferable to a connected person of the Company (other than the associates of the relevant bondholder) such transfer shall comply with the requirements under the GEM Listing Rules and/or requirements imposed by the Stock Exchange (if any) and shall be subject to approval by the Directors.
Conversion period:	the period commencing from the date of issue of the Convertible Bonds up to 4:00 p.m. (Hong Kong time) on the seventh Business Day prior to the maturity date.

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Initial Conversion Price: the Convertible Bonds shall be converted at the Conversion Price of HK\$0.36 per Conversion Share (subject to adjustment). The Conversion Price of HK\$0.36 represents (i) a premium of about 5.88% over the closing price of HK\$0.34 per Share as quoted on the Stock Exchange on the Last Trading Day; (ii) a premium of about 9.09% over the average of the closing prices of about HK\$0.33 per Share as quoted on the Stock Exchange for the last ten trading days immediately prior to and including the Last Trading Day; (iii) a premium of about 16.13% over the average of the closing prices of about HK\$0.31 per Share as quoted on the Stock Exchange for the last thirty trading days immediately prior to and including the Last Trading Day; and (iv) a premium of about 2,471.43% to the unaudited net assets value per Share as at 31 December 2014 of about RMB0.011 (equivalent to about HK\$0.014).

The Conversion Price is subject to adjustments upon the occurrence of subdivision or consolidation or reclassification of Shares, capitalisation issues, capital distribution (including distributions in cash or in specie), rights issues and grant of options, warrants or other rights on and subject to the terms of the Convertible Bonds.

The Company will publish an announcement upon any adjustment to the Conversion Price.

Conversion: A holder of Convertible Bonds shall have the right at any time and from time to time during the period commencing immediately on the date of issue of the Convertible Bonds up to 4:00 p.m. on the seventh Business Day prior to the maturity date to convert the whole or part of the principal amount of the Convertible Bond(s) in amounts of not less than a whole multiple of HK\$1,000,000 of the principal amount outstanding under the Convertible Bonds into Conversion Shares on each conversion, save that if at any time, the outstanding principal amount of the Convertible Bonds is less than HK\$1,000,000 the whole (but not part only) of the outstanding principal amount of the Convertible Bonds may be converted; provided that no Convertible Bonds may be converted, to the extent that following such exercise (a) the Company will be in breach of the minimum public float requirement under the GEM Listing Rules; or (b) a holder of the Convertible Bonds and parties acting in concert with it, taken together, will trigger a mandatory general offer under the Takeovers

Code Redemption: The Company shall redeem any Convertible Bonds which remains outstanding at 4:00 p.m. (Hong Kong) on the maturity date at its principal amount.

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Events of default: A holder of the Convertible Bonds may give notice to the Company so the Convertible Bonds will become due and payable on the Business Day falling seven Business Days after the date of such notice if, among others, any of the following events occurs which is materially prejudicial to the interests of the Bondholders:

- (1) a default is made by the Company in the performance or observance of any covenant, condition or provision of the Convertible Bonds and on its part to be performed or observed and such default continues for the period of 14 days next following the service by any holder of the Convertible Bonds on the Company of notice specifying brief details of such default and requiring such default to be remedied; or
- (2) a resolution is passed or an order of a court of competent jurisdiction is made that the Company be wound up or dissolved or the Company disposes of all or substantially all of its assets, otherwise, in any such case, than for the purposes of or pursuant to and followed by a consolidation, amalgamation, merger or reorganisation, the terms of which shall have previously been approved in writing by an ordinary resolution of Bondholders; or
- (3) an encumbrancer takes possession or a receiver or similar officer is appointed of the whole or a material part of the assets or undertaking of the Company; or
- (4) a distress, execution or seizure before judgment is levied or enforced upon or sued out against a material part of the assets or undertaking or property of the Company and is not discharged within seven days thereof; or
- (5) if the Shares are suspended by the Stock Exchange for a period of 90 consecutive trading days (other than any temporary suspension of trading of Shares as a result of clearance of announcement or circulars in connection with any activities or transactions falling under Chapter 17, 19 or 20 of the GEM Listing Rules) or listing of the Shares on the Stock Exchange are being revoked or withdrawn; or
- (6) the Company or any of its major subsidiaries becomes insolvent or is unable to pay its debts as they mature or applies for or consents to the appointment of any administrator, liquidator or receiver of the whole or any material part of its undertaking, property, assets or revenues or enters into a general assignment or compromise with or for the benefit of its creditors; or

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- (7) an order is made or an effective resolution passed for winding-up of the Company or any of its major subsidiaries; or
- (8) any other debentures, bonds, notes or other instruments of indebtedness or any other loan indebtedness of the Company and its major subsidiaries or any securities convertible into or exchangeable for shares of the Company and its major subsidiaries become prematurely repayable following a default in respect of the terms thereof which shall not have been remedied, or the Company or any of its major subsidiaries defaults in the repayment of such indebtedness or such equity-linked securities at the maturity thereof or at the expiration of any applicable grace period thereof, or any guarantee of or indemnity in respect of any such indebtedness or such equity-linked securities of others given by the Company or any of its major subsidiaries shall not be honoured when due and called upon.

Cancellation:	Immediately upon conversion or redemption by the Company or purchase by the Company or any of its subsidiaries, the Convertible Bonds so converted or redeemed or purchased shall be cancelled. Any Convertible Bonds so cancelled shall not be re-issued or re-sold.
Listing:	No application will be made for the listing of the Convertible Bonds on the Stock Exchange or any other stock exchange.
Voting:	Other than meetings of Bondholders, the Bondholders shall not be entitled to attend or vote at any general meetings of the Company by reason only of them being the Bondholders.

Based on the initial Conversion Price of HK\$0.36 (subject to adjustment), a total of 2,325,000,000 Conversion Shares will be allotted and issued upon full conversion of the Convertible Bonds. Assuming that there will be no change in the issued share capital of the Company before the date of issue of the Conversion Shares, and assuming that there will not be any adjustment on the Conversion Price, the 2,325,000,000 Conversion Shares represent (i) about 188.45% of the existing issued share capital of the Company as at the Latest Practicable Date; and (ii) about 65.33% of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares.

The Conversion Shares will be issued under a specific mandate proposed to be obtained at the EGM. The Conversion Shares shall rank equally among themselves and *pari passu* in all respects with the Shares in issue on the date of allotment and issue of such Conversion Shares. There is no restriction under the SP Agreement or the Convertible Bonds in respect of the subsequent sale of the Conversion Shares.

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The Conversion Price was determined after arm's length negotiations between the Vendors, the Company and Shiny Ocean. The Directors (including the independent non-executive Directors) consider that the initial Conversion Price to be fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Application for listing

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

(c) Reasons for the Acquisition

The Group is principally engaged in the mineral products trading business. As disclosed in the Group's quarterly report for the nine months ended 31 December 2014, as part of the Group's business strategy, the Group has been devoting more resources to focus on the development of the mineral products trading business, reviewing the existing operation and considering future business direction and potential acquisitions and investment opportunities, with an aim to bring substantial and sustainable returns to the Shareholders. In line with the Group's strategy to further develop its mineral products trading business, the Group has established a wholly owned subsidiary in Qianhai Area, Shenzhen, the PRC in November 2014, namely 比優 (深圳) 礦業有限公司 (Pizu (Shenzhen) Mining Co., Ltd.*) ("**Pizu Mining**"), which shall engage in wholesale, import and export of non-ferrous metals and non-ferrous metal products (except for gold) and minerals and mineral products (except for alumina and bauxite) and ancillary businesses. The Directors have no present intention to change the Group's business strategy in focusing on the development of mineral products trading business or to dispose of or downsize the existing business of the Group. Save for the Acquisition, the Directors do not have any present plan or intention to acquire other companies or businesses.

The Directors are of the view that the Acquisition is favourable for the Company's business plan on the existing business of the Group and can bring synergy between the existing business of the Group and the business of the Target Group. On one hand, it is the Group's business plan to further strengthen and expand its existing business by (i) vertically expanding the mineral products trading business by tapping into the upstream process of mining companies so as to enlarge its customer and supplier base; (ii) improving the cash flow and capital of the Group for expanding its business scale by diversifying its income stream and enhancing its financing capability; (iii) entering into long term framework agreement with the Group's existing and future mineral product trading customers so as to form a long term strategic business relationship with them; and (iv) developing the mineral products trading business by leveraging on the favourable national policy in the PRC (for instance, in order to enjoy the favourable policy in Qianhai Area, Shenzhen, the PRC, the Group has established Pizu Mining in November 2014). On the other hand, as the production plants of the Target Group are located at Bayannur and Ordos which are concentrated with mining activities, and the major customers or end-users of the Target Group's products and services include, among others, mining companies, leveraged on the Group's experience and business relationship developed in its mineral products trading business, the Directors consider that the Acquisition enables the Group's business of mineral

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products trading to expand vertically by tapping into the upstream process of the mining companies which, in turn, can strengthen Group's position as an integrated mining products and services provider by offering the blasting services for mining, supplying the required civil explosives, and providing the sales services to mining companies. The collaboration of the Target Group with its mining companies customers can also strengthen the Group's supplier base for the mineral products, and can in turn facilitate the further development of the Group's mineral products trading business. Also, the Acquisition enlarges the revenue base of the Group and provides solid revenue contribution to the Group. Therefore, the synergy brought by the Acquisition can enlarge the scale of the Group's existing trading business of mineral products through the existing business connections of the Target Group and the additional internal resources of and cash flow generated from the Enlarged Group following the Acquisition. At the same time, the business relationship developed in the Group's mineral products trading business can expand the Target Group's customer base in both the PRC and overseas market.

The Directors have no present intention to change the composition of the Board or the senior management of the Group and the Target Group upon Completion. The aggregate of the remuneration payable to and benefits in kind receivable by the directors of the Target Company will not be varied in consequence of the Acquisition.

The Directors consider that the Group will have sufficient expertise to manage the Target Group upon Completion. In particular, as (i) Mr. Ma Qiang, a non-executive Director, is the founder and director of members of the Target Group; (ii) Mr. Xiong Zeke and Ms. Qin Chunhong, executive Directors, are also directors of members of the Target Group; and (iii) the Directors have extensive experience in mining business which is related to the business of the Target Group, the existing management of the Group is familiar with and has extensive experience in the business operation of the Target Group and its business.

(d) Financial effects of the Acquisition and the issue of the Convertible Bonds

The financial impacts of the Acquisition and the issue of the Convertible Bonds, together with the basis of preparation of such information, are set out in the unaudited pro forma financial information of the Enlarged Group in Appendix III to this circular.

The financial impacts are stated as if the Acquisition and the issue of the Convertible Bonds had taken place on 30 September 2014 for the unaudited pro forma consolidated statement of financial position, and on 1 April 2013 for the unaudited pro forma consolidated statement of comprehensive income and the unaudited pro forma consolidated cash flow statement.

Upon Completion, the Target Company and its subsidiaries will become subsidiaries of the Company, and the Target Group's results will be consolidated into the Group's consolidated financial statements.

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Impact on total assets and total liabilities of the Enlarged Group

Based on the unaudited pro forma consolidated statement of financial position of the Enlarged Group as set out in Appendix III to this circular and assuming the Completion and had taken place on 30 September 2014, the total assets would be increased by approximately 23.13 times from approximately RMB13.80 million to approximately RMB332.89 million, and the total liabilities would be increased by approximately 658.62 times from approximately RMB0.95 million to approximately RMB627.30 million. The increase in total assets is mainly because of the inclusion of the assets of the Target Group. The increase in total liabilities is mainly because of the inclusion of the liabilities of the Target Group and the recognition of the liabilities portion of the Convertible Bonds.

Impact on the financial results of the Enlarged Group

Based on the unaudited pro forma consolidated statement of comprehensive income of the Enlarged Group as set out in Appendix III to this circular and assuming the Completion had taken place on 1 April 2013, (i) the total revenue would be increased by approximately 67.02% from approximately RMB605.48 million to approximately RMB1,011.27 million; and (ii) the net loss attributable to the Shareholders would be decreased by approximately 72.52% from approximately RMB32.66 million to approximately RMB8.97 million. Such increase in revenue and decrease in net loss attributable to the Shareholders is mainly because of the inclusion of the revenue attributable to the Target Group and the set off of the loss of the Group against the net profit attributable to the Target Group.

(e) Financial and trading prospects of the Enlarged Group

As disclosed in the quarterly report of the Company for the nine months ended 31 December 2014, the Group will devote more resources to focus on the development of the mineral products trading business, review the existing operation and consider new business directions. The Group will continue to look for good opportunities and continue to develop the lending business. At the same time, the Group will continue to explore new business directions as well as potential acquisitions and investment opportunities, with an aim to bring substantial and sustainable returns to the shareholders. For the nine months period ended 31 December 2014 in the financial year ended 31 March 2015, the primary income source of the Group came from the trading business of mineral products. The Group's operation on the business has been getting more sophisticated with time and has been bringing in sustainable revenue for the Group. Meanwhile, there were changes in the business environment for the business of school network integration, in particular, market competition has become more intense, contributing to the continuous decline of income from this business area. In order to focus resources on businesses with better return, the Group sold the business to an independent third party in August 2014.

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As disclosed in the paragraph headed “2. Acquisition - (c) Reasons for the Acquisition” in this letter, it is believed that the Acquisition enables the Group’s business of mineral products trading to expand vertically by tapping into the upstream process of the mining companies which, in turn, can strengthen Group’s position as an integrated mining products and services provider by offering the blasting services for mining, supplying the required civil explosives, and providing the sales services to mining companies.

Based on the above, the Directors are confident that the Enlarged Group would have a positive future outlook and will deliver encouraging operating results to Shareholders.

(f) Shareholding structure of the Company

For illustration purpose only, based on information received by the Company and notified pursuant to Part XV of the SFO as at the Latest Practicable Date and without taking into account any other possible changes in the shareholding structure of the Company thereafter, the following table sets out the shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) immediately upon Completion and assuming full conversion of the Convertible Bonds without taking into account the conversion restrictions under the Convertible Bonds (*Note 1*):

	As at the Latest Practicable Date		Immediately upon Completion and upon full conversion of the Convertible Bonds	
	No. of Shares	%	No. of Shares	%
Shiny Ocean (<i>Note 2</i>)	888,740,477	72.04	1,773,240,477	49.83
Mr. Ma Qiang and his family members and relatives (<i>Note 2</i>)	–	–	735,085,000	20.66
Fabulous Seeker Holdings Limited (<i>Note 3</i>)	–	–	56,330,000	1.58
Ms. Qin Chunhong (<i>Note 4</i>)	–	–	21,500,000	0.60
Total non-public Shareholders	888,740,477	72.04	2,586,155,477	72.67
Other Bondholders (<i>Note 5</i>)	–	–	627,585,000	17.64
Other public Shareholders	344,984,383	27.96	344,984,383	9.69
Total public Shareholders	344,984,383	27.96	972,569,383	27.33
Total	1,233,724,860	100.00	3,558,724,860	100.00

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Notes:

1. *Under the terms of the Convertible Bonds, no Convertible Bonds may be converted by the Bondholders to the extent that following such exercise (a) the Company will be in breach of the minimum public float requirement under the GEM Listing Rules; or (b) a Bondholder and parties acting in concert with it, taken together, will trigger a mandatory general offer under the Takeovers Code.*
2. *Shiny Ocean is a controlling Shareholder. The entire issued share capital of Shiny Ocean is owned by Mr. Ma Qiang, a non-executive Director. Pursuant to the SP Agreement, the acquisition price in relation to the Sale Shares payable to Mr. Ma Qiang shall be payable by issue of such amount of Sale Shares Bonds in proportion to the percentage of shareholding of Mr. Ma Qiang in the Target Company immediately before the Completion by the Company to Shiny Ocean.*
3. *Fabulous Seeker Holding Limited is a company wholly owned by Mr. Xiong Zeke, an executive Director. Pursuant to the SP Agreement, the acquisition price in relation to the Sale Shares payable to Mr. Xiong Zeke shall be payable by issue of such amount of Sale Shares Bonds in proportion to the percentage of shareholding of Mr. Xiong Zeke in the Target Company immediately before the Completion to Fabulous Seeker Holding Limited.*
4. *Ms. Qin Chunhong is an executive Director.*
5. *The other bondholders refer to the 19 Vendors as listed in the table under the paragraph headed "2. Acquisition - (a) SP Agreement - Parties - Vendors who are independent third parties to the Group" in this letter.*

As Mr. Xiong Zeke and Ms. Qin Chunhong, being two of the executive Directors, and Mr. Ma Qiang, being a non-executive Director, being some of the Vendors, have material interest in the Acquisition and the transactions contemplated under the SP Agreement, Mr. Xiong Zeke, Ms. Qin Chunhong and Mr. Ma Qiang have abstained from voting at the Company's board meeting in respect of the Acquisition and the transactions contemplated under the SP Agreement.

3. PROPOSED GRANT OF SPECIFIC MANDATE

As the Consideration will be satisfied by way of the Company issuing the Convertible Bonds, the Company will seek the grant of the Specific Mandate from the Independent Shareholders to allot and issue the Conversion Shares upon conversion of the Convertible Bonds.

The Company estimated that the Specific Mandate will be for a period of three years after approval is obtained from the Independent Shareholders at the EGM.

No listing of the Convertible Bonds will be sought on the Stock Exchange or any other stock exchanges. Application will be made to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares to be allotted and issued upon the conversion of the Convertible Bonds.

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4. PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL OF THE COMPANY

The current authorised share capital of the Company is HK\$15,000,000 divided into 1,500,000,000 ordinary Shares of HK\$0.01 each. In order to accommodate the allotment and issue of the Conversion Shares upon exercise of the conversion rights under the Convertible Bonds and the future expansion and growth of the Group, the Board proposes to increase the authorised share capital of the Company to HK\$50,000,000 divided into 5,000,000,000 ordinary Shares of HK\$0.01 each, by the creation of an additional 3,500,000,000 ordinary Shares of HK\$0.01 each. The increase in the authorised share capital of the Company is conditional upon the approval of the Shareholders by way of an ordinary resolution.

5. PROPOSED CONTINUING CONNECTED TRANSACTIONS AFTER COMPLETION

Upon Completion, the Target Company and its subsidiaries will become subsidiaries of the Company, and accordingly certain ongoing subcontracting and other sales transactions of the Target Group as set out below will become continuing connected transactions of the Company under Chapter 20 of the GEM Listing Rules:

CONTINUING CONNECTED TRANSACTIONS WHICH ARE EXEMPTED FROM REPORTING, ANNOUNCEMENT AND INDEPENDENT SHAREHOLDERS' APPROVAL REQUIREMENTS

Security Framework Agreement

The date and parties

Date: To be entered into on or before Completion

Parties:

Customer: Shengan Chemical (Bayannur)

Service provider: Shengan Security, a company incorporated in the PRC with limited liability whose registered capital is indirectly wholly owned by the Vendors. Shengan Security is principally engaged in provision of security services in relation to civil explosives industry.

Principal terms of the Security Framework Agreement

Pursuant to the Security Framework Agreement, Shengan Security will agree to provide security services to Shengan Chemical (Bayannur) covering areas such as entrance, production plants and warehouse of the Target Group on a 24-7 basis to prevent fire hazard, theft and other security issues. As the pricing of the security service fee for civil explosives manufacturers is not subject to any laws or government regulations in the PRC, and there are no published reference

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price by any authority in the PRC, pursuant to the Security Framework Agreement, the Target Group will enter into a yearly supplemental security agreement with Shengan Security for each of the three years ending 31 March 2018 to agree on the scope of security services and number of security guards required for each year, and the security service fees for each year, which shall be determined based on the number of security guards required by the Target Group in each year and their monthly salary, which shall be determined based on their qualifications, work experience with reference to the prevailing market price for comparable services, provided that the services fee offered to the Target Group shall not be less favourable than that offered by Shengan Security to its independent third party customers for security services of comparable scope. In addition, where the Target Group can obtain terms for security services of comparable scope from independent security service providers which are more favourable than those offered by Shengan Security, the Target Group may, at its sole discretion, request Shengan Security to offer its security services on terms not less favourable than that available from the independent security service providers, failing which the Target Group may obtain security services from such independent security service providers. There is no restriction under the Security Framework Agreement that restricts the Target Group from obtaining the requisite security services from other third party security service providers.

The Security Framework Agreement shall have a term of three years commencing from the date thereof, unless terminated earlier by mutual agreements or by a party serving a prior termination notice of not less than 30 days on the other parties thereof.

Proposed annual caps

The aggregate services fees payable by the Target Group to Shengan Security for each of the three years ended 31 March 2015 was nil, approximately RMB0.47 million and RMB0.94 million respectively. Based on the information provided by the Vendors and to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Target Group started to engage Shengan Security for security services since September 2013. The Directors expect that the aggregate service fees payable by the Target Group to Shengan Security for the security services under the Security Framework Agreement for each of the three years ending 31 March 2018 will not exceed the annual caps of RMB1.10 million, RMB1.21 million and RMB1.33 million, respectively.

The proposed annual caps for each of the three years ending 31 March 2018 are determined by the Directors by reference to the actual services fees payable by the Target Group during the year ended 31 March 2015 and the estimated inflation rate and increase in costs of security services of an aggregate of 10% every year, the monthly salary of the security guards of Shengan Security, the number of security guards required and the prevailing authorised production limit of the Target Group's civil explosives which would in turn affects the scale of business of the Target Group.

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Reasons for the continuing connected transactions

Under the relevant rules and regulations of the PRC, civil explosives manufacturers should hire external security service providers to provide security services or maintain qualified internal security personnel to provide security services. Shengan Security has the requisite permits, qualifications and experience in providing the security services to the Target Group. It was a subsidiary of the Target Group before its disposal to Shengan Real Estate in November 2014 and has been providing such services to the Target Group since September 2013.

The terms and conditions of the Security Framework Agreement were negotiated between the parties thereto on an arm's length basis. The Directors (including the independent non-executive Directors) are of the view that the terms and conditions of the Security Framework Agreement are fair and reasonable, and the continuing connected transactions thereunder are on normal commercial terms and in the ordinary and usual course of business of the Enlarged Group after the Completion and in the interests of the Company and the Shareholders as a whole.

The Directors (including the independent non-executive Directors) are also of the view that the proposed annual caps for the continuing connected transactions contemplated under the Security Framework Agreement for each of the three years ending 31 March 2018 are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

There is no restriction under the Security Framework Agreement that restricts the Target Group from obtaining the requisite security services from other third party security service providers, and therefore the Target Group is at its liberty to engage independent security service providers for the services if the terms so offered are more favourable to the Target Group. As the Company's corporate governance measures, the Group shall ensure that (i) the Target Group shall obtain fee quotation from at least one qualified independent security service provider for provision of services; (ii) director or management of the Group or the Target Group who have conflict of interests may not be involved in matters relating to the transactions, including but not limited to the negotiations with Shengan Security on the service fees and other terms, the decision on whether to engage the third independent security service provider for the services or to request Shengan Security to offer such services on comparable or better terms; and (iii) subject to Completion taking place, the independent non-executive Directors shall from time to time review the methods and procedures involved in the selection and engagement of security service providers (including Shengan Security) for the security services and, if thought fit, to advise the Board on adopting such additional measures to ensure that the continuing connected transactions to be concluded under the Security Framework Agreement will be on normal commercial terms and on terms no less favourable to the Target Group than terms available from independent third party service providers.

Implication under the GEM Listing Rules

As at the Latest Practicable Date, Shengan Security was indirectly wholly owned by the Vendors (and was ultimately owned as to 33.00% by Mr. Ma Qiang, a non-executive Director) and was therefore a connected person of the Company. Accordingly, immediately upon Completion,

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the transactions contemplated under the Security Framework Agreement will constitute continuing connected transactions of the Company under Chapter 20 of the GEM Listing Rules. Since the annual caps under the Security Framework Agreement represent less than 5% of the relevant applicable percentage ratios under the GEM Listing Rules and are expected to less than HK\$3 million, the transactions under the Security Framework Agreement and the annual caps therefor are exempted from reporting, announcement and Independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

CONTINUING CONNECTED TRANSACTIONS WHICH ARE SUBJECT TO REPORTING, ANNUAL REVIEW, ANNOUNCEMENT BUT EXEMPTED FROM INDEPENDENT SHAREHOLDERS' APPROVAL REQUIREMENTS

Ordos Beian Framework Agreement

The date and parties

Date: To be entered on or before Completion

Parties:

Vendor: Shengan Chemical (Otog Banner)

Purchaser: Ordos Beian, a company incorporated in the PRC with limited liability whose registered capital is owned as to, among others, 55% by 內蒙古生力資源（集團）有限責任公司 (Inner Mongolia Shengli Resources Group Co., Limited*), which was the holding company of Jungar Banner Lida, which held 40% of equity interest in Shengan Chemical (Inner Mongolia).

Principal terms of the Ordos Beian Framework Agreement

Pursuant to the Ordos Beian Framework Agreement, Shengan Chemical will agree to sell and Ordos Beian will agree to purchase powder emulsion explosives and ANFO explosives subject to the terms and conditions of the Ordos Beian Framework Agreement and on such other terms (such as the category, volume, unit price of purchase, quality requirements, time and location of delivery of finished goods) to be further agreed by the parties by entering into separate purchase orders from time to time, provided that the terms of such purchase orders shall be on normal commercial terms or better, and shall not contravene the terms of and conditions of the Ordos Beian Framework Agreement.

As the pricing of sales of civil explosives is no longer subject to any laws or government regulations in the PRC, and there are no published reference price by any authority in the PRC, pursuant to the Ordos Beian Framework Agreement, the unit price for sale and purchase shall be from time to time agreed by the parties after arm's length negotiation and shall be determined with reference to the prevailing market price for comparable products, volume of purchase,

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transportation and delivery arrangement and such other special circumstances, provided that the unit price offered by the Target Group shall not be more favourable than that offered by the Target Group to its independent third party purchasers for purchase of comparable products and volume. As there is no minimum sale and purchase commitment by the Target Group and Ordos Beian and exclusivity for sale of such civil explosives by the Target Group under the Ordos Beian Framework Agreements, where the Target Group can obtain better terms for sale of comparable products to independent purchasers, the Target Group can sell comparable products to such independent purchasers.

The Ordos Beian Framework Agreement shall have a term of three years commencing from the date thereof, unless terminated earlier by mutual agreements or by a party serving a prior termination notice of not less than 30 days on the other parties thereof.

Proposed annual caps

The aggregate revenue from sale of civil explosives by the Target Group to Ordos Beian for each of the three years ended 31 March 2015 was approximately RMB163.08 million, RMB104.20 million and RMB76.15 million respectively. The Directors expect that the transaction amount for the sale and purchase under the Ordos Beian Framework Agreement for each of the three years ending 31 March 2018 will not exceed the annual caps of RMB104.77 million, RMB115.25 million and RMB127.00 million respectively.

The proposed annual caps for each of the three years ending 31 March 2018 are determined by the Directors by reference to the actual sales amount during the year ended 31 March 2015 and the estimated inflation rate and increase in costs of production of an aggregate of 10% every year, the prevailing market price, and the prevailing authorised limit for production and sales in respect of the Target Group's civil explosives.

Reasons for the continuing connected transactions

The Target Group has been selling civil explosives to Ordos Beian for more than five years and Ordos Beian was one of the largest customers of the Target Group and had accounted for approximately 42.11%, 41.43%, 25.68% and 20.10% of the Target Group's revenue for each of the three years ended 31 March 2014 and the nine months ended 31 December 2014 respectively. Therefore, entering into of the Ordos Beian Framework Agreement can facilitate the long term business relationship between the Target Group and Ordos Beian.

The terms and conditions of the Ordos Beian Framework Agreement were negotiated between the parties thereto on an arm's length basis. The Directors (including the independent non-executive Directors) are of the view that the terms and conditions of the Ordos Beian Framework Agreement are fair and reasonable, and the continuing connected transactions thereunder are on normal commercial terms and in the ordinary and usual course of business of the Enlarged Group after the Completion and in the interests of the Company and the Shareholders as a whole.

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As the Company's corporate governance measures, the Target Group will appoint Mr. Zhang Lijun, the chief financial officer of the Target Group to review the market price for comparable products from time to time and to approve each of the separate purchase orders entered between the Target Group and Ordos Beian to ensure that the continuing connected transactions to be concluded under the Ordos Beian Framework Agreement will be on normal commercial terms and on terms not more favourable than that offered by the Target Group to independent purchasers.

The Directors (including the independent non-executive Directors) are also of the view that the proposed annual caps for the continuing connected transactions under the Ordos Beian Framework Agreement for each of the three years ending 31 March 2018 are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Implication under the GEM Listing Rules

As at the Latest Practicable Date, Ordos Beian was owned as to 55% by 內蒙古生力資源 (集團) 有限責任公司 (Inner Mongolia Shengli Resources Group Co., Limited*), which was the holding company of Jungar Banner Lida, which held 40% of equity interest in Shengan Chemical (Inner Mongolia) and was therefore a connected person of the Company at the subsidiary level. By virtue of Rule 20.99 of the GEM Listing Rules, as (i) Ordos Beian is a connected person of the Company at the subsidiary level; (ii) the transactions contemplated under the Ordos Beian Framework Agreement are on normal commercial terms; (iii) the Board (including all the independent non-executive Directors) have approved the transactions and confirmed that the transactions are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole, the transactions contemplated under the Ordos Beian Framework Agreement and the annual caps thereof are subject to reporting, annual review, announcement but are exempted from Independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

CONTINUING CONNECTED TRANSACTIONS WHICH ARE SUBJECT TO REPORTING, ANNUAL REVIEW, ANNOUNCEMENT AND INDEPENDENT SHAREHOLDERS' APPROVAL REQUIREMENTS

Transportation Framework Agreement

The date and parties

Date: 22 June 2015

Parties:

Customers: Shengan Chemical (Otog Banner), Shengan Chemical (Bayannur) and Shengan Chemical (Urad Middle Banner), being three members of the Target Group

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Service provider: Shengan Transport, a company incorporated in the PRC with limited liability whose registered capital is owned as to approximately 90.91% by Mr. Dong Haibin (董海滨), who is the brother-in-law of Mr. Ma Qiang, and as to approximately 9.09% by Mr. Bai Yongming (白永明), one of the Vendors. Shengan Transport is principally engaged in the transportation of civil explosive products and general products.

Principal terms of the Transportation Framework Agreement

Pursuant to the Transportation Framework Agreement dated 22 June 2015 and entered between Shengan Chemical (Otog Banners), Shengan Chemical (Bayannur), Shengan Chemical (Urad Middle Banner) and Shengan Transport, Shengan Transport agreed to provide transportation services to Shengan Chemical (Otog Banner), Shengan Chemical (Bayannur) and Shengan Chemical (Urad Middle Banner) in respect of the transportation of civil explosives, blasting equipment and/or other production materials to such locations as designated by the Target Group subject to the terms and conditions of the Transportation Framework Agreement and on such other terms (such as the time of service, types and weight of the goods to be transported, and the service fees) to be further agreed by the parties by entering into separate service contracts from time to time, provided that the terms of such separate service contracts shall be on normal commercial terms or better, and shall not contravene the terms of and conditions of the Transportation Framework Agreement.

As the pricing of the transportation fee of civil explosives is not subject to any laws or government regulations in the PRC, and there are no published reference price by any authority in the PRC, pursuant to the Transportation Framework Agreement, the service fees for each service shall be from time to time agreed by the parties after arm's length negotiation and shall be determined with reference to the prevailing market price for comparable services, the types of goods to be transported, weight, transportation distance and time to be involved, fuel price and such other special circumstances, provided that the unit services fee per tonne and per kilometer offered to the Target Group shall not be less favourable than that offered by Shengan Transport to its independent third party customers for transportation of comparable products and distance. In addition, where the Target Group can obtain terms for transportation of comparable products and distance from independent transportation service providers which are more favourable than those offered by Shengan Transport, the Target Group may, at its sole discretion, request Shengan Transport to offer its transportation services on terms not less favourable than that available from the independent transportation service providers, failing which the Target Group may obtain transportation services from such independent transportation service providers. There is no restriction under the Transportation Framework Agreement that restricts the Target Group from obtaining the requisite transportation services from other third party transportation service providers.

Under the Transportation Framework Agreement, Shengan Transport agreed to ensure that the vehicles and personnel involved shall comply with the applicable safety transportation requirements under laws (including but not limited to the possession of the requisite qualification licenses), and shall be responsible for any incident occurred during the course of transportation of the goods.

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The Transportation Framework Agreement was entered for a term of three years commencing from 22 June 2015, unless terminated earlier by mutual agreements or by a party serving a prior termination notice of not less than 30 days on the other parties thereof.

Proposed annual caps

The aggregate services fees payable by the Target Group to Shengan Transport for the provision of transportation services for each of the three years ended 31 March 2015 was nil, approximately RMB9.86 million and RMB16.08 million respectively. Based on the information provided by the Vendors and to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, (i) no transportation services fees was paid to Shengan Transport during the year ended 31 March 2013 as the Target Group had engaged other transportation service providers for provision of such transportation services during the year until August 2013, whereby the Target Group re-engaged Shengan Transport for the transportation services; and (ii) there was a significant increase in the amount of transportation services fees paid to Shengan Transport during the year ended 31 March 2015 as compared to that during the year ended 31 March 2014, because (a) the amount of transportation services fees paid during the year ended 31 March 2014 represented the services fees for approximately eight months of services only after the re-engagement of Shengan Transport by the Target Group; and (b) Shengan Transport has purchased more transportation vehicles and expanded its business, and thereby has improved its capacity and capability in providing transportation services to the Target Group during the year ended 31 March 2015. The Directors expect that the aggregate service fees payable by the Target Group to Shengan Transport for the transportation services under the Transportation Framework Agreement for each of the three years ending 31 March 2018 will not exceed the annual caps of RMB18.0 million, RMB19.8 million and RMB21.8 million respectively.

The proposed annual caps for each of the three years ending 31 March 2018 are determined by the Directors by reference to the actual services fees payable by the Target Group during the year ended 31 March 2015 and the estimated inflation rate and increase in costs of transportation services of an aggregate of 10% every year, the prevailing unit service fees charged by Shengan Transport, and the prevailing authorised production limit of the Target Group's civil explosives.

Reasons for the continuing connected transactions

Under the relevant rules and regulations of the PRC, transportation of civil explosives must be made by authorised vehicles and personnel with requisite permits and qualifications. Where customers of the Target Group do not collect the explosive products manufactured by the Target Group from its warehouse or (in case of provision of blasting operation and related services) where customers needs explosives and blasting equipment to be delivered to their blasting site, the Target Group will need to procure transportation services from qualified transportation service providers so as to minimise the operation risks of the Target Group during transportation of civil explosives and blasting equipment. Shengan Transport has the requisite permits, qualifications and experience in providing the transportation services to the Target Group and it and its controlling shareholder have been providing such services to the Target Group for more than three years.

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The terms and conditions of the Transportation Framework Agreement were negotiated between the parties thereto on an arm's length basis. The executive Directors are of the view that the terms and conditions of the Transportation Framework Agreement are fair and reasonable, and the continuing connected transactions thereunder are on normal commercial terms and in the ordinary and usual course of business of the Group after the Completion and in the interests of the Company and the Shareholders as a whole.

The executive Directors are also of the view that the proposed annual caps for the continuing connected transactions under the Transport Framework Agreement for each of the three years ending 31 March 2018 are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

There is no restriction under the Transportation Framework Agreement that restricts the Target Group from obtaining the requisite transportation services from other third party transportation service providers, and therefore the Target Group is at its liberty to engage independent transportation service providers for the services if the terms so offered are more favourable to the Target Group. As the Company's corporate governance measures, the Group shall ensure that (i) the Target Group shall obtain fee quotation from at least one qualified independent transportation service provider for provision of services; (ii) director or management of the Group or the Target Group who have conflict of interests may not be involved in matters relating to the transactions, including but not limited to the negotiations with Shengan Transport on the service fees and other terms of each separate service contract, the decision on whether to engage the third independent transportation service provider for the services or to request Shengan Transport to offer such services on comparable or better terms; and (iii) subject to Completion taking place, the independent non-executive Directors, in addition to their annual review of the continuing connected transactions under the Transportation Framework Agreement under the GEM Listing Rules, shall from time to time review the methods and procedures involved in the selection and engagement of transportation service providers (including Shengan Transport) for the transportation services and, if thought fit, to advise the Board on adopting such additional measures to ensure that the continuing connected transactions to be concluded under the Transportation Framework Agreement will be on normal commercial terms and on terms no less favourable to the Target Group than terms available from independent third party service providers.

Implication under the GEM Listing Rules

As at the Latest Practicable Date, Shengan Transport was owned as to approximately 90.91% by Mr. Dong Haibin, who is the brother-in-law of Mr. Ma Qiang, being the Company's non-executive Director and controlling Shareholder, and was therefore a connected person of the Company. Accordingly, immediately upon Completion, the transactions contemplated under the Transportation Framework Agreement will constitute continuing connected transactions of the Company under Chapter 20 of the GEM Listing Rules. Since the annual caps under the Transportation Framework Agreement represent more than 5% of the relevant applicable percentage ratios under the GEM Listing Rules and are expected to exceed HK\$10 million, the transactions under the Transportation Framework Agreement and the annual caps therefor are subject to reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

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6. GEM LISTING RULES IMPLICATIONS

(a) Very substantial acquisition

As at the Latest Practicable Date, Shiny Ocean, being the seller of the Sale Loan, was interested in 888,740,477 Shares, representing approximately 72.04% of the entire issued share capital of the Company and was a controlling Shareholder. The Vendors also comprise Mr. Ma Qiang, being the non-executive Director and the controlling Shareholder of the Company, and his family members and relatives, and Mr. Xiong Zeke and Ms. Qin Chunhong, being two of the executive Directors. As such, Shiny Ocean, Mr. Ma Qiang and his family members and relatives, Mr. Xiong Zeke and Ms. Qin Chunhong are connected persons of the Company and therefore the Acquisition and the transactions contemplated under the SP Agreement will constitute non-exempt connected transactions of the Company under Chapter 20 of the GEM Listing Rules and will be subject to the approval of the Independent Shareholders at the EGM by way of poll. As the applicable percentage ratios in respect of the Acquisition exceed 100%, the Acquisition and the transactions contemplated under the SP Agreement will also constitute a very substantial acquisition of the Company and will be subject to announcement and Shareholders' approval requirements under Chapter 19 of the GEM Listing Rules.

The Conversion Shares will be issued under the specific mandate to be sought at the EGM. The Company will apply to the Listing Division of the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares on the Stock Exchange.

(b) Continuing connected transactions

Please refer to the paragraphs headed "5. Proposed continuing connected transactions after Completion – Continuing connected transactions which are exempted from reporting, announcement and independent shareholders' approval requirements – Security Framework Agreement – Implication under the GEM Listing Rules", "5. Proposed continuing connected transactions after Completion – Continuing connected transactions which are subject to reporting, annual review, announcement but exempted from independent shareholders' approval requirements – Ordos Beian Framework Agreement – Implication under the GEM Listing Rules", and "5. Proposed continuing connected transactions after Completion – Continuing connected transactions which are subject to reporting, annual review, announcement and independent shareholders' approval requirements – Transportation Framework Agreement – Implication under the GEM Listing Rules" in this letter for the implications under the GEM Listing Rules in relation to the transactions contemplated under the Security Framework Agreement, the Ordos Beian Framework Agreement and the Transportation Framework Agreement respectively.

(c) No change in controlling Shareholder

As set out in the table under the paragraph headed "2. Acquisition - (f) Shareholding structure of the Company" in this letter, Shiny Ocean, the controlling Shareholder (within the meaning of the GEM Listing Rules) of the Company, held approximately 72.04% of the issued share capital of the Company as at the Latest Practicable Date and its shareholding level will be

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reduced to approximately 49.83% immediately upon Completion and upon full conversion of the Convertible Bonds. Despite the reduction, Shiny Ocean will remain a controlling Shareholder immediately upon Completion and upon full conversion of the Convertible Bonds. As such, the entering into of the SP Agreement and the issue and conversion of the Convertible Bonds will not result in any change in the controlling Shareholder of the Company.

7. INFORMATION ON THE TARGET GROUP

(a) Risk factors

RISKS RELATING TO THE TARGET GROUP

Most of the revenue and business operation of the Target Group during the Relevant Period were derived in Inner Mongolia Autonomous Region, the PRC and any adverse development therein may affect business operations and financial results of the Target Group

Due to the bulkiness of civil explosives and the cost and risk in relation to the transportation of civil explosives and related production materials, civil explosives and blasting operations business is highly confined to the geographical locations in proximity to the production plants of the Target Group and mining or construction sites of the customers. During the Relevant Period and as of the Latest Practicable Date, most of the revenue and business operation of the Target Group were derived from the Inner Mongolia Autonomous Region and most of customers and suppliers of the Target Group are located in Inner Mongolia Autonomous Region, in particular, in the regions where the production plants of the Target Group are situated. In the event there are any adverse economic, social and weather conditions in the regions where the business of the Target Group is located which adversely affects the demands for infrastructure and mining activities and the demand for civil explosives, the business of customers and suppliers of the Target Group can be affected, which may in turn adversely affect the Target Group's results of operations and financial position. In order to reduce the possible risk of concentration of revenue and business operation of the Target Group in the Inner Mongolia Autonomous Region, upon Completion, the Target Group may expand its production facilities to Tibet and/or Xinjiang Uyghur Autonomous Region in order to increase the sources of revenue. As at the Latest Practicable Date, the Target Group has no actual plan to expand its production facilities to other regions of the PRC.

Any significant increase in price of major production materials could have a significant impact on the cost of revenue of the Target Group

Cost of raw materials is the major cost of revenue of the Target Group which accounted for approximately 87.47%, 87.83%, 74.32% and 77.43% respectively of the total cost of revenue of the Target Group during the three years ended 31 March 2014 and the nine months ended 31 December 2014. The prices and availability of ammonium nitrate and PPAN, which are the principal raw materials used for the production of civil explosives by the Target Group, could be affected by a number of factors, including

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market supply and demand, PRC and global economic conditions and changes of the PRC or international environmental and regulatory requirements. During the Relevant Period and up to the Latest Practicable Date, purchase price of ammonium nitrate and PPAN underwent a downward trend mainly because of (i) the decrease of production costs of ammonium nitrate and PPAN as a result of decrease in price of coal, which accounted for the major production costs of these materials; and (ii) excessive supply of these materials in the region as a result of increase in number of suppliers for these materials in the region whereas the authorised production limit granted to the civil explosive manufacturers by the relevant PRC government authority was not uplifted at the same time. However, there is no assurance that the price of ammonium nitrate and PPAN will maintain at the current low level in the future. In the event that the price of ammonium nitrate, PPAN or other major production materials used in the Target Group's production increases significantly and the Target Group fails to shift the increase of costs to its customers, cost of production of the Target Group thus profit margin of the Target Group may be significantly affected. Please refer to the paragraph headed "7. Information on the Target Group – (f) Business of the Target Group – Production materials" for the historical price range of the costs of the Target Group's major materials used during the Relevant Period.

There is no assurance that the Target Group can renew all the licenses and permits required for its business operations upon the respective expiry of the current licenses and permits and obtain authorised limit for production and sales of civil explosives in such amount as required by its business need

The business operations of the Target Group requires obtaining licenses and permits from the relevant government authorities and the volume of production and sales of each approved type of civil explosive products by the Target Group is subject to the authorised limit determined by the local government authority pursuant to the relevant rules and regulations in the PRC (details of the licenses and permits of the Target Group are set out in the paragraph headed "7. Information on the Target Group – (f) Business of the Target Group – Licenses and permits" in this letter). There is no assurance that the Target Group can renew all the licenses and permits required for its business operation upon the respective expiry of the current licenses or permits nor the local government authority will grant such amount of authorised limit of sales and production to the Target Group as required by its business need. In the event that the Target Group cannot meet the requirements pursuant to the relevant rules and regulations in the future to renew its licenses and permits or to obtain adequate authorised limit, or in the event of any change in demand by its customers of any particular type of civil explosive products exceeding the Target Group's authorised production limit and such demand cannot be satisfied by timely applying for the requisite adjustment of the authorised limit for production and sale of the relevant category of products, the Target Group's business performance and future expansion may be significantly affected. Please refer to the paragraph headed "7. Information on the Target Group – (d) Laws and regulations relating to the business of the Target Group" in this letter for details of the rules and regulations applicable to the business of the Target Group. In order to reduce the possible risk of failure to renew the requisite licenses and permits, upon Completion, the Enlarged Group will appoint Jingtian

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& Gongcheng, a qualified PRC law firm, as its external PRC legal advisers so that the Enlarged Group can seek PRC legal advice on the applicable rules and regulations in the PRC regarding the licensing and permits requirement.

The Target Group is dependent on its major customers and does not have long-term purchase commitments from its customers and therefore the Target Group is exposed to the risk of potential volatility in turnover

A substantial portion of the revenue of the Target Group is derived from its major customers. During the three years ended 31 March 2014 and the nine months ended 31 December 2014, revenue from the Target Group's five largest customers, in aggregate, amounted to approximately RMB310.34 million, RMB331.65 million, RMB260.73 million and RMB169.75 million respectively, representing approximately 87.24%, 84.25%, 64.25% and 63.30% of the revenue of the Target Group respectively. The Target Group generally enters into framework sales and purchase agreements with its customers for a term of one year. The purchase volume specified under these framework agreements is an estimated volume only and the time and volume of purchase is subject to separate purchase orders from the customers. There is no assurance that customers of the Target Group would purchase such amount of civil explosives from the Target Group as per the estimated volume set out in these framework agreements nor the Target Group would be able to maintain the current business relationships with its existing major customers upon expiry of the then framework agreements such that it can continue to supply products to them at the current levels. In the event that any of the existing major customers of the Target Group reduces its volume of purchase from the Target Group for whatever reason or ceases its business relationship with the Target Group upon expiry of the then framework agreements, and the Target Group is unable to secure additional orders from other existing customers with comparable sales volume and profit margins or engage new customers in place of the departing customers, the revenue and profitability of the Target Group may be materially and adversely affected. Please refer to the paragraph headed "7. Information on the Target Group – (f) Business of the Target Group – Customers" of this letter for details of the sales and purchase framework agreements entered into between the Target Group and its customers.

The Target Group relies on external transportation service providers for delivery of its finished goods to customers and cannot ensure the quality of the transportation service

Pursuant to the relevant rules and regulations of the PRC, transportation of civil explosives shall be made by authorised vehicles. Where customers of the Target Group do not collect the finished goods from the Target Group's warehouse or (in case of provision of blasting operation and related services) where customers require explosives and blasting equipment to be delivered to their blasting site and such explosives and blasting equipment can only be transported after obtaining permit from the relevant PRC authority, the Target Group would engage authorised transportation service providers for the transportation and delivery of the products and equipment so as to minimise the

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operation risks of the Target Group during the transportation. Even though the Target Group selects its transportation service subcontractors carefully with reference to, among others, their status of operating license and permits, track record performance and experience in providing service in similar scale, the Target Group cannot ensure quality (such as timely delivery without any interruption or occurrence of accidents) of the transportation service provided by its transportation service subcontractors. In the event that the transportation service subcontractors do not handle the delivery of finished goods and equipment of the Target Group properly and cause damage to such finished goods and equipment or even to other road-users or facilities nearby, the operation of business, thus profits, of the Target Group may be affected. Please refer to the paragraph headed “7. Information on the Target Group – (f) Business of the Target Group – Subcontracting” of this letter for further details of the subcontracting of transportation service by the Target Group including measures taken by the Target Group to ensure quality of the transportation service providers.

The Target Group can be penalised as a result of the excessive production and sales volume of civil explosives by the Target Group

Pursuant to the relevant rules and regulations of the PRC, production and sales volume of civil explosives shall be within the authorised limit as determined by the relevant government authority in the PRC (details of which are set out in the paragraph headed “7. Information on the Target Group – (d) Laws and regulations relating to the business of the Target Group” in this letter). However, for the two years ended 31 December 2012 and 2013, the actual volume of production and sales of civil explosives by the Target Group was in excess of the authorised limit set by the relevant government authority in the PRC pursuant to the relevant rules and regulations in the PRC. As advised by the PRC Legal Advisers, under the relevant PRC laws and regulations, for any production and sales of amount and category of explosives which is in contravention of the relevant PRC laws and regulations, the Target Group’s production may be ordered to ratify the default within a prescribed period of time and can be liable for a penalty from RMB100,000 to RMB500,000, failing which the Target Group’s production may be ordered for suspension or its Production License may be revoked. Please refer to the paragraph headed “7. Information on the Target Group – (f) Business of the Target Group – Legal compliance” in this letter for the measures to be taken by the Group upon completion to ensure the on-going compliance with the relevant rules and regulations in the PRC.

Although the Target Group has obtained two confirmations from the relevant competent government authority at the provincial level in charge of regulating production and sales of civil explosives (i.e. NDSI office) that it will not take any action against the Target Group for its past failure to comply with the authorised limit for production, in the event that the Target Group’s actual volume of production and sales of civil explosives is in excess of the authorised limit in the future, the Target Group’s production may be ordered to be suspended or its licenses for operation may be revoked, and therefore the operation, thus revenue, of the Target Group will be significantly affected. Please refer to the paragraph headed “7. Information on the Target Group – (f) Business of the Target Group – Legal compliance” in this letter for details of such non-compliance incident and the measures taken to prevent future breach and to ensure on-going compliance.

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The Target Group may be ordered to register employees' housing provident fund for its employees and make up all unpaid contribution during the Relevant Period

As advised by the PRC Legal Advisers, subsidiaries of the Target Group in the PRC are required to register the employees' housing provident fund and make contribution thereto for all its employees pursuant to the rules and regulations in the PRC (details of which are set out in the paragraph headed "7. Information on the Target Group – (d) Laws and regulations relating to the business of the Target Group" in this letter"). However, during the Relevant Period, the Target Group failed to comply with the relevant requirements for registering the employees' housing provident fund and making contribution to PRC employees' housing provident fund for all of its employees. It is estimated that the Target Group failed to pay the employees' housing provident fund for its employees in the amount of approximately RMB0.61 million, RMB0.78 million, RMB1.07 million and RMB0.87 million for the three years ended 31 March 2014 and the nine months ended 31 December 2014 respectively. As advised by the PRC Legal Advisers, under the relevant PRC laws and regulations, for default in registering the employees' housing provident fund and making contribution thereto for its employees, the Target Group may be ordered to register housing provident fund for its employees and make up all outstanding contribution within a prescribed period, failing which a penalty from RMB10,000 to RMB50,000 may be imposed. In the event that the Target Group is required to make up any unpaid contribution to the PRC employees' housing provident fund, the financial position and cash flow of the Target Group may be affected. For details of the non-compliance with relevant laws and regulations and the measures taken to prevent future breach and to ensure on-going compliance relating to employees' housing provident fund, please refer to the paragraph headed "7. Information on the Target Group – (f) Business of the Target Group – Legal compliance" in this letter.

The Target Group's insurance coverage may not be sufficient to cover all potential losses, including product liability

The production process and provision of blasting operations and related services of the Target Group is subject to hazards and risks, which may cause significant harm to persons or damage to properties. During the Relevant Period and as of the Latest Practicable Date, the Target Group had maintained insurance coverage for high-risks industry safety production liability and group accidents for its staffs, vehicles and automobile liability. There is no assurance that the insurance policies maintained by the Target Group will be adequate to cover all losses it may incur. Losses incurred and associated liabilities may have a material adverse effect on the Target Group's results of operations if such losses or liabilities are not covered by its insurance policies.

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In particular, the insurance of the Target Group does not cover product liability. As advised by the PRC Legal Advisers, in the event that any of its products are alleged or found to be defective, the Target Group is subject to product liability claims under the laws of the PRC. If the civil explosive products are found to be defective, the Target Group may be subject to product liability claims and therefore may incur significant legal costs. If the Target Group is eventually found liable, it may have to pay a significant amount of damages to customers. If the product defect is attributable to raw materials or services provided by suppliers, the Target Group may be entitled to bring claims against the suppliers for damages under the applicable PRC laws, but there is no assurance that the Target Group will be able to recover all or part of the damages from such suppliers. Please refer to the paragraph headed “7. Information on the Target Group – (f) Business of the Target Group – Insurance” in this letter for details of Directors’ view on the sufficiency of the insurance coverage of the Target Group in mitigating the potential risks and losses including product liability.

The results of research and development of the Target Group may be adversely affected if the Target Group fails to continue its collaboration with other market players and external research and academic institutions

In addition to the research and development projects undertaken by the research and development department of the Target Group, the Target Group has also undertaken a number of research and development projects by collaborating with other players in the civil explosive industry and research institutions in relation to the enhancement of product quality and production process and the development of new products or use of new production materials (details of which are set out in the paragraph headed “7. Information on the Target Group – (f) Business of the Target Group – Research and development” in this letter). There is no assurance that the Target Group will be successful in entering into new collaboration agreements with these research partners in the future, or the Target Group will continue to be successful in developing new products or techniques on its own. If such an event occurs, it may have a negative impact on the Target Group’s ability to launch new research and development initiatives or projects. This would in turn adversely affect competitiveness, business and prospects of the Target Group. In order to reduce the reliance on collaboration with other market players on research and development projects, upon Completion, the Target Group will expand its research and development department by increasing the number of qualified personnel in the research and development team to conduct research and development projects.

The Target Group may not be able to adequately protect its patents or other intellectual property which could adversely affect its business

The Target Group relies on intellectual property right applications to protect certain advanced technical features of its production process. As of the Latest Practicable Date, the Target Group had obtained 24 patents, one trademark and one software copyright in the PRC (please refer to the paragraph headed “7. Information on the Target Group – (f) Business of the Target Group – Intellectual property” of this letter for details of the

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intellectual property rights of the Target Group). There can be no assurance that the Target Group could continue to enjoy the intellectual property rights registered in the future upon the respective expiry of such rights. The patents granted may be subject to challenges as to their scope or may be found to be invalid or otherwise unenforceable in the future. Furthermore, enforcement of intellectual property rights through administrative actions in the PRC involves a higher level of uncertainty than in Hong Kong or elsewhere. In order to enforce the intellectual property rights against infringing third parties, the Target Group may have to resort to costly and prolonged litigation. Any failure to protect, maintain and enforce the intellectual property rights may result in the Target Group's loss of its exclusive rights to use the proprietary process, thus impairment to its competitiveness. This will in turn adversely and materially affects business operations, financial position and prospects of the Target Group.

The Target Group may be subject to claims of infringement of third-party intellectual property rights

The Target Group may, in the future, be subject to legal proceedings and claims from time to time relating to intellectual property of others in its ordinary course of business, such as in the process of developing and implementation of new production technologies. In the event that the Target Group is found to have infringed the intellectual property rights of others, it may be subject to lawsuits for infringements or may be prohibited from using such intellectual property, and it may be required to pay substantial damages and may need to pay royalties in order to obtain license for the proprietary rights from the proper owner for future use. Given the importance of technology of the civil explosive industry, there is no assurance that the Target Group will not be subject to claims of infringement by third parties. Intellectual property litigations may also give rise to reputational damage and significant expenses which can in turn materially and adversely affect the business operations, financial position and prospects of the Target Group.

RISKS RELATING TO THE CIVIL EXPLOSIVE INDUSTRY

Demand for products and services in the market is highly dependent on economy

As civil explosives are commonly used in blasting operations in mining and civil and infrastructure construction, demand for the products and services offered by the Target Group is highly dependent on the amount and scale of mining and infrastructure construction projects, which in turn depend on, among others, the general conditions of the PRC economy. The general economic conditions of the PRC market, including but not limited to interest rate, inflation rate, unemployment rate, demographic trends, GDP growth and consumer confidence, may directly affect customers' demand for the Target Group's products and services. A downturn in the industries of the Target Group's customers or the overall economic conditions in the PRC could bring material impact on the Target Group's revenue and materially and adversely affect the business, results of operations, financial position and prospects of the Target Group. As the major customers of the Target Group are mining companies, the demand of the Target Group's products may be affected by the demand in the mining industry and prices of commodities such as diesel fuel.

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Business of the Target Group is subject to civil explosives product related laws, regulations and industry standards in the PRC and any unfavourable development of the regulatory regime of the civil explosives industry

The businesses of manufacture and sales of civil explosives and provision of blasting operations and related services engaged by the Target Group are highly regulated pursuant to the relevant rules and regulations in the PRC. Various aspects of the business of the Target Group, including but not limited to production, sale, purchase, transport, blasting operation and storage, are subject to various laws, regulations and industry standards in the PRC. In particular, the business operations of the Target Group requires obtaining licenses and permits from the relevant government authorities and the production and sales volume of civil explosives by the Target Group have to be within the authorised limit of production determined by the relevant PRC government authority pursuant to the relevant rules and regulations in the PRC (details of the licenses and permits of the Target Group are set out in the paragraph headed “7. Information on the Target Group – (f) Business of the Target Group – Licenses and permits” in this letter).

As all such laws and regulations may continue to evolve in the future and there can be no assurance that the PRC government will not impose additional or more onerous requirements or restrictions in relation to the operations of the Target Group. Compliance with such new requirements or restrictions may increase the cost of production of the Target Group and the Target Group may not necessarily be able to pass such additional costs to its customers. In the event that there is any unfavourable developments of the regulatory regime of civil explosives industry in the PRC (such as tightening of policies and restricting the production or use of civil explosives), the Target Group may not be able to continue to meet the requirements pursuant to the relevant rules and regulations for its operation or the business environment may be not favourable for the business operation of the Target Group, the operation, business performance and future expansion of the Target Group may be significantly affected. Please refer to the paragraph headed “7. Information on the Target Group – (d) Laws and regulations relating to the business of the Target Group” in this letter for details of the rules and regulations applicable to the business of the Target Group.

The civil explosive industry is subject to risks associated with handling and storage of hazardous, toxic, flammable or explosive materials and occupational hazards

The production materials used in the production of civil explosives and blasting operations and the civil explosive products themselves can be hazardous, toxic, flammable or explosive. Therefore storage, handling, processing, transportation and use of these materials involve inherent safety risks. Even though safety measures are in place and the Target Group has established a safety and quality control department which is designated to implement the safety measures, and maintain and operate quality control system of the Target Group in order to comply with the requirements specified by each customer and the relevant rules and regulations in the PRC, there is no assurance that safety measures in place will be sufficient to minimise such risks. In the event that accidents occur because

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of the improper use or handling of these materials or for whatever reason, there may be severe damage to properties and environment and even injury or death. In such case, the production facilities of the Target Group may also be damaged causing delays in production and disruption to the Target Group's business operations. The Target Group may also be liable, both civilly and criminally, for workplace injuries and fatalities, damage to third parties' properties and the environment and so on. All these may have a significant impact on the Target Group's reputation, results of operations and financial position.

Liberalisation of pricing of the civil explosives industry may lead to decline in profits and intensify market competition

In the past, civil explosive products in the PRC were subject to price control. The NDRC used to set reference prices for civil explosive products based on circumstantial factors such as supply level of the energy required for production and prices of ammonium nitrate and other raw materials. Pursuant to the decision by the NDRC in 2008, the sale prices of civil explosive products must be within the range of 15% above or below the reference prices.

Pursuant to 《關於放開民爆器材出廠價格有關問題的通知》(Notice on Issues Concerning the Liberation of the Sale Price of Explosives for Civilian Use*) issued by the NDRC, with effect from 25 December 2014, price control of civil explosives has been revoked and therefore enterprises will be free to trade civil explosives at such prices as they think fit using the prevailing market price.

As set out in the paragraph headed "7. Information on the Target Group – (f) Business of the Target Group – Production materials" in this letter, purchase price of ammonium nitrate and PPAN underwent a downward trend during the Relevant Period. Nevertheless the NDRC had not adjusted the permitted price range of civil explosive products in response and as a result the profit margin of the civil explosive industry had remained at a high level. Following the abolishment of the price control mechanism, there is no assurance that market price of civil explosive products will be at a level comparable to the price previously set by the NDRC. If the price of civil explosive products falls significantly as a result of the reform, profit margin of the civil explosives industry will drop substantially and the business operations, results of operations and financial position of the Target Group may be materially and adversely affected.

In addition, the liberalisation of pricing of the civil explosive industry may intensify market competition. Competitors may lower their prices as a result of their lower cost base, or their attempt to gain market share such that the Target Group may need to lower price of their products so as to maintain its competitiveness in the market. There is no assurance that the Target Group will be able to compete favourably against other manufacturers in the industry and maintain the operations results and financial position it has been able to achieve historically.

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The civil explosives industry is characterised by a high degree of regionalisation and therefore expansion of business of the Target Group may be restricted

To ensure safety in the transportation of raw materials and delivery of civil explosive products, numerous precaution measures have to be taken and therefore transportation costs of the civil explosives industry is relatively higher than that of other industries. This limits the optimal distance over which the materials and finished goods may be transported. For this reason, most civil explosive manufacturers would primarily purchase raw materials from suppliers and sell their products to customers located in the same area as where their production is carried out, and their scope of business operations would be mostly confined to that particular geographical area. Therefore, it may not be practicable for the Target Group to source raw materials from suppliers and extend its sales to customers outside the areas where the Target Group operates. If there are any incidents or conditions that are unfavourable to the civil explosives industry in the Inner Mongolia Autonomous Region, there is no assurance that the Target Group will be able to make up for the lost sales by way of expansion into other areas timely. In such case, the results of operations and financial position of the Target Group may be adversely and materially affected.

RISKS RELATING TO CONDUCTING BUSINESS IN CHINA

Changes in political and economic policies of the PRC government could have an adverse effect on the overall economic growth of the PRC, which could reduce the demand for the Target Group's products and services and adversely affect its competitiveness

As all the Target Group's assets and business were located in the PRC and all of its revenue was derived from the sale of civil explosives and provision of blasting operations and related services in the PRC during the Relevant Period and up to the Latest Practicable Date, the Target Group's business, financial condition, results of operations and prospects are subject to the economic, political and legal developments, such as government policies and taxation, in the PRC. The PRC economy differs from the economies of most developed countries in many respects, including degree of government involvement, level of development, growth rate, control of foreign exchange, access to financing, and the allocation of resources. The PRC economy was historically a planned economy and has been transforming into a more market-driven economy. However, the PRC government still exercises significant control over the country's economic growth through allocation of resources, control of payment of foreign currency-denominated obligations, formulation of monetary policy and provision of preferential treatment to particular industries or corporations. Furthermore, as the PRC economy is increasingly connected with the global economy, any adverse change in the economic conditions, the governmental policies or the laws and regulations in both the PRC or overseas could have an adverse impact on the overall economic growth of the PRC, thus market demand for the Target Group's civil explosive products and services and its competitiveness. There can be no assurance that economic, political or legal systems of the PRC will not

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develop in a way that is detrimental to the Target Group's business, results of operations and prospects in the future.

Uncertainties with respect to interpretation and enforcement of the PRC laws and regulations could have an adverse effect on the Target Group's business, operations and profitability

Although many laws and regulations have been promulgated and amended in the PRC since 1978, the PRC legal system is still not sufficiently comprehensive when compared to the legal systems of certain developed countries. The interpretation of the PRC laws and regulations involves significant uncertainties and different degrees of inconsistencies. Some of the laws and regulations are still at a developing stage and are therefore subject to policy changes.

Upon Completion, a substantial part of the business of the Enlarged Group will be conducted through the subsidiaries of the Target Group in the PRC. These subsidiaries are generally subject to laws and regulations in the PRC, including those applicable to foreign investment in the PRC. As the PRC legal system continues to evolve, the interpretations and enforcement of many laws, regulations and rules may not be always uniform and the enforcement of these laws, regulations and rules involves uncertainties, which may limit the legal protection available to the Enlarged Group.

In addition, some regulatory requirements issued by the PRC government authorities may not be consistently applied. In such case, the Target Group may have to resort to administrative and court proceedings to enforce the legal protection to which it is entitled under the law or contractual terms. However, since the PRC administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection actually available. Such uncertainties may impede the Target Group's ability to enforce the contracts it has entered into with its customers, suppliers, subcontractors and other business partners.

Such uncertainties, including the inability to enforce contracts, together with any development or interpretation of the PRC law that may be unfavourable to the Target Group, could materially and adversely affect the Target Group's business and operations. Furthermore, intellectual property rights and confidentiality protections in the PRC may not be as effective as in those in the more developed countries. It is difficult to predict the future developments in the PRC legal system, including the promulgation of new laws, changes to existing laws and the interpretation or enforcement thereof, and the substitution of local regulations by national laws. Such uncertainties could limit the legal protection available to the Target Group and the foreign investors in the Enlarged Group. In addition, any litigation in the PRC may be protracted and result in substantial costs and diversion of the resources and management attention of the Target Group or the Enlarged Group.

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PRC regulation on loans and direct investment by offshore holding companies to PRC entities may delay or prevent the Company or the Group from making loans or additional capital contributions to the Target Group, which could adversely affect the Target Group's liquidity and ability to fund and expand its business

As the offshore holding company of PRC subsidiaries of the Enlarged Group upon Completion, the Company may make loans or additional capital contribution to the Target Group out of its own funds. Any loans to such PRC subsidiaries are subject to PRC regulations and foreign exchange loan registrations. For example, loans made to PRC subsidiaries to finance their activities cannot exceed the statutory limits and must be registered with the State Administration of Foreign Exchange of the PRC or its local counterparts, and any capital contributions to PRC subsidiaries must be approved by the MOFCOM or its local counterparts. There is no assurance that the Company can obtain these government registrations or approvals on a timely basis, if at all, with respect to future loans or capital contributions by the Company to finance the PRC subsidiaries of the Target Group. If the Company fails to complete and obtain relevant registrations or approvals, fundraising ability of the PRC subsidiaries of the Target Group may be negatively affected which would adversely and materially affect their liquidity and ability to expand their business.

RISKS RELATING TO THE ACQUISITION

The Group has no prior operating history in the civil explosives business

The Acquisition constitutes a new business investment of the Group in the civil explosives industry, which the Group has not previously operated in. Although (i) Mr. Ma Qiang, a non-executive Director, is the founder and director of members of the Target Group; (ii) Mr. Xiong Zeke and Ms. Qin Chunhong, executive Directors, are also directors of members of the Target Group; and (iii) the Directors have extensive experience in mining business which is related to the business of the Target Group, the other management of the Group has no previous exposure to or experience in the new businesses, which is subject to stringent regulations in the PRC, and hence the Acquisition may pose significant challenges to the Group's managerial, financial and operational resources in general. There can be no assurance that the Target Group will be able to achieve the same level of profitability under the new management of the Enlarged Group as it could before the Acquisition.

Completion of the Acquisition is subject to the fulfillment or waiver (as the case may be) of the conditions precedent as set out in the SP Agreement and there is no assurance that all of the conditions precedent will be fulfilled or waived (as the case may be)

Completion of the Acquisition is conditional upon fulfillment (or waiver as the case maybe) of the conditions precedent, details of which are set out in the paragraph headed "2. Acquisition – (a) SP Agreement – Conditions precedent to the SP Agreement" in this letter. Certain conditions precedent involve decisions of third parties, and the fulfillment of which is not under the control of the parties to the SP Agreement. Such conditions precedent include, among other things, obtaining all necessary consents, licenses and

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approvals required to be obtained on the part of the Vendors, obtaining approval from the Shareholders at the EGM, obtaining approval from the Listing Division of the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares. Since fulfillment of such conditions precedent is beyond the control of the parties involved in the Acquisition, there is no assurance that the Acquisition will be completed as intended.

There will be substantial dilution of the shareholding interests of the existing Shareholders in the Company immediately following the conversion of the Conversion Bonds in full prior to its maturity

Based on the initial Conversion Price of HK\$0.36 (subject to adjustment), a total of 2,325,000,000 Conversion Shares will be allotted and issued upon full conversion of the Convertible Bonds. The 2,325,000,000 Conversion Shares shall represent (i) about 188.45% of the existing issued share capital of the Company as at the Latest Practicable Date; and (ii) about 65.33% of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares. Any increase in the value of the Shares resulting from the Acquisition from the business or financial perspective may not necessarily be reflected in the market price of the Shares and may not suffice to offset the dilution effect suffered by the existing Shareholders caused by the issuance and conversion of the Convertible Bonds.

There is no assurance as to the accuracy of the information and statistics relating to the civil explosives industry and market

This circular contains information and statistics relating to the civil explosives industry and market. With respect to information and statistics derived from various publications and sources, while the Enlarged Group has exercised reasonable care in compiling and reproducing such information and statistics, they have not been independently verified by the Enlarged Group or any of its affiliates or advisers or any other parties involved in the Acquisition or their respective affiliates or advisers. Such information and statistics may be inaccurate or may not be comparable to information and statistics produced with respect to other countries. Further, there is no assurance that such information and statistics are stated or compiled on the same basis or with the same degree of accuracy as the case may be in other countries. None of the Company nor any other parties involved in the Acquisition makes any representation as to the accuracy or completeness of such information. Shareholders and prospective investors should not place undue reliance on any of such information and statistics contained in this circular.

LETTER FROM THE BOARD

(b) Corporate information

Executive Directors:

Mr. Ding Baoshan (*Chairman*)
Mr. Xiong Zeke (*Chief Executive Officer*)
Ms. Qin Chunhong

Non-executive Director:

Mr. Ma Qiang

Independent non-executive Directors:

Ms. Zhang Lin
Ms. Liu Talin
Mr. Enhe Bayaer

Audit committee

Ms. Zhang Lin (*Chairperson*)
Ms. Liu Talin
Mr. Enhe Bayaer

Remuneration committee

Ms. Zhang Lin (*Chairperson*)
Ms. Qin Chunhong
Ms. Liu Talin

Nomination committee

Mr. Enhe Bayaer (*Chairperson*)
Ms. Zhang Lin
Ms. Liu Talin

Company secretary

Ms. Shen Tianwei (*MAPAIS, CPA, CICPA*)
Flat A, 11/F.
Two Chinachem Plaza
68 Connaught Road Central
Hong Kong

Authorised representatives

Mr. Xiong Zeke
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Two Chinachem Plaza
68 Connaught Road Central
Hong Kong

Ms. Shen Tianwei (*MAPAIS, CPA, CICPA*)
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68 Connaught Road Central
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Cayman Islands

*Head office and principal office
in Hong Kong*

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68 Connaught Road Central
Hong Kong

Principal share registrar and transfer office

Butterfield Fund Services (Cayman)
Limited
Butterfield House
68 Fort Street
P.O. Box 705
George Town
Grand Cayman
Cayman Islands

*Hong Kong share registrar and
transfer office*

Computershare Hong Kong Investor
Services Limited
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Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Principal bankers

In Hong Kong
China Construction Bank (Asia) Corporation
Limited
19/F, CCB Centre
18 Wang Chin Road
Kowloon Bay
Kowloon
Hong Kong

In PRC

Industrial and Commercial Bank of China
Shenzhen Branch
North Block Financial Centre
No. 55 Shennan Road East
Shenzhen
PRC

Compliance officer

Ms. Qin Chunhong
Flat A, 11/F.
Two Chinachem Plaza
68 Connaught Road Central
Hong Kong

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(c) Industry overview

Certain facts, information, statistics and data relating to the Chinese economy and the industry in which the Target Group operates that are presented in the paragraphs headed “(c) Industry overview” in this letter and elsewhere in this circular are derived from publicly available government official sources (including various publications issued by PRC government entities). Moreover, certain facts, information, statistics and data set forth in the paragraphs headed “(c) Industry overview” in this letter and elsewhere in this circular are derived from a non-commissioned research report (the “**Forward Report**”) prepared by an independent research firm, 深圳市前瞻商業資訊有限公司 (Forward & Intelligence Co., Ltd., Shenzhen (“**Forward**”)), which is, to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, an Independent Third Party. The Directors believe that the sources of such information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. The Directors have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. The information has not been independently verified by the Directors or any other party involved in the Acquisition and no representation is given as to its accuracy. The methodology used in the Forward Report includes assessment of publicly available information such as data from 中國爆破器材行業協會 (China Civil Explosives Equipment Association*) (“**CCEEA**”), National Bureau of Statistics (“**NBSC**”) and the General Administration of Customs People’s Republic of China (“**GACC**”).

INTRODUCTION

Overview of the civil explosives industry in the PRC

In terms of product and service categorisation, the business of civil explosives industry can be divided into three main categories, namely, (i) manufacturing of civil explosives; (ii) sales of civil explosives; and (ii) the provision of blasting operations and related services. In terms of vertical market of the civil explosives industry, the upper stream of the civil explosives industry mainly involves production and sales of raw materials for production of civil explosives and provision of blasting operations and relative services; the middle stream of the civil explosives industry mainly involves production and sale of civil explosives and provision of blasting operations and related services; whereas the lower stream of the civil explosives industry involves the use of civil explosives by end-users which are mainly participants of construction of infrastructure, including coal mining, energy construction, railway and highway construction, water conservancy and hydropower construction. The provision of blasting operations and related services mainly involves blasting project design, blasting safety assessment and blasting operations such as various types of building demolitions, blast welding and processing, drilling of boreholes, rock blasting and drilling blasting, and related consultation. During the Relevant Period and up to the Latest Practicable Date, the Target Group was principally engaged in the production and sales of civil explosives and provision of blasting operations and related services for both civil explosives resellers and end-users.

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The business of production and sales of civil explosives and provision of blasting operations and related services are highly regulated pursuant to relevant rules and regulations in the PRC. For example, the production, sale, purchase, transport, blasting operation and storage, are subject to various laws, regulations and industry standards in the PRC. Please refer to the paragraph headed “7. Information on the Target Group – (d) Laws and regulations relating to the business of the Target Group” in this letter for details of the rules and regulations applicable to the business of the Target Group.

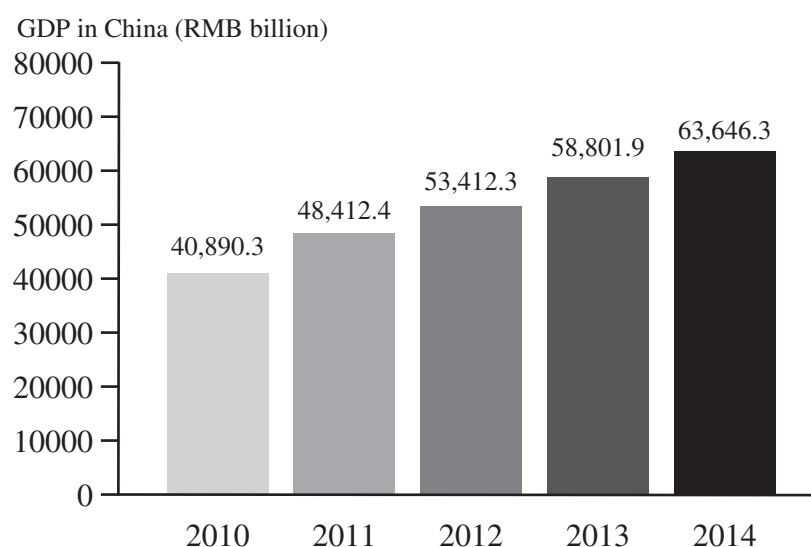
The main types of civil explosives products

Generally speaking, civil explosive is a reactive substance for non-military use comprising oxidiser, fuel additives and combustible agent that contains a great amount of potential energy that can produce an explosion if the energy is released suddenly. There are four main types of civil explosives, namely (i) powder form explosives such as ANFO explosives, powder emulsion explosives, ammonium nitrate explosives and expanded ammonium nitrate explosives, (ii) water form explosives such as water form emulsion explosives, slurry explosives and water gel explosives; (iii) liquid form explosives; and (iv) heat-resistant explosives.

OVERVIEW OF CHINA’S ECONOMY

According to the data from the NBSC, there is a general upward trend in the GDP of China from 2010 to 2014. In 2014, the GDP of China reached approximately RMB63,646.3 billion, representing a year-over-year growth rate of approximately 7.4%.

Chart 1 GDP in Mainland China, 2010 to 2014 (in RMB billion)



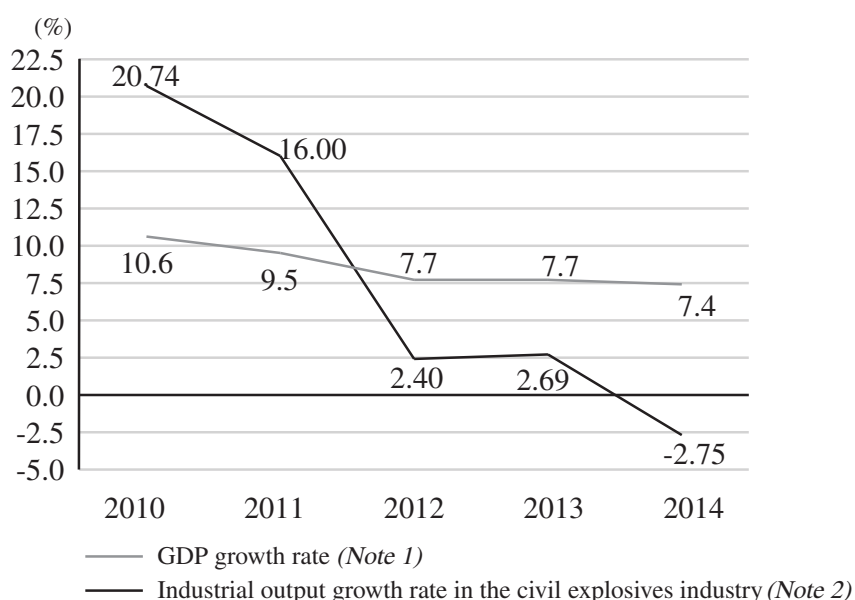
Note: figures were derived from NBSC

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Correlation between the GDP growth rate in China and growth in the civil explosives industry

As shown in chart 2 below, both the GDP growth in China and civil explosives industrial output growth from the civil explosive industry demonstrated a downward trend from 2010 to 2014. The reason is that the product demand of civil explosives is closely related to investment in fixed assets such as mining, energy construction, transport, forestry, water conservancy construction, seismic exploration, basic infrastructure construction and building national defence, whose growth and demand are closely related to the PRC economy. In particular, in 2010, the GDP growth rate in China has reached a maximum in the most recent five years, and the growth in the civil explosives industry was also the greatest; from 2011 to 2013, China's GDP growth rate has shown an overall downward trend, the civil explosives industry growth has also shown a downward trend as well. Based on the information provided by the Vendors and to the best of the Directors' knowledge and belief having made all reasonable enquiries, the high industrial output growth rate in 2010 to 2011 was attributable to the PRC government's policy in stimulating the PRC economy which led to the substantial increase in amount and scale of infrastructure construction projects in China which in turn increased the demand for civil explosives. The industrial output growth rate decreased significantly from 16% in 2011 to 2.4% in 2012, and from 2.69% in 2013 to -2.75% in 2014 mainly because there was a decrease in infrastructure construction in China in 2012 during the post-stimulation policy period and the slowdown in the growth of the PRC economy.

Chart 2 Correlation chart between the GDP growth rate in China and industrial output growth rate in the civil explosives industry (%)



Notes:

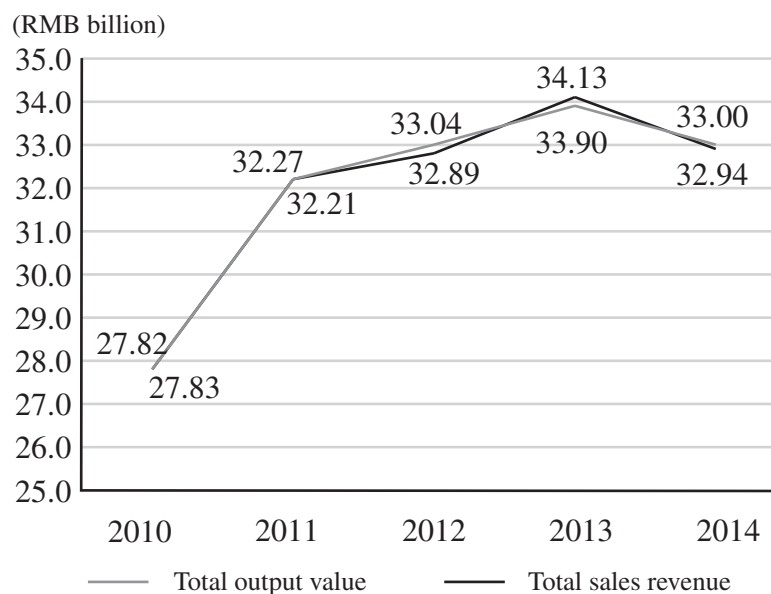
1. Figures were derived from The National Bureau of Statistics of China and CCEEA.
2. Figures were derived from CCEEA and 中商情報網 (Zhang Shangqing Bao Site*). Industrial output growth rate is calculated based on the subtraction of the previous year's total industrial output from the current year's total industrial output divided by the previous year's total industrial output.

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CIVIL EXPLOSIVES MARKET IN THE PRC

In recent years, China's economy is growing rapidly and domestic demand is gradually expanding. Deepening the comprehensive energy and mineral resources exploitation, increasing railway and other infrastructure construction, investment in water conservancy projects, implementing of the "Development of Western China" policy and vigorously promoting regional development plans have been the long-term economic policy of China. All these are favourable for the sustainable development and market demand for civil explosives products.

Chart 3 Output Value and Sales Revenue of Civil Explosives in China, 2010 to 2014



Source: CCEEA

As shown from the chart above, the total output value and the total sales revenue decreased in 2014. The overall output value of civil explosives in 2013 decreased by approximately RMB1.13 billion or 3.31% to approximately RMB33.00 billion in 2014. The overall sales revenue of civil explosives has also decreased by approximately RMB1.04 billion or 2.83% from 2013 to approximately RMB32.94 billion in 2014. According to "2014年民爆行業統計分析報告" (2014 Civil Explosives Statistics Analysis Report*) issued by CCEEA, over 80% of the civil explosives products in the PRC are used in the exploitation of coal, metal and non-metal mines. Therefore, the exploitation volume of mines directly affected the sales revenue of civil explosives. In 2014, as a result of the slowdown in the PRC economy, the production output of the mining industry and the prices of coal in the PRC have also decreased. According to the report prepared by Forward, apart from the slowdown in the PRC economy, the slowdown in the growth rate of the civil explosives industry from 2013 to 2014 was also due to the fact that there were numerous fatal incidents happened in the civil explosives industry of China in 2013. On 20 May 2013, an explosion occurred in the production base of an explosives equipment

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manufacturer in Jinan city, Shandong province and the production base collapsed as a result of the explosion which caused the death of around 13 people. On 3 July 2013, an accident occurred in a blasting operation site of asbestos mine in Dunhuang city, Gansu province which resulted in the death of three workers. The cause of these incidents was attributable to the improper use of blasting operation equipment. As such, there was a deceleration in the overall sales revenue of the PRC civil explosives industry in 2014.

There has been a structural reform and development in the civil explosives industry in China after the implementation of “民爆行業“十二五”規劃綱要” (Twelfth Five Year Plan for the PRC Civil Explosive Industry*), (“**PRC Twelfth Five Year Plan**”) issued by the Ministry of Industry and Information Technology of the People’s Republic of China.

The PRC Twelfth Five Year Plan sets out a number future plan for the PRC civil explosives industry, including:

- focus on the vertical integration in the civil explosive industry such that civil explosive industry market players will be able to provide one-stop civil explosives solutions to their customers ranging from research and development, manufacturing and sales of civil explosive to blasting operations and related services.
- promotion for the use of safe and environmental friendly explosives products such as ANFO and emulsion explosives. It is expected that explosives products which created high level of pollution, energy consumption with low level of security will soon be eliminated in the civil explosives industry; and
- encouragement for merger and acquisitions among the civil explosives manufacturers so that the civil explosives market will be less fragmented and the surviving civil explosives manufacturers with more financial and innovative ability to provide a comprehensive and one stop civil explosives solutions in both the PRC and the overseas.

It is expected that the PRC Twelfth Five Year Plan can facilitate the development of the PRC civil explosives industry and lower the overall production costs and security risk of the industry.

Save as the Acquisition and the Target Group’s plans to expand its blasting operations and related services, its production facilities and capabilities as referred to in the paragraph headed “7. Information on the Target Group – (f) Business of the Target Group – Business strategies” in this letter, the Directors do not have any other present plan for acquisition or expansion for the Target Group’s business as at the Latest Practicable Date.

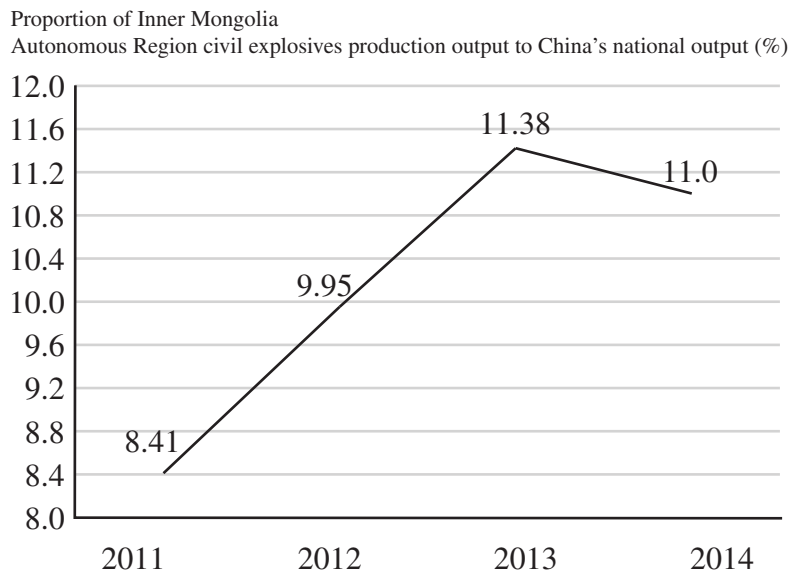
LETTER FROM THE BOARD

CIVIL EXPLOSIVES MARKET IN INNER MONGOLIA AUTONOMOUS REGION

In recent years, thanks to the implementation of the “Development of Western China” policy, the Inner Mongolia Autonomous Region had experienced a rapid economic growth. As the Inner Mongolia Autonomous Region contains a substantial portion of China’s coal and non-ferrous metal reserves, mining activities therein has brought a great demand for civil explosives. According to analysis prepared by CCEEA, Inner Mongolia Autonomous Region accounted for approximately 11% of the total production output of civil explosives in China and ranked first in terms of civil explosives production output volume among all provinces and regions of China in 2014.

As shown in the chart below, the proportion of civil explosives production output in Inner Mongolia Autonomous Region to China’s national production output of civil explosives has dropped by approximately 0.38% from 2013 to 2014. As previously explained in the paragraph headed “Civil Explosives Market in the PRC”, the decrease of production output in Inner Mongolia Autonomous Region was due to the decrease in production output of the mining industry and the prices of coal as a result of the slowdown in the PRC economy.

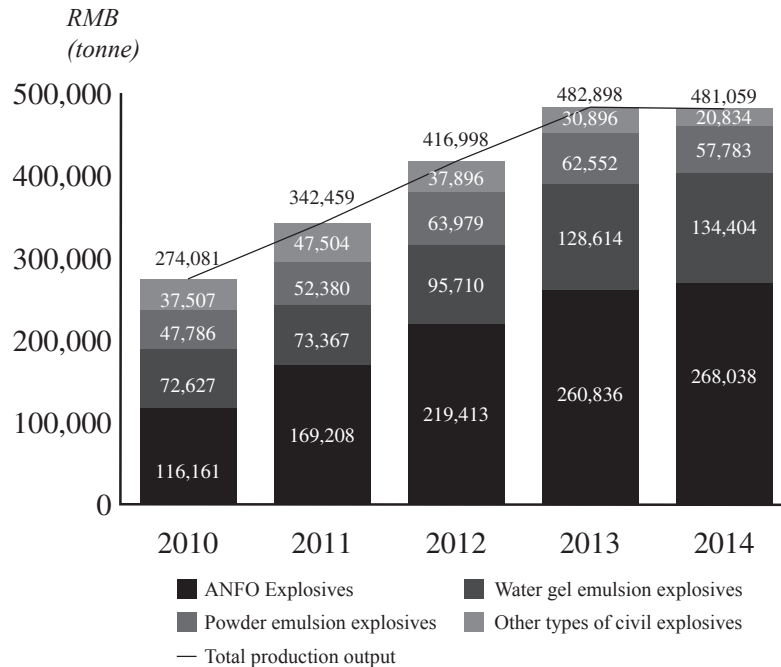
Chart 4 The proportion of civil explosives production output in Inner Mongolia Autonomous Region to China’s national production output of civil explosives from 2011 to 2014



Source: CCEEA

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Chart 5 Production output of powder emulsion explosives, water gel emulsion explosives, ANFO explosives and other types of civil explosives in Inner Mongolia Autonomous Region market from 2010 to 2014



Source: NDSI office

As shown in the chart above, from 2010 to 2014, ANFO explosives represented the largest sector in terms of production output in the civil explosives market of Inner Mongolia Autonomous Region, followed by water gel emulsion explosives and powder emulsion explosives. The production output of ANFO explosives grew from approximately 116,161 tonnes in 2010 to approximately 268,038 tonnes in 2014, representing at a CAGR of approximately 23.25%, while the production output of water gel emulsion explosives and powder emulsion explosives grew at a CAGR of approximately 16.63% and 4.86% respectively, during the corresponding period.

After the implementation of “Development of Western China” policy, the demand for and use of ANFO explosives had been growing over the past five years because they are particularly useful in mine blasting, outdoor blasting, underground blasting, rock blasting and civil and infrastructure construction with numerous advantages compared to other explosives in terms of costs, complexity in production, safety and security in transport and storage and sensitivity to mechanical impacts during mechanical loading of ANFO explosives to boreholes.

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THE HISTORICAL PRICE RANGE OF CIVIL EXPLOSIVES AND PRODUCTION MATERIALS IN INNER MONGOLIA AUTONOMOUS REGION

For comparison purposes, the table below sets forth the historical price range of the costs of the Target Group's major materials used during the Relevant Period:

Chart 6 Historical average price range for major production materials used in the Target Group's civil explosives production during the Relevant Period

	For the year ended			For the nine
	2012	31 March	2014	months ended
	RMB	RMB	RMB	31 December
	<i>(per tonne)</i>	<i>(per tonne)</i>	<i>(per tonne)</i>	<i>(per tonne)</i>
Ammonium nitrate	1,923 to 2,316	1,496 to 2,060	1,462 to 1,547	1,157 to 1,427
PPAN	1,838 to 2,487	1,590 to 2,274	1,462 to 1,590	1,226 to 1,470
Paraffin wax	7,607 to 8,846	6,496 to 8,103	6,923 to 7,295	6,838 to 7,009
Compound wax	7,355 to 8,675	7,235 to 7,449	7,154 to 7,692	7,316 to 8,376
Emulsifier	9,829 to 10,085	10,000 to 10,256	9,957 to 10,000	9,829 to 9,957
Diesel fuel	6,923 to 8,060	6,735 to 8,074	6,607 to 7,201	6,222 to 7,030
Perlite	3,077 to 3,419	3,419 to 3,504	around 3,504	around 3,504

Source: the Target Group

Save for ammonium nitrate, PPAN and diesel fuel, the production materials purchased by the Target Group during the Relevant Period did not experience material fluctuation. Purchase price of ammonium nitrate and PPAN underwent a downward trend during the Relevant Period mainly because of (i) the decrease of production costs of ammonium nitrate and PPAN; and (ii) excessive supply of these materials in the region as a result of increase in number of suppliers for these materials in the region whereas the authorised production limit of the civil explosive manufacturers was not uplifted at the same time. For further details of the price fluctuation of the production materials of the Target Group during the Relevant Period, please refer to the paragraph headed "Production Materials" under the section headed "Business" of this circular.

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Chart 7 Historical price range sales of civil explosives by the Target Group from during the Relevant Period

	2012	Price range (RMB per tonne)		
		For the year ended 31 March 2013	2014	For the nine months ended 31 December 2014
Powder emulsion explosives	5,983 to 9,402	6,325 to 9,402	5,214 to 9,402	4,316 to 9,402
Water gel emulsion explosives	5,878 to 7,983	5,299 to 7,983	5,299 to 7,123	4,615 to 7,983
Site mixed emulsion explosives	N/A	N/A	Around 4,701	Around 4,701
Site mixed ANFO explosives	4,590 to 6,502	4,872 to 6,502	4,444 to 6,502	3,462 to 6,502

Source: the Target Group

As shown in the chart above, the overall price range of the civil explosives has shown a general downward trend during the Relevant Period which was in line with the general trend of decrease in price of major production materials. The purchase price of major production materials and price of civil explosives produced and sold by the Target Group were positively correlated during the Relevant Period because purchase price of production materials was the major cost of revenue of the Target Group during the Relevant Period and that the NDRC used to set reference prices for civil explosive products based on circumstantial factors such as supply level of the energy required for production and prices of ammonium nitrate and other raw materials before the price control mechanism was abolished with effect from 25 December 2014. Please refer to the paragraph headed “7. Information on the Target Group – (f) Business of the Target Group – Pricing policy” in this letter for further details of the price control mechanism.

COMPETITION LANDSCAPE OF CIVIL EXPLOSIVES MARKET IN THE INNER MONGOLIA AUTONOMOUS REGION

According to the Forward Report, there were over 100 enterprises engaged in the manufacturing of civil explosive in China in 2014. In the Inner Mongolia Autonomous Region, according to the information from NDSI office, as at 31 December 2014, there were a total of nine civil explosives manufacturers, seven of which were engaged in the production of civil explosives and detonators, and the remaining two were engaged in the production of industrial detonators and other equipments.

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Despite the large demand for civil explosives in Inner Mongolia Autonomous Region, the number of civil explosives manufacturers is limited because the business operation of civil explosives manufacturers are subject to stringent regulatory regime under the relevant rules and regulations in the PRC which constitute barriers for enterprises to enter into the civil explosives industry (details of which are set out in the paragraph headed “7. Information on the Target Group - (d) Laws and regulations relating to the business of the Target Group” in this letter).

The Target Group positions itself as a one-stop civil explosives solution provider in Bayannur and Ordos of the Inner Mongolia Autonomous Region with the capability of both manufacturing and selling civil explosives and providing blasting operations and related services. As the Target Group is principally engaged in the manufacturing of civil explosives in the production plants located in Bayannur and Ordos of Inner Mongolia Autonomous Region, the Target Group’s major competitors are the civil explosives manufacturers located in the same or adjacent regions in Inner Mongolia Autonomous Region, namely 內蒙古生力資源集團有限責任公司 (Inner Mongolia Autonomous Region Shengli Resources Group Co., Limited*), 內蒙古日盛民爆集團有限公司 (Inner Mongolia Autonomous Region Risheng Civil Explosives Co., Limited*), 內蒙古吉安化工有限責任公司 (Inner Mongolia Autonomous Region Jian Huagong Chemical Co., Limited*) and 雅化集團內蒙古柯達化工有限公司 (Ya Hua Group Inner Mongolia Autonomous Region Keda Chemical Co., Limited*) which are mainly situated in Ordos, Alashan, Chifeng, Baotou of Inner Mongolia Autonomous Region. The Target Group competes with other civil explosives manufacturers in various aspects, including but not limited to price, product and service quality and safety, stable supply and proximity to customers.

The market for the provision of blasting operations and related services in the Inner Mongolia Autonomous Region is highly fragmented. As at 31 December 2014, according to the information from 內蒙古工程爆破協會 (Inner Mongolia Blasting Operation Association*) there were around 90 civil explosives enterprises engaged in the provision of blasting operation and related services, which are mainly located in Inner Mongolia Autonomous Region. The Target Group’s major competitors are blasting operations providers located in the same or adjacent regions in Inner Mongolia Autonomous Region, namely 內蒙古康寧爆破服務有限責任公司 (Inner Mongolia Kangning Blasting Operation Co., Limited*), 內蒙古宏大爆破有限責任公司 (Inner Mongolia Hong Da Blasting Co., Limited*), 內蒙古安泰爆破有限責任公司 (Inner Mongolia Antai Blasting Co., Limited*) and 烏海市安盛爆破服務有限責任公司 (Wuhai City Ansheng Blasting Co., Limited*) which are mainly situated in Ordos, Baotou, Bayannur, Wuhai of the Inner Mongolia Autonomous Region. For competition for blasting operations and related services, the Target Group considers that its services compete with other service providers on pricing, experience, safety and technical innovation. In particular, as the Target Group has the capability to manufacture civil explosives for its use in blasting operations and related services, pricing of blasting operations of the Target Group can be more competitive than other blasting operation service providers which do not have capability of manufacturing civil explosives themselves and therefore have to rely on procurement of civil explosives from third parties. According to the information from 內蒙古工程爆破協會 (Inner Mongolia

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Blasting Operation Association*), as at 31 December 2014, including Juli Blasting, there were only six blasting operation providers in the Inner Mongolia Autonomous Region that had obtained a 爆破作業單位許可證(一級) (blasting unit license (first class)*).

The table below sets forth the competitive landscape by sales volume of ANFO explosives and the market shares of the Target Group and other civil explosives manufacturers in Inner Mongolia Autonomous Region for the year ended 31 December 2014.

	Sales volume of ANFO explosives (tonne)	Market shares in terms of sales volume of ANFO explosives (%)
Other civil explosives manufacturers in Inner Mongolia Autonomous Region	233,567.52 ^(Note 1)	87.14 ^(Note 2)
The Target Group	34,470.48	12.86 ^(Note 3)

Notes:

1. The sales volume of other civil explosives manufacturers in the Inner Mongolia Autonomous Region is calculated based on the subtraction of Target Group's sales volume of ANFO explosives from the overall sales volume of ANFO explosives in the Inner Mongolia Autonomous Region of approximately 268,038 tonnes for the year ended 31 December 2014 as provided from NDSI office.
2. The market shares for the Target Group is calculated based on the Target Group's sales volume of ANFO explosives divided by the overall sales volume of ANFO explosives in the Inner Mongolia Autonomous Region of approximately 268,038 tonnes for the year ended 31 December 2014 as provided from NDSI office.
3. The market shares for the other civil explosives manufacturers in Inner Mongolia Autonomous Region is calculated based on the other civil explosives manufacturers' sales volume of ANFO explosives in aggregate divided by the overall sales volume of ANFO explosives in the Inner Mongolia Autonomous Region of approximately 268,038 tonnes for the year ended 31 December 2014 as provided from NDSI office.

The Target Group contributed a market share of approximately 12.86% with a sales volume of ANFO explosives of approximately 34,470.48 tonnes for the year ended 31 December 2014. The rest of the civil explosives manufacturers in Inner Mongolia Autonomous Region accounted for a combined share of approximately 87.14%.

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The chart below sets forth the competitive landscape by sales volume of the water gel emulsion explosives and the market shares of the Target Group and other civil explosives manufacturers in the Inner Mongolia Autonomous Region market for the year ended 31 December 2014.

	Sales volume of water gel emulsion explosives (tonne)	Market shares in terms of sales volume of water gel emulsion explosives (%)
Other civil explosives manufacturers in Inner Mongolia Autonomous Region	122,105.41 ^(Note 1)	90.85 ^(Note 2)
The Target Group	12,298.39	9.15 ^(Note 3)

Notes:

1. The sales volume of other civil explosives manufacturers in the Inner Mongolia Autonomous Region is calculated based on the subtraction of Target Group's sales volume of water gel emulsion explosives from the overall sales volume of water gel emulsion explosives in the Inner Mongolia Autonomous Region of approximately 134,403.8 tonnes for the year ended 31 December 2014 as provided from NDSI office.

2. The market shares for the Target Group is calculated based on the Target Group's sales volume of water gel emulsion explosives divided by the overall sales volume of water gel emulsion explosives in the Inner Mongolia Autonomous Region of approximately 134,403.8 tonnes for the year ended 31 December 2014 as provided from NDSI office.

3. The market shares for the other civil explosives manufacturers in Inner Mongolia Autonomous Region is calculated based the other civil explosives manufacturers' sales volume of water gel emulsion explosives in aggregate divided by the overall sales volume of water gel emulsion explosives in the Inner Mongolia Autonomous Region of approximately 134,403.8 tonnes for the year ended 31 December 2014 as provided from NDSI office.

The Target Group contributed a market share of approximately 9.15% with a sales volume of water gel emulsion explosives of approximately 12,105.413 tonnes for the year ended 31 December 2014. The rest of the civil explosives manufacturers in Inner Mongolia Autonomous Region accounted for a combined share of approximately 90.85%.

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The table below sets forth the competitive landscape by sales volume of powder emulsion explosives and the market shares of the Target Group and other civil explosives manufacturers in the Inner Mongolia Autonomous Region market for the year ended 31 December 2014.

	Sales volume of powder emulsion explosives (tonne)	Market shares in terms of sales volume of powder emulsion explosives (%)
Other civil explosives manufacturers in Inner Mongolia Autonomous Region	54,009.59 ^(Note 1)	93.47 ^(Note 2)
The Target Group	3,773.24	6.53 ^(Note 3)

Notes:

1. The sales volume of other civil explosives manufacturers in the Inner Mongolia Autonomous Region is calculated based on the subtraction of Target Group's sales volume of powder emulsion explosives from the overall sales volume of powder emulsion explosives in the Inner Mongolia Autonomous Region of approximately 57,782.83 tonnes for the year ended 31 December 2014 as provided from NDSI office.
2. The market shares for the Target Group is calculated based on the Target Group's sales volume of powder emulsion explosives divided by the overall sales volume of powder emulsion explosives in the Inner Mongolia Autonomous Region of approximately 57,782.83 tonnes for the year ended 31 December 2014 as provided from NDSI office.
3. The market shares for the other civil explosives manufacturers in Inner Mongolia Autonomous Region is calculated based the other civil explosives manufacturers' sales volume of powder emulsion explosives divided by the overall sales volume of powder emulsion explosives in the Inner Mongolia Autonomous Region of approximately 57,782.83 tonnes for the year ended 31 December 2014 as provided from NDSI office.

The Target Group contributed a market share of approximately 6.53% with a sales volume of powder emulsion explosive of approximately 3,773.24 tonnes for the year ended 31 December 2014. The rest of the civil explosives manufacturers in Inner Mongolia Autonomous Region accounted for a combined share of approximately 93.47%.

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FUTURE PROSPECTS AND DEMAND OF THE CIVIL EXPLOSIVES INDUSTRY IN INNER MONGOLIA AUTONOMOUS REGION

According to the “內蒙古自治區民用爆破器材十二五發展規劃” (Inner Mongolia Civil Explosives Twelfth Five Development Plan*) (the “**Inner Mongolia Twelfth Five Plan**”) issued by the Alxa League Commission of Economy and Information Technology, the overall annual production output for civil explosives in the Inner Mongolia Autonomous Region is expected to reach approximately 600,000 tonnes by the end of 2015, increasing at a CAGR of 24.72% from 2014 to 2015. In particular, the production output of water form emulsion explosives is expected to reach approximately 250,000 tonnes, accounted for approximately 41.7% of the overall production output in 2015, whereas the production output of ANFO explosives is expected to reach approximately 350,000 tonnes, accounted for approximately 58.3% of the overall production output in 2015.

The future demand of civil explosives in the Inner Mongolia Autonomous Region primarily comes from the future demand for coal and ferrous metal resources from the major coal production regions such as Inner Mongolia Autonomous Region and Shanxi. By 2015, it is expected that the coal demand in China will reach 40 billion tonnes per year. It is expected that there will be more development of infrastructure construction in the Inner Mongolia Autonomous Region, such as construction of new railway and highway, which can in turn bring more demand for civil explosives which are required for their construction.

According to the Forward Report, it is expected that there will be more vertical integration in the civil explosive industry such that civil explosive industry market players will be able to provide one-stop civil explosives solutions to their customers ranging from research and development, manufacturing and sales of civil explosive to blasting operations and related services. According to Article 9 of the 《民用爆炸物品安全管理條例》 (Regulations on Safety Management of Explosives for Civilian Use*) promulgated by the State Council, the PRC government shall encourage civil explosives enterprises to improve safety performance of civil explosives products by utilising new technologies and to encourage civil explosives manufacturers to provide a comprehensive and one stop civil explosives solution. It is expected that there will be more civil explosives industry market players in the PRC which are able to provide one-stop civil explosives solution in the future;

According to the Inner Mongolia Twelfth Five Plan, it is expected that:

- As the Inner Mongolia Autonomous Region is located in proximity to Mongolia and Russia and both of which have a substantial amount of natural resources such as coal and metal, the geographical location of Inner Mongolia Autonomous Region provides an opportunity for future expansion of the civil explosives market to Mongolia and Russia which have a great demand for civil explosives;

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- According to the 《民用爆炸物品行業技術進步指導意見》 (Civil Explosives Technological Progress Guiding Opinion*), civil explosives manufacturers are encouraged to develop the application for safe, reliable, environmental friendly and low consumption civil explosives products in order to enhance innovation capability. It is expected that this will also be the trend of category of production of civil explosives in the future; and
- In order to enhance the overall safety level in the civil explosives industry, laws and regulations such as 《民用爆炸物品安全管理條例》 (Regulations on Safety Management of Explosives for Civilian Use*) and 《民用爆炸物品生產許可實施辦法》 (Implementation Rules of the Licensing System for Production of Explosives for Civilian Use*) will be strictly enforced. Civil explosives manufacturers are encouraged to use continuous and automated production method and dangerous production method should be separated from human and be replaced by a remote control production method.

Similarly, according to the PRC Twelfth Five Year Plan, in line with the national strategy to develop the economy of mid-western region of the PRC, regions, such as Shanxi, Ordos Basin, southwest part of the PRC, Inner Mongolia Autonomous Region and Xinjiang, will be positioned as the important energy, resources and deep processing base in China and it is expected that there will be increasing demand of civil explosives in such regions.

(d) Laws and regulations relating to the business of the Target Group

(1) *Laws and regulations relating to the production and sale of civil explosives and conduct of blasting operations*

安全生產法 (Work Safety Law of the PRC)*

安全生產法 (Work Safety Law of the PRC*), which was promulgated on 29 June 2002, became effective on 1 November 2002 and was revised on 27 August 2009 and 31 August 2014 by the Standing Committee of the National People's Congress, is the supreme law in the PRC regulating the work safety of entities engaged in production and other business activities. The Law establishes a regulatory regime in relation to production safety administered by the government and the administrative authorities. It requires that the State Council and the local people's governments at and above the county levels shall take a leading role in safeguarding work safety by developing and organising the implementation of general plans on work safety in accordance with the national economic and social development plans, supporting and supervising the relevant departments in performing their regulatory duties concerning work safety in accordance with the law, and establishing and improving the work safety coordination mechanisms. In particular, 國務院安全生產監督管理部門 (the Work Safety Administrative Department of the State Council*) shall take charge of nationwide comprehensive supervision and administration of work safety,

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while 安全生產監督管理部門 (the Work Safety Administrative Department*) of local governments at and above the county levels shall be responsible for supervision and administration of work safety within their respective administrative regions. The Law also specifies the respective duties of the work safety management body, the primary person in charge and the work safety management personnel of an entity in ensuring the entity's work safety.

民用爆炸物品安全管理條例 (Regulations on Safety Management of Explosives for Civilian Use)*

民用爆炸物品安全管理條例 (Regulations on Safety Management of Explosives for Civilian Use*) was promulgated on 10 May 2006, took effect from 1 September 2006 and revised on 29 July 2014 by the State Council. It applies to the production, sale, purchase, export and import, transport, blasting operations and storage of explosives for civilian use and the sale and purchase of ammonium nitrate. As advised by the PRC Legal Advisers and based on the information provided by the Vendors and to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Target Group is not subject to any limit or restriction on volumes for the production, sale, purchase, export and import, transport, blasting operations and storage of explosives for civilian use and sale and purchase of ammonium nitrate other than those disclosed in this circular. The Regulations sets out the licensing system in relation to the production, sale, purchase, transport and blasting operations of explosives for civilian use. In the absence of permission, no entity or individual may produce, sell, purchase or transport any explosives for civilian use or engage in any blasting operations. The Regulations also specify how the safety supervision and administration duties shall be divided among different governmental bodies: namely, 國防科技工業主管部門 (the Administrative Department of Science and Technology for National Defence*) shall take charge of the safety supervision and management of the production and sale of explosives for civilian use; 公安機關 (the public security bureau*) shall take charge of the public safety management of explosives for civilian use, safety supervision in the purchase, transport and blasting operations of explosives for civilian use, and the supervision and control of the flow of explosives for civilian use.

As advised by the PRC Legal Adviser, Article 7 of 民用爆炸物品安全管理條例 (Regulations on Safety Management of Explosives for Civilian Use*) requires all civil explosives manufacturers, sellers and blasting operation providers to establish a computer registration system and to record information including production, sales, transportation, storage volume for each type of civil explosives manufactured, purchased, sold, transported and used. Such information would be automatically entered into the computer registration system of the relevant government authority which can then monitor and assess the actual production, sales and usage volume of civil explosives for all the civil explosives manufacturers, sellers and blasting operation providers. Based on the information provided by the Vendors and to the best of the Directors' knowledge, information and belief having made all reasonable

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enquiries, the Target Group has established such computer registration system and has complied with the record requirement by entering the requisite information into its computer registration system.

安全生產許可證條例 (Regulations of the Production Safety License)*

安全生產許可證條例 (Regulations of the Production Safety License*) was first promulgated by the State Council on 13 January 2004 and took effect on the same date. Pursuant to the amendment on the Regulations on 18 July 2013, the PRC government applies the work safety licensing system to entities engaged in mining, construction and production of dangerous chemicals, fireworks and crackers and explosives for civilian use, and such entities shall not engage in production activities without obtaining 安全生產許可證 (production safety license*). 國防科技工業主管部門 (the Administrative Department of Science and Technology for National Defence*) under the State Council is in charge of the issue and administration of such production safety license for entities engaged in the production of explosives for civilian use.

民用爆炸物品生產許可實施辦法 (Implementation Rules of the Licensing System for Production of Explosives for Civilian Use)*

民用爆炸物品生產許可實施辦法 (Implementation Rules of the Licensing System for Production of Explosives for Civilian Use*) promulgated by the Commission of Science, Technology and Industry for National Defence on 31 August 2006 and took effect from 1 September 2006 set out the details of the licensing system applicable to the civil explosive industry. The Rules specify the authority of the governmental bodies at different levels in granting production permits for entities engaged in the civil explosive industry and their respective supervisory and administrative duties: in particular, (1) STND Commission is responsible for receiving and reviewing applications for and issuing Production License and shall take the relevant supervisory and administrative duties; (2) 國防科技工業主管部門 (the Administrative Departments of Science and Technology for National Defence*) at provincial levels are in charge of devising the industry development plans for the respective administrative regions they govern in accordance with the national development plans for the civil explosive industry with a view to assisting STND Commission in supervising and managing matters relating to the licensing system for explosives for civilian use in the respective administrative regions they govern.

The Implementation Rules also introduce the annual review system for Production License, under which entities shall submit in March every year 民用爆炸物品生產許可證年檢表 (annual review form of civil explosives production license*) to 國防科技工業主管部門 (the Administrative Departments of Science and Technology for National Defence*) at the provincial level for review and stamping and afterwards to STND Commission, which shall, within 20 days after the date of receipt of the annual review form, approve the annual review or order rectification within a prescribed time limit.

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民用爆炸物品安全生產許可實施辦法 (Implementation Rules of the Licensing System for Safety in Production of Explosives for Civilian Use)*

民用爆炸物品安全生產許可實施辦法 (Implementation Rules of the Licensing System for Safety in Production of Explosives for Civilian Use*), which was promulgated by STND Commission on 31 August 2006 and took effect from 1 September 2006, requires that entities must obtain Production Safety License, which would specify the authorised production limit in respect of each of the approved product types and production plants, before they can engage in the production of explosives for civilian use, i.e. entities which have been granted Production License must apply for Production Safety License after they have completed the construction of the production plants and related infrastructure. No entities shall engage in production activities involving explosives for civilian use without a valid production safety license for civil explosives.

The Implementation Rules also specify the authority of the governmental bodies at different levels in granting Production Safety License for entities engaged in the civil explosive industry and their respective supervisory and administrative duties: (1) STND Commission is responsible for granting Production Safety License nationwide and shall take the relevant supervisory and administrative duties; (2) 國防科技工業主管部門 (the Administrative Departments of Science and Technology for National Defence*) at provincial levels are in charge of receiving and reviewing applications for Production Safety License, the day-to-day supervision and administration of work safety matters at production sites of explosives for civilian use and providing guidance and training for the staff of the government departments at municipal and county levels overseeing the production of explosives for civilian use; (3) the government departments at municipal and county levels which oversee the production of explosives for civilian use shall assist 國防科技工業主管部門 (the Administrative Departments of Science and Technology for National Defence*) at provincial levels in the day-to-day supervision and administration of work safety matters in the production of explosives for civilian use in the respective municipalities and counties they govern, and their specific duties shall be determined by 國防科技工業主管部門 (the Administrative Departments of Science and Technology for National Defence*) at provincial levels.

The Implementation Rules introduce the annual review system for Production Safety License, under which entities shall submit 民用爆炸物品安全生產許可證年檢表 (annual review form of production safety license for civil explosives*) to 國防科技工業主管部門 (the Administrative Departments of Science and Technology for National Defence*) at provincial levels for review in March every year.

Laws on Production License

Pursuant to 民用爆炸物品安全管理條例 (Regulations on Safety Management of Explosives for Civilian Use*) and 民用爆炸物品生產許可實施辦法 (Implementation

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Rules of the Licensing System for Production of Explosives for Civilian Use*), an entity that applies for engaging in the production of explosives for civilian use shall meet the following criteria: (1) the entity must be a qualified legal person; (2) the operations must comply with the state industry planning and the relevant industry-wide technical standards; (3) the design, structure, building materials, safety distance of its production plants and warehouses and the facilities guarding against fire, explosion, lightning, static electricity and other safety risks must comply with the relevant state requirements and norms, such as 民用爆破器材工廠設計安全規範 (Design Safety Standards for Plants Manufacturing Blasting Equipments for Civilian Use*) (GB50089), 建築物防雷設計規範 (Design Standards for Lightning Protection Systems*) (GB50057) and 建築物防火規範 (Design Standards for Fire Prevention Systems*) (GBJ16); (4) the production equipments and methods must meet the technical standards and procedures concerning production safety, such as 民用爆破器材企業安全管理規程 (Safety Management Procedures for Entities Engaged in the Production of Blasting Equipments for Civilian Use*) (WJ9049), 民用爆破器材工廠設計安全規範 (Design Safety Standards for Plants Manufacturing Blasting Equipments for Civilian Use*) (GB50089), 生產設備安全衛生設計總則 (Guiding Safety Principles for the Design of Production Facilities*) (GB5083) and 壓力容器安全技術監察規程 (Monitoring Procedures for Pressure Vessel Operation Safety*); (5) the entity must be staffed with special operation technicians, production safety management personnel and operators with relevant qualifications, and such qualified professional technical staff should amount to no less than 15% of the entity's labour; (6) the entity must have in place sound mechanisms for safety management, quality control and allocation of staff responsibility; and (7) the entity must abide by any other requirements as provided for under the relevant laws or administrative regulations. STND Commission shall issue Production License to those entities that can satisfy the above criteria to its satisfaction.

According to 民用爆炸物品生產許可實施辦法 (Implementation Rules of the Licensing System for Production of Explosives for Civilian Use*), Production License is valid for a period of three years. An entity, if it intends to continue engaging in the production of explosives for civilian use after the expiry of its current production license, shall apply to STND Commission through its local branch for renewal within three months before expiration of the current Production License. The STND Commission shall then review the application before the current Production License expires and renew the Production License if the entity can demonstrate to the STND Commission's satisfaction that it can continue to satisfy the criteria set out in the preceding paragraph for the issue of Production License.

According to 民用爆炸物品生產許可實施辦法 (Implementation Rules of the Licensing System for Production of Explosives for Civilian Use*), where an entity engaged in the production of explosives for civilian use carries out any alteration or expansion of its production facilities at its original or a new production site or adopt the site mixing production method in order to adjust its production capacity and product offering such that the entity needs to (1) adjust the authorised limit

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for each category of civil explosives in each production plant while the overall authorised limit granted to the entity remains unchanged; or (2) increase the authorised limit of production so as to fit the needs under such alternation or expansion of its production facilities, it shall apply for Production License afresh in accordance with the law so that the updated Production License can reflect the authorised production limit in respect of each of the approved product types and production plants. As such, the Production License of the Target Group is renewed each time when the Target Group has applied for increase of authorised limit. An entity which produces and/or sells explosives for civilian use other than in accordance with the authorised production limit and the approved product types specified on the production license may be ordered by 國防科技工業主管部門 (administrative department of science and technology for national defence*) at provincial level to carry out rectification within a prescribed time limit and fined RMB100,000 to RMB500,000; if the non-compliance continues after the prescribed time limit, the entity may be suspended from operations and production and in serious cases, the entity's Production License and 民用爆炸物品銷售許可證 (civil explosives sale license*) may be revoked.

According to Article 12 of 民用爆炸物品生產許可實施辦法 (Implementation Rules of the Licensing System for Production of Explosives for Civilian Use*), where an entity intends to increase the authorised production limit in respect of each of the approved product types and production plants as specified in its current Production License, such entity shall apply to the STND Commission through its local branch for the Production License afresh by submitting a written application to set out details of the reason for application for increase of authorised limit, including but not limited to the increase of market demand for civil explosives, the current authorised limit and the proposed authorised limit.

Based on the information provided by the Vendors and to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, after the written application has been submitted, the relevant PRC government authority would review the written application and conduct site visit on the production plants of the entity. Where the application is approved, the STND Commission will issue an approval letter and deliver such approval letter to the applicant through its local branch. The entity shall then present such approval letter to the local branch of the STND Commission to apply for the Production License afresh with the increased authorised limit.

Laws on Production Safety License

Pursuant to 安全生產許可證條例 (Regulations of the Production Safety License*) and 民用爆炸物品安全生產許可實施辦法 (Implementation Rules of the Licensing System for Safety in Production of Explosives for Civilian Use*), an entity applying for Production Safety License shall fulfil the following criteria: (1)

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the entity must have established a staff responsibility allocation system in relation to production safety and formulated a complete set of work safety regulations and operating procedures; (2) its investment in safety protection must be up to the relevant requirements; (3) it must have set up production safety management bodies and be staffed with full-time safety management personnel; (4) its major person(s)-in-charge and production safety management personnel must have received relevant training and passed relevant assessments; (5) the special operation technicians must have passed the assessments conducted by competent authorities and have obtained qualification certificates for special operations; (6) all operators must have received relevant training and passed relevant assessments; (7) all workers must be insured against work-related injuries in accordance with the law and the entity must have paid insurance premiums for the workers as required under the law; (8) its premises, worksites, safety facilities, equipments and technology must observe the requirements of the relevant work safety laws, regulations, standards and rules, such as 民用爆破器材工廠設計安全規範 (Design Safety Standards for Plants Manufacturing Blasting Equipments for Civilian Use*) (GB50089), 建築物防雷設計規範 (Design Standards for Lightning Protection Systems*) (GB50057), 建築物防火規範 (Design Standards for Fire Prevention Systems*) (GBJ16) and 民用爆破器材企業安全管理規程 (Safety Management Procedures for Entities Engaged in the Production of Blasting Equipments for Civilian Use*) (WJ9049); (9) the entity must have preventive measures against occupation hazards in place and must have provided workers with labour protection articles which meet the national or industry-wide standards; (10) the entity must have conducted safety evaluation in accordance with the law; (11) the entity must have devised measures for the testing, assessment and monitoring of sources of grave danger and relevant emergency plans; (12) the entity must have devised emergency rescue plans for work accidents, appointed bodies or personnel to be in charge of emergency rescue and be equipped with necessary emergency rescue materials and equipments; and (13) the entity must abide by any other requirements as provided for under the relevant laws or administrative regulations.

Pursuant to 安全生產許可證條例 (Regulations of the Production Safety License*) and 民用爆炸物品安全生產許可實施辦法 (Implementation Rules of the Licensing System for Safety in Production of Explosives for Civilian Use*), Production Safety License is valid for a period of three years. An entity intending to renew its Production Safety License after its expiry shall apply to the STND Commission through its local branch within three months before expiration. All entities must strictly adhere to the laws and regulations relating to work safety. If an entity has not been involved in any work safety accidents which caused death during the period of validity of its current Production Safety License and continues to satisfy the criteria for application for the current Production Safety License, after the then Production Safety License has expired, the STND Commission may renew the Production Safety License for another three years without conducting further review and assessment. Any entity which engages in production of civil explosives without a valid Production Safety License may be suspended from production and

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fined RMB100,000 to RMB500,000, and all revenue derived from such production may be confiscated; where such production causes material accidents or other grave consequences in violation of the law, the entity may be held criminally liable.

Laws on 民用爆炸物品銷售許可證 (civil explosives sale license)*

Pursuant to 民用爆炸物品安全管理條例 (Regulations on Safety Management of Explosives for Civilian Use*), an entity intending to engage in the sale of explosives for civilian use shall apply to 國防科技工業主管部門 (the Administrative Departments of Science and Technology for National Defence*) at provincial levels for 民用爆炸物品銷售許可證 (civil explosives sale license*), and may commence the sale of explosives for civilian use only after the sale license has been granted and registered with 工商行政管理部門 (the Administrative Department for Industry and Commerce*). Within three days after completing the registration, the entity shall arrange for archival filing with 公安機關 (public security bureau*) of the local government at county level.

Under 民用爆炸物品安全管理條例 (Regulations on Safety Management of Explosives for Civilian Use*), an entity which holds valid Production License may sell civil explosives it produces provided that the explosives sold must be of the approved product types and produced within the authorised limit. As such, the volume of civil explosives that an entity which holds valid Production License is permitted to sell depends on the authorised limit of the production volume. Accordingly, as the Target Group has been granted Production License, it can sell the civil explosives it manufactures without applying for 民用爆炸物品銷售許可證 (civil explosives sale license*).

Laws on 爆破作業單位許可證 (blasting unit license)*

Pursuant to 民用爆炸物品安全管理條例 (Regulations on Safety Management of Explosives for Civilian Use*), an entity intending to engage in blasting operations shall apply to 公安機關 (public security bureau*) of the government concerned for 爆破作業單位許可證 (blasting unit license*) in compliance with the regulations laid down by 公安機關 (public security bureau*) under the State Council. The entity may start to conduct blasting operations only after it has registered 爆破作業單位許可證 (blasting unit license*) with 工商行政管理部門 (the Administrative Department for Industry and Commerce*). Within three days after completing the registration, the entity shall arrange for archival filing with 公安機關 (the public security bureau*) of the local government at county level. 公安機關 (the public security bureaus*) at provincial levels are responsible for the issue of 爆破作業單位許可證 (blasting unit license*) and the management of relevant matters in the administrative regions they govern.

According to 爆破作業單位資質條件和管理要求 (Regulations of the Blasting Unit Qualifications and Management Requirements*), where an entity intends to renew its Blasting Unit License after its expiry, it shall apply to 公安機關 (the public

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security bureau*) of the government concerned within 60 days before expiration and the entity shall meet the following criteria for the issue and renewal of Blasting Unit License: (1) the blasting operations must comply with laws and regulation; (2) the entity should have adopted internal policy on safety management system and responsibility to the satisfaction of the relevant PRC authorities; (3) the entity must have qualified staffs pursuant to the relevant regulations of the PRC, namely, technical director, project technical director, demolition, security officer and custodial and provide the staff qualification certificates; (4) the entity must have qualified warehouse for storage of civil explosives pursuant to the relevant regulations of the PRC and submit safety evaluation report of such qualified warehouse; (5) the entity must satisfy the requirements for registered capital, net assets and equipment for explosive exercises pursuant to the relevant regulations of the PRC and submit valid certification to demonstrate the satisfaction of such requirement; (6) the entity must provide the project design and construction scheme undertook in the most recent three years before application; (7) the entity must provide the project design and construction scheme presided by the technical director of the entity; (8) the entity must provide the blasting construction machinery and testing and measuring equipment list; and (9) (for renewal or increase of license level only) the entity must have requisite experiences in blasting activities as required by the relevant regulations of the PRC and no material accident has occurred during the then term of the Blasting Unit License.

Laws on 安全資格證書 (safety qualification certificate)*

Pursuant to 安全生產法 (Work Safety Law of the PRC*), the primary person in charge and the work safety management personnel of an entity must have work safety knowledge and management capability commensurate with the business activities of the entity. The primary person in charge and the work safety management personnel of an entity manufacturing, selling or storing hazardous substances shall pass the assessments on safety knowledge and management capability conducted by the competent authority with work safety regulatory functions before assuming duties. 國家安全生產監督管理總局 (State Administration of Production Safety*) is in charge of the issue of 安全資格證書 (safety qualification certificate*) and the management of relevant matters nationwide, and 安全生產監管監察部門 (the Administrations of Work Safety*) at provincial levels are responsible for the issue of 安全資格證書 (safety qualification certificate*) and the management of relevant matters in the administrative regions they govern.

產業結構調整指導目錄(2011年本) (Catalogue for Guiding Industry Restructuring (2011 Version) (the "Catalogue")

According to the Catalogue issued by the National Development and Reform Commission on 27 March 2011, the development of certain civil explosive products and production processes are to be encouraged, including among others 高性能安全型工業炸藥 (safe high-performance industrial explosives*), 連續化、自動

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化工業炸藥雷管生產綫、自動化裝藥、包裝技術與設備 (automated industrial explosive production and packaging lines*) and 炸藥現場混裝作業方式 (explosive site mixing*).

Meanwhile, the Catalogue categorises 非連續化、自動化炸藥生產綫(non-continuous and non-automated explosive production lines*), 高污染的起爆藥生產綫 (primary explosive production lines that are highly polluting*) and 高能耗、高污染、低性能工業粉狀炸藥生產綫 (powder-form industrial explosive production lines that are low in performance and energy efficiency and highly polluting*), as well as some other explosive production method as belonging to 限制類 (restricted items*).

In addition, the Catalogue provides that certain civil explosive production processes shall be abandoned, if not already abandoned under the applicable national industry policies, including among others 危險作業場所未實現遠程視頻監視的工業炸藥生產綫 (industrial explosive production lines at dangerous working sites without surveillance camera systems*), 乳化器出藥溫度大于130℃的乳化工藝 (emulsification processes using emulsifying devices that produce explosives at above 130℃*) and 有固定操作人員的場所、噪聲超過85分貝以上的炸藥設備 (the use of explosive production facilities that would produce noise above 85 decibels at a regularly staffed production site*).

關於進一步推進民爆行業結構調整的指導意見 (Guiding Opinions on Further Advancing the Restructuring of the Civil Explosive Industry) (the “Guiding Opinions”)*

As set out in the Guiding Opinions issued by the Ministry of Industry and Information Technology on 25 November 2010, the civil explosive industry in the PRC is relatively small in scale with the industry players being scattered over the country and the technological level remaining relatively low. Other problems plaguing the civil explosives industry include excess production capacity and uneven distribution of production capacity, unreasonable allocation of resources, limited growth methods, problematic product offering structure, low proportion of products produced using high and new technology and low degree of marketisation. The Guiding Opinions set out a number of ways by which the PRC government will seek to rationalise the distribution of production capacity, improve the structure of product offering and degree of marketisation and increase the geographical concentration and competitiveness of the industry players, including promoting mergers and acquisitions among corporations, strictly controlling growth in production capacity, eliminating outdated production facilities, flexibly adjusting the structure of production capacity, heightening quality control, advancing research and development capability of industry players, encouraging product development, innovation and upgrade, and facilitating exports to overseas markets and avoiding regional monopolies.

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(2) *Laws on land*

Pursuant to 中華人民共和國土地管理法 (Land Administration Law of the PRC*) adopted on 25 June 1986 which was recently revised on 28 August 2004 by the Standing Committee of the National People's Congress, for construction projects using land, an entity must apply for land owned by the state in accordance with the law. Where the occupation of land for construction purposes involves the conversion of agricultural land into land for construction purposes, the entity shall comply with the relevant approval procedures for the conversion. Where the construction project is to be carried out on state-owned land, the entity shall first obtain the right to use the state-owned land by way of lease, by paying leasing fees and other fees and expenses as prescribed by the State Council.

(3) *Laws on environmental protection*

中華人民共和國環境保護法 (Environmental Protection Law of the PRC)*

中華人民共和國環境保護法 (Environmental Protection Law of the PRC*) which was promulgated by the Standing Committee of the NPC and amended on 24 April 2014 and became effective on 1 January 2015, establishes the legal framework for environmental protection in the PRC. 環境保護主管部門 (the Environmental Protection Administrative Department*) of the State Council supervises and administers the environmental protection work in the PRC and establishes national standards for the environmental quality and discharge of pollutants. Local environmental protection bureaus are in turn responsible for the environmental protection work within their respective jurisdictions. For matters not regulated by the national environmental quality standards, the local governments of provinces, autonomous regions, and municipalities may set local environmental quality standards. For matters regulated by the national environmental quality standards, the governments of provinces, autonomous regions, and municipalities may set local environmental quality standards which are more stringent than the national standards. Local environmental quality standards shall be submitted to 環境保護主管部門 (the Environmental Protection Administrative Department*) of the State Council for record.

The newly amended 中華人民共和國環境保護法 (Environmental Protection Law of the PRC*) increases the punishment for illegal discharge of pollutants and specifically provides a legal framework in relation to the information disclosure and public participation in the environmental protection sector.

中華人民共和國大氣污染防治法 (Law of the PRC on the Prevention and Control of Atmospheric Pollution)*

中華人民共和國大氣污染防治法 (Law of the PRC on the Prevention and Control of Atmospheric Pollution*), which was revised by the Standing Committee of the National People's Congress on 29 April 2000 and took effect from 1 September 2000, requires newly constructed, expanded or reconstructed projects which discharge pollutants into the atmosphere to comply with environmental protection

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regulations. Entities that discharge atmospheric pollutants must report to local 環境保護行政主管部門 (the Environmental Protection Administrative Department*) its existing pollutant discharge and treatment facilities and the categories, quantities and concentrations of pollutants discharged under normal operation conditions and submit to 環境保護行政主管部門 (the Environmental Protection Administrative Department*) at local level relevant technical data concerning the prevention and control of atmospheric pollution.

The PRC government has implemented a fee-charging system for the discharge of pollutants on the basis of the categories and quantities of atmospheric pollutants discharged, and the fee levels are set based on a balancing exercise of the needs to strengthen prevention and control of atmospheric pollution and the prevailing economic and technological development situation of the state.

The PRC government has established a licensing system in relation to the discharge of pollutants into the air. All entities that discharge waste gas must obtain 排污許可證 (waste gas discharge permit*) and pay the discharge fees. If the quantity of waste gas discharged by an entity exceeds the level permitted under the relevant national or local standards, the entity will be required to pay additional discharge fees. Where an entity has caused severe pollution to the environment and fails to reduce its emission level to the standard by the prescribed time limit, the entity may be fined, suspended from operations or ordered to close down.

中華人民共和國環境影響評價法 (Environmental Impact Assessment Law of the PRC)*

建設項目環境保護管理條例 (Administration Rules on Environmental Protection of Construction Projects*) (which was promulgated by the State Council and became effective on 29 November 1998), 建設項目竣工環境保護驗收管理辦法 (Measures for the Administration of Examination and Approval of Environmental Protection Facilities of Construction Projects on Completion*) (which was promulgated by the State Environmental Protection Administration of the PRC on 27 December 2001 and became effective on 1 February 2002), and 中華人民共和國環境影響評價法 (Environmental Impact Assessment Law of the PRC*) (which was promulgated by the Standing Committee of the National People's Congress on 28 October 2002 and became effective on 1 September 2003) require that entities planning to carry out construction projects must engage qualified professional institutions to conduct assessments on the environmental impact of such projects and submit the assessment reports to the competent environmental protection authorities for approval prior to commencement of any construction work. All construction projects must include in their design pollution prevention and control systems and facilities to be built at the same time as the main structure to be constructed in the project. The pollution prevention and control systems and facilities can be put into use only after they have been examined and approved by the environmental protection authorities which have approved the assessment reports on the environmental impact

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of the construction projects. Entities which have not submitted the assessment reports on the environmental impact of the construction projects for approval in accordance with the law or have not been granted permission before commencing their construction projects will be ordered to suspend their construction and to obtain the required approval within a prescribed time limit. Entities which fail to comply with the formalities within the prescribed time limit and those individuals who are directly accountable for the failure shall be subject to penalty and/or administrative punishments.

(4) *Laws on taxation*

中華人民共和國企業所得稅法 (Enterprise Income Tax Law of the PRC*), which was promulgated by the National People's Congress on 16 March 2007 and took effect from 1 January 2008, imposes enterprise income tax at the uniform rate of 25% on both domestic- and foreign-invested enterprises. A resident enterprise is subject to enterprise income tax for the income derived from both inside and outside the territory of the PRC.

中華人民共和國增值稅暫行條例 (Interim Regulations of the PRC on Value Added Tax*) promulgated on 13 December 1993 and revised on 5 November 2008 by the State Council stipulate that entities and individuals engaged in the sale of goods, supply of processing, repair and replacement services, and import of goods within the territory of the PRC shall be subject to value added tax at the rate of 17%, unless otherwise specified.

Under 中華人民共和國營業稅暫行條例 (Interim Regulations of the PRC on Business Tax*) promulgated on 13 December 1993 and amended on 5 November 2008 by the State Council, all entities and individuals engaged in the provision of services, transfer of intangible assets or sale of immovables within the territory of the PRC shall be subject to business tax at the prescribed percentages of the turnover.

中華人民共和國城市維護建設稅暫行條例 (Provisional Regulations of the PRC on Urban Maintenance and Construction Tax*) promulgated by the State Council on 8 February 1985 provides that all entities and individuals subject to product tax, value-added tax and business tax shall be obliged to pay urban maintenance and construction tax. The amount of urban maintenance and construction tax payable by a taxpayer shall be based on the amount of product tax, value-added tax and business tax the taxpayer is charged, and payment shall be made at the same time when the product tax, value-added tax and business tax are paid. The applicable tax rate shall be 7% for taxpayers in cities, 5% for taxpayers in counties or towns and 1% for taxpayers living in other places.

According to 徵收教育費附加的暫行規定 (Interim Provisions on the Collection of Education Surtax*) promulgated on 28 April 1986 and recently revised on 8 January 2011 by the State Council, all entities and individuals subject to consumption tax, value-added tax and business tax, other than entities which have paid rural education undertaking surtax pursuant to 國務院關於籌措農村學校辦學經費的通知 (Notice of the State Council on Raising Funds for Running Schools in Rural Areas*), shall pay education surtax. The education surtax is calculated at 3% of the consumption tax, value-added tax and business

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tax payable by an entity or individual, and payment shall be made at the same time when the consumption tax, value-added tax and business tax are paid.

中華人民共和國教育法 (Education Law of the People's Republic of China*) promulgated by the National People's Congress on 18 March 1995 and took effect from 1 September 1995 authorises the governments of provinces, autonomous regions, and municipalities to levy local surtax to be used exclusively for educational purposes in accordance with the relevant regulations of the State Council. 財政部關於統一地方教育附加政策有關問題的通知 (Notice of the Ministry of Finance on Issues Concerning Policies on Unifying Local Education Surtax*) issued on 7 November 2010 provides that all entities and individuals, including foreign-invested enterprises, foreign enterprises and foreign individuals, shall pay local education surtax at 2% of the value-added tax, business tax and consumption tax charged. Provinces which have levied local education surtax at a rate below 2% with the approval by the Ministry of Finance shall adjust the tax rate to 2%.

中華人民共和國房產稅暫行條例 (Provisional Regulations of the PRC on Real Estate Tax*) promulgated by the State Council on 15 September 1986 and took effect from 1 October 1986 stipulates that real estate tax shall be levied in cities, county towns, state designated townships and industrial and mining areas and paid by the title owners. Where the real estate tax is calculated based on the residual value of the property, the applicable tax rate shall be 1.2%.

(5) *Laws on labour protection*

中華人民共和國職業病防治法 (Law of the PRC on Prevention and Control of Occupational Diseases*)

中華人民共和國職業病防治法 (Law of the PRC on Prevention and Control of Occupational Diseases*) was promulgated on 27 October 2011 and amended on 31 December 2011 by the Standing Committee of the National People's Congress. It requires that where a construction, expansion or reconstruction project or a technical improvement or technology introduction project may cause any occupational disease hazards, the entity in charge of the construction shall (1) submit a preliminary evaluation report on the occupational disease hazards to 安全生產監督管理部門 (the Work Safety Administrative Department*) at the feasibility study stage; (2) evaluate the effects of the occupational disease hazard control before the as-built acceptance inspection; and (3) ensure protective facilities against occupational diseases are in place. The protective facilities against occupational diseases may be put to use in regular production and other operations only after they have been inspected and approved by 安全生產監督管理部門 (the Work Safety Administrative Department*).

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The Law also specifies that employers shall take the following management measures for the prevention and control of occupational diseases: (1) establishing or appointing an occupational health management body or organisation and be staffed with full-time or part-time occupational health management personnel to take charge of the prevention and control of occupational diseases; (2) preparing schemes and implementation plans for the prevention and control of occupational diseases; (3) establishing and advancing from time-to-time occupational health management mechanisms and operating procedures; (4) maintaining occupational health archives and employee health protection records; (5) establishing and improving mechanisms for monitoring and assessing occupational disease hazard factors at work sites; and (6) establishing and improving emergency action plans for occupational disease hazards.

中華人民共和國勞動合同法 (Labour Contract Law of the PRC)*

中華人民共和國勞動合同法 (Labour Contract Law of the PRC*) promulgated on 29 June 2007 and amended on 28 December 2012 by the Standing Committee of the National People's Congress provides that an employment relationship is established between an employer and an employee when the employee starts to work for the employer, and a written labour contract shall be concluded on the day of establishment of the employment relationship. Where an employment relationship has already been established with an employee but no written labour contract has been entered into on the day of establishment of the employment relationship, a written labour contract shall be concluded within one month from the date when the employee commences work. If an employer fails to enter into a written labour contract with his/its employee within the period of one month to one year from the date of commencement of the employment relationship, the employer shall pay the employee double the salary he/she is entitled to and shall cause an employment contract to be entered into with the employee in rectification. If an employee refuses to enter into a written employment contract with his/her employer, the employer shall issue a written notice to the employee to terminate their employment relationship and make severance payment to the employee as per 中華人民共和國勞動合同法 (Labour Contract Law of the PRC*).

安全生產法 (Work Safety Law of the PRC)*

安全生產法 (Work Safety Law of the PRC*) and 民用爆炸物品安全管理條例 (Regulations on Safety Management of Explosives for Civilian Use*) provide that an entity engaged in the production of explosives for civilian use shall be staffed with full-time or part-time work safety management personnel if it employs 100 workers or less, and shall establish a work safety management body or be staffed with full-time work safety management personnel if the entity employs more than 100 workers.

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中華人民共和國社會保險法 (Social Insurance Law of the PRC)*

Pursuant to 中華人民共和國社會保險法 (Social Insurance Law of the PRC*) promulgated by the Standing Committee of the National People's Congress on 28 October 2010 and took effect from 1 July 2011, 社會保險行政部門 (the Social Insurance Administrative Department*) under the State Council shall be responsible for administration and management of the social insurance scheme nationwide, and 社會保險行政部門 (the Social Insurance Administrative Department*) under the local governments at or above county levels shall be responsible for social insurance administration and management within the respective administrative regions they govern. Entities which has established or intend to establish employment relationship with individuals within the territory of the PRC shall apply to 社會保險經辦機構 (the social insurance agencies*) at local level for social insurance registration with their business licenses, grade certificates and/or company seals within 30 days after the entities are founded. Both employers and individual employees shall pay social insurance premiums as prescribed under the law, including basic endowment insurance, basic medical insurance, employment injury insurance, unemployment insurance and maternity insurance. The portion of the social insurance premiums payable by individual employees shall be paid by their employers on their behalf out of their salaries.

住房公積金管理條例 (Regulations on the Administration of Housing Provident Funds)*

Under 住房公積金管理條例 (Regulations on the Administration of Housing Provident Funds*) promulgated by the State Council, took effect on 3 April 1999 and revised on 24 March 2002, a newly established entity shall register with 住房公積金管理中心 (the Housing Provident Fund Management Centre*) and make the requisite payments and deposits within 30 days from its date of establishment, and shall, within 20 days of registration, arrange for the opening of housing provident fund accounts with the designated commissioned banks for its staff with the approval documents from 住房公積金管理中心 (the Housing Provident Fund Management Centre*). Where new staff are employed, an entity shall register with 住房公積金管理中心 (the Housing Provident Fund Management Centre*) and make the requisite payments and deposits within 30 days after the date of the employment and shall arrange for the opening or (in case where the staff has opened employee housing provident fund account previously) transfer of employee housing provident fund accounts with the designated commissioned banks with the approval documents from 住房公積金管理中心 (the Housing Provident Fund Management Centre*). All entities shall make housing provident fund payments by such time and in such amount as prescribed under the law and no late payment or underpayment is allowed.

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(e) History of the Target Group

BUSINESS HISTORY AND MILESTONES

The Target Group's business history can be traced back to November 1996 when 內蒙古東升廟化工廠 (Inner Mongolia Dong Sheng Miao Chemical Factory*) (“**Dong Sheng Miao Factory**”), a collective enterprise which was principally engaged in the manufacturing and sale of civil explosives, was established with Mr. Ma Qiang (馬強), a non-executive Director and one of the Vendors, as the legal representative. In November 2000, for the purpose of improving the capital for business operation, Mr. Ma Qiang (馬強), Mr. Li Man (李滿), Mr. Yang Shuwang (楊樹旺), Mr. Lv Wehua (呂聞華), Mr. Liu Fali (劉發利), Mr. Dou Yongbin (竇永斌), Mr. Zhao Jianjun (趙建軍) and Mr. Li Xiangbin (李向斌), being some of the then staff of Dong Sheng Miao Factory, dissolved and transformed Dong Sheng Miao Factory into a private enterprise by establishing 東升廟伊泰化工有限責任公司 (Dong Sheng Miao Yitai Chemical Co., Ltd.*) (“**Dongyitai Chemical**”) with their own financial resources in the PRC, being the predecessor of the Target Group which was principally engaged in the manufacturing and sale of civil explosives before it was merged with Shengan Chemical (Bayannur) in August 2007.

The following table sets forth the Target Group's business development milestones:

November 1996	Dong Sheng Miao Factory was established in the PRC as a collective enterprise which was principally engaged in the manufacturing and sale of civil explosives.
November 2000	Dong Sheng Miao Factory was dissolved and Dongyitai Chemical was established in the PRC.
August 2002	Shengan Chemical (Otog Banner) was established in the PRC.
March 2006	Shengan Chemical (Bayannur) was established in the PRC.
March 2007	The Target Group commenced its business of production and sale of powder emulsion explosives and water gel emulsion explosives after the requisite licenses and permits have been obtained.
July 2007	Shengan Chemical (Inner Mongolia) was established in the PRC.
August 2007	Shengan Chemical (Bayannur) and Dongyitai Chemical were merged pursuant to a merger agreement.
November 2007	Shengan Chemical (Bayannur) was awarded as 高新技術企業 (High-new Technology Enterprise*).

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July 2008	Juli Blasting was established in the PRC.
February 2009	The Target Group commenced its business of production and sale of ANFO explosives after the requisite licenses and permits have been obtained.
June 2011	The Target Group commenced its business of blasting operation and related services through Juli Blasting after the requisite licenses and permits have been obtained.
November 2011	Shengan Chemical (Otog Banner) was awarded as 高新技術企業 (High-new Technology Enterprise*).
March 2012	Shengan Trading was established in the PRC.
July 2012	Shengan Chemical (Urad Middle Banner), branch company of Shengan Chemical (Inner Mongolia), was established in the PRC.
April 2013	Qinghai Fudeyuan was established in the PRC.
September 2013	The Target Group commenced its business of production and sale of site mixed emulsion explosives after the requisite licenses and permits have been obtained.
November 2013	The Target Company was incorporated in BVI. Ample Ocean HK was incorporated in Hong Kong.
January 2014	Juli Blasting was granted 爆破作業單位許可證 (一級) (營業性) (blasting unit license (first class)*).
September 2014	Shengan Chemical (Inner Mongolia) was awarded as 中國爆破器材行業協會第五屆理事單位 (The fifth governing unit for the China Civil Explosives Industry Association*) by 中國爆破器材行業協會 (the China Civil Explosives Industry Association*).

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CORPORATE DEVELOPMENT AND STRUCTURE

The Target Company

The Target Company was incorporated as a limited liability company under the laws of the BVI on 1 November 2013. At the time of incorporation, the Target Company had an authorised share capital of US\$50,000 consisting of 50,000 shares of US\$1.00 each. On the same day, 50,000 shares were issued and allotted to the Vendors. The issuance and allotment has been completed and settled on the same day. Please refer to the table under the paragraph headed “2. Acquisition – (a) SP Agreement – Parties – Vendors” in this letter for details of the shareholding of the Target Company as at the Latest Practicable Date and the relationship among the Vendors and with the Company.

The Target Company is the holding company of the entire issued share capital of Ample Ocean HK, which in turn holds the entire registered capital of Qinghai Fudeyuan. The Target Company, Ample Ocean HK and Qinghai Fudeyuan are principally engaged in investment holding. Qinghai Fudeyuan holds 60% of the entire registered capital of Shengan Chemical (Inner Mongolia), which in turn holds the entire registered capital of each of Shengan Chemical (Bayannur), Juli Blasting, Shengan Chemical (Otog Banner) and Shengan Trading. In addition, Shengan Chemical (Bayannur) has also established a branch company at Urad Middle Banner, namely Shengan Chemical (Urad Middle Banner). The establishment and major changes concerning these operating subsidiaries are set out below.

Ample Ocean HK

Ample Ocean HK is an investment holding company of the Target Group incorporated under the laws of Hong Kong on 19 November 2013, with an authorised share capital of HK\$1 million divided into one million shares of HK\$1.00 each. Ample Ocean HK is a wholly owned subsidiary of the Target Company.

Qinghai Fudeyuan

Qinghai Fudeyuan is an investment holding company of the Target Group established under the laws of the PRC on 19 April 2013, with a registered capital of RMB10 million. At the time of establishment, Qinghai Fudeyuan was wholly owned by Qinghai Boyang, which was in turn indirectly wholly owned by the Vendors.

On 16 May 2014, Qinghai Fudeyuan, Qinghai Boyang and Ample Ocean HK entered into an equity transfer agreement, pursuant to which Ample Ocean HK acquired from Qinghai Boyang the entire equity interest in Qinghai Fudeyuan for a total consideration of HK\$63 million, which was determined with reference to the then net asset value of Qinghai Fudeyuan as at 30 April 2014. Upon completion of the transfer, Qinghai Fudeyuan became a wholly owned subsidiary of Ample Ocean HK and a wholly-foreign owed enterprise. On 6 March 2014, in preparation for such share transfer, the Vendors filed

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the initial registration of offshore investment by PRC domestic residents with the State Administration of Foreign Exchange, Qinghai branch. The share transfer was approved by the relevant industry and commerce bureau in the PRC on 22 July 2014. Please refer to bullet point (2) under the paragraph headed “2. Acquisition – (a) SP Agreement – Assets to be acquired” in this letter for details of financing of the acquisition of Qinghai Fudeyuan by Ample Ocean HK.

Shengan Chemical (Inner Mongolia)

Shengan Chemical (Inner Mongolia) is principally engaged in the procurement of production materials and sale of such production materials to the operating PRC subsidiaries of the Target Group. It was established under the laws of the PRC on 18 July 2007, with an initial registered capital of RMB60 million. On 28 December 2010, the registered capital of Shengan Chemical (Inner Mongolia) was increased to RMB85.227 million, which was subsequently increased to RMB88.03 million on 16 May 2011.

At the time of establishment, Shengan Chemical (Inner Mongolia) was owned as to 50% by Shengan Chemical (Otog Banner) and 50% by Shengan Chemical (Bayannur). Since then, the shareholding structure of Shengan Chemical (Inner Mongolia) has undergone several changes pursuant to various equity transfers. In particular, the following equity transfers were taken places during the Relevant Period:

- (i) as at 1 April 2013, being the commencement date of the Relevant Period, Shengan Chemical (Inner Mongolia) was owned as to 90% by 北京博洋福德圓投資有限公司 (Beijing Boyang Fudeyuan Investment Company Limited*) (“**Beijing Boyang**”) (formerly known as 巴彥淖爾市宏基投資諮詢有限責任公司 (Bayannur Hongji Investment Co., Limited* until it changed its name in February 2012), a company wholly owned by the Vendors, and 10% by 浙江永聯民爆器材有限公司 (Zhejiang Yonglian Civil Explosive Equipment Company Limited*) (“**Yonglian Civil Explosive**”), which is, to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, an Independent Third Party;
- (ii) on 2 May 2013, Qinghai Fudeyuan entered into an equity transfer agreement with Beijing Boyang, pursuant to which Qinghai Fudeyuan acquired from Beijing Boyang 90% equity interest in Shengan Chemical (Inner Mongolia) for a consideration of RMB127.5 million, which was determined with reference to the then market value of the shares of Shengan Chemical (Inner Mongolia) As Qinghai Fudeyuan was then indirectly wholly owned by Beijing Boyang (which was in turn wholly owned by the Vendors), such equity transfer was part of the restructuring exercise of Beijing Boyang and its subsidiaries to streamline the Vendors’ investment;
- (iii) on the same day, Qinghai Fudeyuan and Jungar Banner Lida entered into an equity transfer agreement, pursuant to which Qinghai Fudeyuan agreed to transfer 35% equity interest in Shengan Chemical (Inner Mongolia) to Jungar

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Banner Lida for a consideration of RMB60 million, which was determined with reference to the then market value of the shares of Shengan Chemical (Inner Mongolia). The main reason for such equity transfer was to build a strategic business relationship with Jungar Banner Lida, which is a fellow subsidiary of Ordos Beian, the then largest customer of the Target Group. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Jungar Banner Lida is a member of a group of companies which are principally engaged in business of manufacturing and sale of civil explosives and related equipment and real estate development. Save that a fellow subsidiary of Jungar Banner Lida, namely Ordos Beian, which is a customer of the Target Group for its sale of civil explosives business, Jungar Banner Lida does not have any other business relationships or transactions with the Target Group and, save for Jungar Banner Lida's ownership in Shengan Chemical (Inner Mongolia), Jungar Banner Lida and its ultimate beneficial owner are, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Independent Third Parties;

- (iv) on 16 August 2013, Yonglian Civil Explosive, Jungar Banner Lida and 呼倫貝爾盛世礦業投資有限公司 (Hulunbeier Shengshi Mining Investment Co., Ltd.*) (“**Shengshi Mining**”) entered into an equity transfer agreement, pursuant to which Yonglian Civil Explosive agreed to transfer 5% equity interest in Shengan Chemical (Inner Mongolia) to each of Jungar Banner Lida and Shengshi Mining for a consideration of RMB31.5 million, respectively, which was determined with reference to the then market value of the shares of Shengan Chemical (Inner Mongolia) with an discount taking into account that no dividend for the eight months ended 31 August 2014 had been declared and paid as of the date of such equity transfer agreement. The reason for such equity transfer was that Yonglian Civil Explosive would like to realise its investment in Shengan Chemical (Inner Mongolia) by transferring its entire equity interest therein to the then remaining shareholders (i.e. Jungar Banner Lida and Qinghai Fudeyuan) which had pre-emptive right to purchase the entire equity interest held by Yonglian Civil Explosives. Qinghai Fudeyuan procured Shengshi Mining, which was indirectly owned as to 95% by Ms. Ma Ye, one of the Vendors and the sister of Mr. Ma Qiang (a non-executive Director and the controlling Shareholder of the Company), to acquire 5% equity interest in Shengan Chemical (Inner Mongolia) from Yonglian Civil Explosive; and
- (v) on 10 January 2014, Shengshi Mining and Qinghai Fudeyuan entered into an equity transfer agreement, pursuant to which Qinghai Fudeyuan acquired from Shengshi Mining 5% equity interest in Shengan Chemical (Inner Mongolia) for a consideration of RMB10 million, which was determined with reference to the then market value of the shares of Shengan Chemical (Inner Mongolia). Upon completion of such transfer and as of the Latest

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Practicable Date, Shengan Chemical (Inner Mongolia) was owned as to 60% by Qinghai Fudeyuan and 40% by Jungar Banner Lida. The reason for such equity transfer was to consolidate the Vendors' control and ownership in Shengan Chemical (Inner Mongolia).

Shengan Chemical (Bayannur)

Shengan Chemical (Bayannur) is principally engaged in the manufacture and sale of civil explosives in the PRC. It was established under the laws of the PRC on 30 March 2006, with a registered capital of RMB20 million. At the time of establishment, Shengan Chemical (Bayannur) was owned as to 30% by Mr. Ma Qiang (馬強), 11.04% by Mr. Yang Shuguang (楊曙光), 9.36% by Mr. Li Man (李滿), 9.36% by Mr. Yang Shuwang (楊樹旺), 7.06% by Mr. Dou Yongbin (竇永斌), 7.06% by Mr. Liu Fali (劉發利), 7.06% by Mr. Lv Wenhua (呂聞華), 7.06% by Mr. Zhao Jianjun (趙建軍), 7% by Mr. Ma Suocheng (馬鎖程) and 5% by Ms. Gong Fenge (鞏鳳娥).

On 29 October 2006, the name of Shengan Chemical (Bayannur) was changed from 巴彥淖爾伊泰化工有限責任公司 (Bayannur Yitai Chemical Co., Ltd.*) to 巴彥淖爾盛安化工有限責任公司 (Bayannur Shengan Chemical Limited*).

On 1 August 2007, Shengan Chemical (Bayannur) entered into a merger agreement (the “**Merger Agreement**”) with Dongyitai Chemical, the predecessor of the Target Group, pursuant to which Dongyitai Chemical agreed to merge with Shengan Chemical (Bayannur) under the name of Shengan Chemical (Bayannur) at nil consideration, which was determined on the basis that the net assets value of Dongyitai Chemical was nearly nil and that Shengan Chemical (Bayannur) agreed to assume all the debts and liabilities of Dongyitai Chemical pursuant to the Merger Agreement. Following such merger, Dongyitai Chemical had completed the relevant formalities for dissolution and was dissolved on 13 November 2007. Before the merger, Dongyitai Chemical was a company established in the PRC and was owned as to 40.22% by Mr. Ma Qiang (馬強), 10.28% by Mr. Li Man (李滿), 10.28% by Mr. Yang Shuwang (楊樹旺), 7.06% by Mr. Dou Yongbin (竇永斌), 7.06% by Mr. Liu Fali (劉發利), 7.06% by Mr. Zhao Jianjun (趙建軍), 7% by Mr. Ma Suocheng (馬鎖程) and 11.04% Mr. Yang Shuguang (楊曙光), who were also the then shareholders of Shengan Chemical (Bayannur). The reason for the merger was to enlarge the business scale of both companies; to respond to the policy of the PRC which favoured the consolidation of small scale civil explosive enterprises; and to simplify the management structure and saving the management costs for having two separate companies given that the two companies had common shareholders as set out above.

As at the Latest Practicable Date, Shengan Chemical (Bayannur) was wholly owned by Shengan Chemical (Inner Mongolia). Such shareholding structure was formed pursuant to equity transfer agreements dated 24 August 2009 entered into between Shengan Chemical (Inner Mongolia) with each of the then shareholders of Shengan Chemical (Bayannur), namely 巴彥淖爾市宏基投資諮詢有限責任公司 (Bayannur Hongji Investment Co., Limited*) (which was subsequently known as Beijing Boyang starting from February 2012) (“**Bayannur Investment**”) and 巴彥淖爾金泰化工有限公司 (Bayannur Jintai

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Huagong Co., Limited*) (“**Bayannur Jintai**”), pursuant to which Bayannur Investment and Bayannur Jintai transferred 70% and 30% equity interest in Shengan Chemical (Bayannur) to Shengan Chemical (Inner Mongolia) for a consideration of RMB14 million and RMB6 million, respectively, which amounted to the registered share capital of Shengan Chemical (Bayannur) contributed by Bayannur Investment and Bayannur Jintai respectively. To the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, Bayannur Jintai is a supplier of production materials of the Target Group and is controlled by Mr. Ma Qiang and his family members and relatives.

During the Relevant Period, no equity transfer of the registered capital of Shengan Chemical (Bayannur) was taken place.

Shengan Chemical (Urad Middle Banner)

Shengan Chemical (Urad Middle Banner) is principally engaged in the manufacture and sale of civil explosives in the PRC. It was established under the laws of the PRC on 11 July 2012 as a branch company of Shengan Chemical (Bayannur).

Juli Blasting

Juli Blasting is principally engaged in the provision of blasting operation and related services in the PRC. It was established under the laws of the PRC on 11 July 2008 with an initial registered share capital of RMB10 million. On 16 August 2012, the registered capital of Juli Blasting was increased to RMB25 million.

As at the Latest Practicable Date, Juli Blasting was wholly owned by Shengan Chemical (Inner Mongolia). Such shareholding structure was formed pursuant to an equity transfer agreement dated 16 September 2009 entered into between Shengan Chemical (Inner Mongolia) and Bayannur Investment, the then shareholder of Juli Blasting, pursuant to which Bayannur Investment agreed to transfer the entire equity interest in Juli Blasting to Shengan Chemical (Inner Mongolia) for a consideration of RMB10 million, which amounted to the then registered share capital of Juli Blasting.

During the Relevant Period, no equity transfer of the registered capital of Juli Blasting was taken place.

Shengan Chemical (Otog Banner)

Shengan Chemical (Otog Banner) is principally engaged in the manufacture and sale of civil explosives in the PRC. It was established under the laws of the PRC on 21 August 2002, with an initial registered capital of RMB5 million. On 26 November 2007, the registered capital of Shengan Chemical (Otog Banner) was increased to RMB30 million.

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As at the Latest Practicable Date, Shengan Chemical (Otog Banner) was wholly owned by Shengan Chemical (Inner Mongolia). Such shareholding structure was formed pursuant to an equity transfer agreement dated 24 August 2009 entered into between Shengan Chemical (Inner Mongolia) and Shengan Chemical (Bayannur), the then shareholder of Shengan Chemical (Otog Banner), pursuant to which Shengan Chemical (Bayannur) agreed to transfer the entire equity interest in Shengan Chemical (Otog Banner) to Shengan Chemical (Inner Mongolia) for a consideration of RMB30 million, which was determined amounted to the then registered share capital of Shengan Chemical (Otog Banner).

During the Relevant Period, no equity transfer of the registered capital of Shengan Chemical (Otog Banner) was taken place.

Shengan Trading

Shengan Trading was established under the laws of the PRC on 27 March 2012, with a registered capital of RMB10 million. Since its establishment and up to the Latest Practicable Date, Shengan Trading was wholly owned by Shengan Chemical (Inner Mongolia) and has not yet commenced its operation.

As advised by the PRC Legal Advisers, all the equity transfer and increase in registered capital of the subsidiaries of the Target Company in the PRC from their respective date of establishment up to the Latest Practicable Date were approved by the relevant government authorities.

Disposals during and after the Relevant Period

Based on the information provided by the Vendors and to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, in addition to the equity transfer of the registered capital of the subsidiaries of the Target Group mentioned above, the following disposals by the Target Group were taken place after the Relevant Period:

- (i) pursuant to an equity transfer agreement dated 3 December 2014 entered into between Juli Blasting and Shengan Real Estate, Juli Blasting agreed to sell and Shengan Real Estate agreed to purchase the entire equity interest in 烏拉特後旗恆泰科技發展有限責任公司 (Urad Rear Banner Hengtai Technology Development Co., Ltd.*) ("**Hengtai Technology**") for the consideration of approximately RMB0.48 million, which amounted to the then net asset value of Hengtai Technology. The reason for the disposal was that Hengtai Technology has not commenced its operation since its establishment and the Target Group did not have any future plan for operating Hengtai Technology. The above share transfer was approved by the relevant industry and commerce bureau in the PRC on 4 December 2014; and

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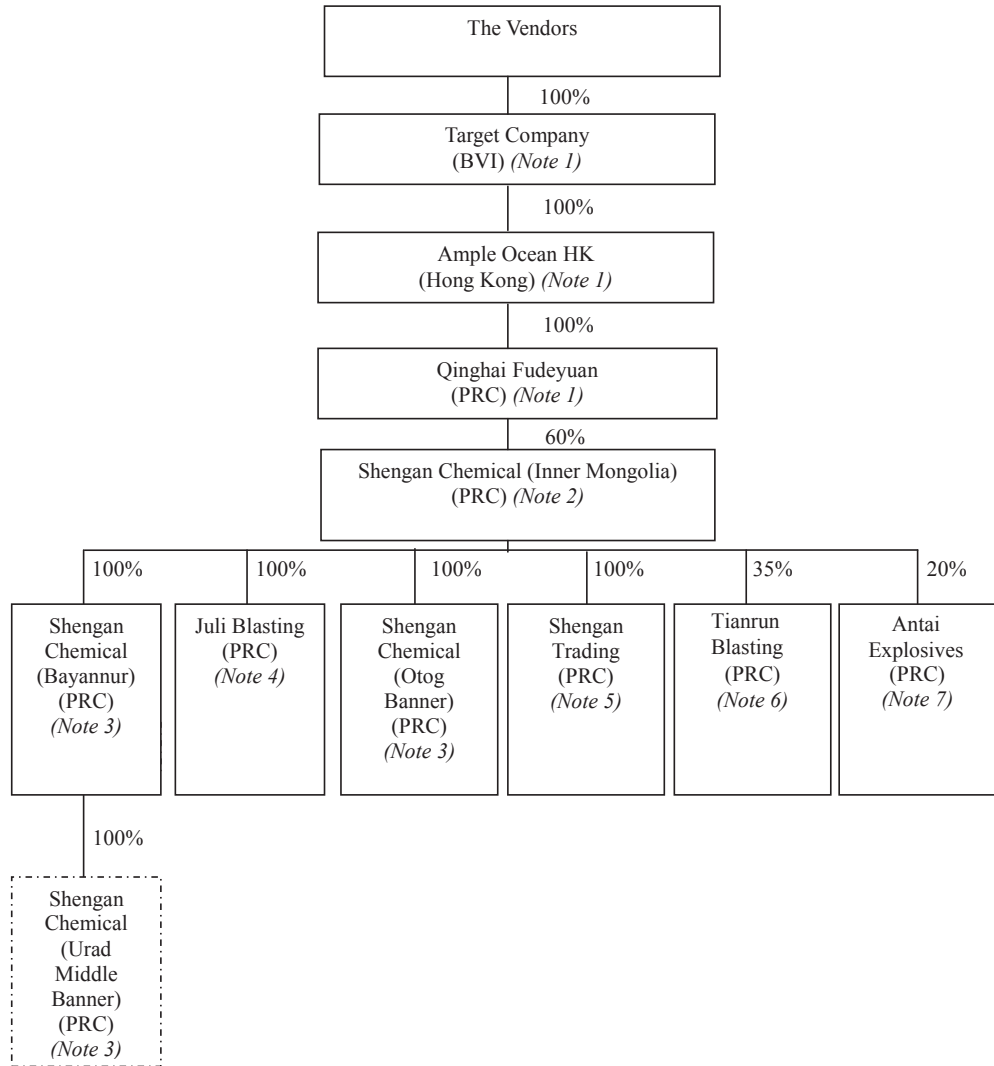
- (ii) pursuant to an equity transfer agreement dated 24 November 2014 entered into between Shengan Chemical (Inner Mongolia) and Shengan Real Estate, Shengan Chemical (Inner Mongolia) agreed to sell and Shengan Real Estate agreed to purchase the entire equity interest in Shengan Security for the consideration of approximately RMB1.10 million, which amounted to the then net asset value of Shengan Security. The reason for the disposal was that pursuant to the restructuring exercise of the shareholding structure of the Target Group, the Target Group becomes a foreign invested enterprise, such that an application shall be made to the relevant PRC authority for foreign investment in Shengan Security, as a then subsidiary of the Target Group. In light of the difficulty and considerable time required for obtaining such approval from the relevant PRC bureau, the Target Group disposed Shengan Security. The above share transfer was approved by the relevant industry and commerce bureau in the PRC on 25 November 2014. After the disposal, the Target Group continues to engage Shengan Security to provide security services to the Target Group. As at the Latest Practicable Date, Shengan Security was ultimately owned as to 33.00% by Mr. Ma Qiang, and was therefore a connected person of the Company. Accordingly, the Target Group's engagement of Shengan Security for security services constitutes continuing connected transaction of the Company under Chapter 20 of the GEM Listing Rules immediately upon Completion. Please refer to the paragraph headed "5. Proposed continuing connected transactions after Completion" in this letter for further details of such continuing connected transactions of the Enlarged Group.

Corporate structure

The corporate structure and the respective principal business of each member of the Target Group and its associated companies immediately before and after Completion are set out below:

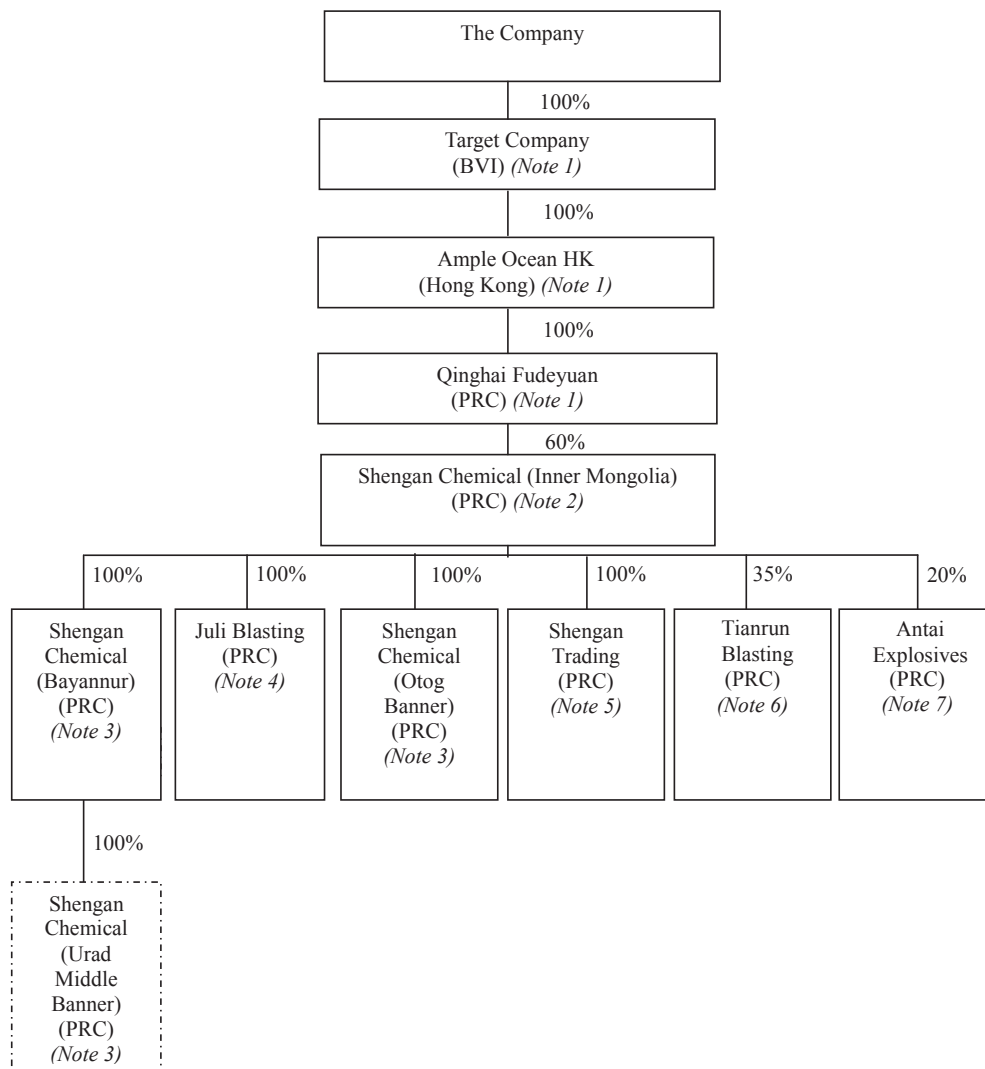
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Before Completion



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After Completion



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Notes:

1. Each of the Target Company, Ample Ocean HK and Qinghai Fudeyuan is principally engaged in investment holding.
2. Shengan Chemical (Inner Mongolia) is principally engaged in the procurement and intra-group sale of production materials to other PRC members of the Target Group for production purposes. The remaining 40% interest in the registered capital of Shengan Chemical (Inner Mongolia) is owned by Jungar Banner Lida. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Jungar Banner Lida is a member of a group of companies which are principally engaged in business of manufacturing and sale of civil explosives and related equipment and real estate development. Save that a fellow subsidiary of Jungar Banner Lida, namely Ordos Beian, which is a customer of the Target Group for its sale of civil explosives business, Jungar Banner Lida does not have any other business relationships or transactions with the Target Group and, save for Jungar Banner Lida's ownership in Shengan Chemical (Inner Mongolia) as aforesaid, Jungar Banner Lida and its ultimate beneficial owner are, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Independent Third Parties.
3. Each of Shengan Chemical (Bayannur), Shengan Chemical (Urad Middle Banner) and Shengan Chemical (Otog Banner) is principally engaged in the manufacture and sale of civil explosives in the PRC. Shengan Chemical (Urad Middle Banner) is the branch company of Shengan Chemical (Bayannur)
4. Juli Blasting is principally engaged in the provision of blasting operation and related services in the PRC.
5. Since the establishment of Shengan Trading and up to the Latest Practicable Date, Shengan Trading has not yet commenced its operation.
6. Tianrun Blasting is principally engaged in provision of blasting operation and related services in the PRC.
7. Antai Explosives is principally engaged in sale of civil explosive products in the PRC.

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(f) Business of the Target Group

OVERVIEW

The Target Group is principally engaged in (i) the manufacturing and sale of civil explosives which are in turn sold to end-user customers or civil explosive products reseller customers; and (ii) provision of blasting operation and related services. During the Relevant Period, customers of the Target Group were divided into two categories, namely, (1) explosive purchasers which include (a) civil explosive products resellers which in turn sell civil explosives manufactured by the Target Group to end-users; and (b) end-users such as mining companies, civil and infrastructure construction companies whose operations and projects require the use of civil explosives for blasting; and (2) customers which require blasting services and/or blasting-related consultation services.

The civil explosives manufactured and sold by the Target Group are divided into two categories, namely, emulsion explosives and ANFO explosives, and are widely used in mine blasting, outdoor blasting, underground blasting, rock blasting and civil and infrastructure construction.

The Target Group provides a full range of blasting operations and related services to its customers depending on their needs ranging from storage of civil explosives, transportation of blasting equipment and civil explosives (to the extent that such transportation does not require specific permit pursuant to relevant rules and regulations of the PRC) to blasting project design, blasting operations such as drilling of boreholes, rock blasting and drilling blasting, and related consultation.

The Target Group has two production plants located at Bayannur, Inner Mongolia, the PRC and one production plant located at Ordos, Inner Mongolia, the PRC. The production plants are located in proximity to areas concentrated with mining and other civil and infrastructure construction so as to minimise transportation costs and risks of explosion during transportation of explosives. For production of ANFO explosives and site mixed emulsion explosives, mobile processing units are used to produce explosives on the site of customers of the Target Group.

The Target Group places strong emphasis on quality control and safety of its business operation and products with the establishment of safety and quality control department which is designated to maintain and operate quality control system of the Target Group in order to comply with the requirements specified by each customer and the relevant rules and regulations in the PRC. The Target Group is also committed to providing a safe and healthy working environment for the benefit of its employees by having a safety and quality control department to oversee the execution of safety measures established by the Target Group and provide safety education to employees of the Target Group. As of the Latest Practicable Date, the Target Group had obtained GB/T19001-2008/ISO 9001:2008 (Quality Management System Certificate) and GB/T 28001-2011/OHSAS 18001:2007 (Occupational Health and Safety Management System Certificate) for its efforts in quality control and production safety.

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COMPETITIVE STRENGTHS

The Target Group is capable of providing comprehensive and one-stop civil explosives solution to its customers ranging from production of civil explosives to provision of blasting operations and related services

In addition to manufacturing and sales of civil explosives, the Target Group is also capable to provide a full range of blasting operations and related services depending on the needs of customers ranging from storage of civil explosives, transportation of blasting equipment and civil explosives (to the extent that such transportation does not require specific permit pursuant to relevant rules and regulations of the PRC) to blasting project design, blasting operations such as drilling of boreholes, rock blasting and drilling blasting, and related consultation. Save for the transportation of civil explosives and blasting equipment which requires specific permit pursuant to relevant rules and regulations of the PRC that the Target Group engages third party service providers to provide such services, the Target Group can independently carry out the whole production process, manage the schedule of production, review the quality of products, store raw materials and finished goods, design blasting projects and provide blasting operations and related services. The Target Group believes that it is able to exert complete control over the entire production and service chain, ensure its product quality, and provide a full range of service to meet the increasing demands of its customers.

The Target Group's production plants are situated at strategic locations covering regions with great demand for civil explosives

The production plants of the Target Group are located at areas in Bayannur and Ordos which are concentrated with mining activities with great demand for civil explosives. In addition, the production plants of the Target Group are in proximity to the business location of its customers. The proximity to customers enables the Target Group to provide timely service to its customers and to reduce its customers' transportation costs and, in respect of sales whereby the Target Group is responsible for the transportation and delivery of the products to its customers, the Target Group is at the position to offer its products to its customers at a more competitive price. The concentration of mining activities in the area also provides the Target Group with more new business opportunities. Please refer to the paragraph headed "7. Information on the Target Group – (f) Business of the Target Group – Production – Production facilities" in this letter for further details of the production plants of the Target Group. To further expand the business and market share, the Target Group is establishing a new emulsion explosive production line in Bayannur in place of an existing production line. Please refer to the paragraph headed "7. Information on the Target Group – (f) Business of the Target Group – Business strategies – expanding its existing production facilities and capabilities" in this letter for further details of the expansion plan.

LETTER FROM THE BOARD

The Target Group has adopted a stringent quality control system throughout its business operation

The Target Group believes that the quality and reliability of its products and services are vital in upholding the reputation and sustainability of the Target Group's business in the civil explosive industry. It has established stringent quality control procedures to maintain the quality of its products and services. The quality control process starts at the point of procurement and is carried all the way through to the manufacture and storage of finished goods. The Target Group has established the safety and quality control department which is designated to maintain and operate quality control system of the Target Group in order to comply with the requirements specified by each customer and the relevant rules and regulations in the PRC. Comprehensive procedures are adopted for the selection and approval of new suppliers and raw materials. Product samples are tested thoroughly in each major production procedure. For further details, please refer to the paragraph headed "7. Information on the Target Group – (f) Business of the Target Group – Quality control and safety" in this letter. In order to ensure the effectiveness of quality control, the Target Group has used and maintained a set of examination equipment used for the quality check of its production materials, semi-finished products and finished goods throughout its business operation. The Target Group has been accredited various certifications, including GB/T19001-2008/ISO 9001:2008 (Quality Management System Certificate) and GB/T 28001-2011/OHSAS 18001:2007 (Occupational Health and Safety Management System Certificate) for its efforts in quality control and production safety.

The Target Group is committed to research and development

The Target Group is committed to research and development so as to keep itself competitive in the industry because the civil explosives industry is characterised by technological advancements. As of 31 December 2014, there were 46 staff in the Target Group who performed research and development function. The Target Group has also collaborated with other institutes and market players for research and development projects by entering into research and development cooperation agreements on a project-by-project basis. Please refer to the paragraph headed "7. Information on the Target Group – (f) Business of the Target Group – Research and development" in this letter for further details of the research and development efforts of the Target Group. As of the Latest Practicable Date, the Target Group had registered 24 patents in the PRC. Details of the intellectual property rights of the Target Group as of the Latest Practicable Date are set out in the paragraph headed "7. Information on the Target Group – (f) Business of the Target Group – Intellectual property" in this letter.

Two members of the Target Group, namely Shengan Chemical (Otog Banner) and Shengan Chemical (Bayannur), have been awarded as 高新技術企業 (High-new Technology Enterprise*) by Inner Mongolia government authorities since November 2011 and November 2007 respectively and such recognition was still valid as at the Latest Practicable Date.

LETTER FROM THE BOARD

BUSINESS STRATEGIES

Integrating its production and provision of services to provide one-stop civil explosives solution to its customers

To better utilise the Target Group's capability of both manufacturing and selling civil explosives and providing blasting operations and related services, to enhance the competitiveness of the Target Group in the market and to capture more business opportunities, it is the Target Group's plan to integrate its sales of explosives and provision of civil explosives related services business and to further promote its products and services to its customers as a one-stop civil explosive solutions on a project basis. At the same time, the Target Group also plans to enlarge its business of provision of blasting operations and related services.

Expanding its existing production facilities and capabilities according to the market trend of the Inner Mongolia Autonomous Region

In order to capture more business opportunities in Bayannur, Inner Mongolia arising from the expected continual growth in the demand for civil explosives in the region, and to cater for the business needs of the Target Group's existing customers and potential customers, the Target Group needs to expand its existing production facilities. The Target Group had established a new production line in Bayannur in place of an existing production line for production of emulsion explosives in March 2015. On 30 May 2015, the Target Group submitted an application to the relevant local government authority for a trial run of the new production line in Bayannur. On 11 June 2015, the relevant government authority issued some recommendations for improvement to the new production line. Based on the information provided by the Vendors and to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Target Group is in the course of improving the new production line based on the recommendations by the relevant government authority and is expected to implement all the recommendation of the relevant government authority by the end of June 2015. The new production line in Bayannur shall commence operation after obtaining approval from the relevant local government authority. Subject to the approval by the relevant local government authority for the authorised production limit, it is expected that the new production line can produce about 12,000 to 24,000 tonnes of civil explosives every year. After the date of dispatch of the Circular, the Company will from time to time disclose the status for obtaining approval from the relevant local government authority for the new production line by way of an announcement.

In the future, the Target Group may also expand its production capacities by acquiring production facilities and enterprises which produce civil explosives. As of the Latest Practicable Date, the Target Group had not identified any acquisition targets.

LETTER FROM THE BOARD

Continuing to upgrade the level of skill set in its production process and provision of services through internal research and development projects and collaborations with other market players and research institutions

In order to upgrade the level of skill set in the Target Group's production process and provision of services and to maintain its competitiveness, the Target Group will continue to put great emphasis on its research and development through carrying research and development projects by its research and development department and collaborations with other market players and research institutions. The research and development projects of the Target Group will include (i) analysis of similar products made by domestic competitors and overseas manufacturers; (ii) improvement of product quality, efficiency and functions of existing products; (iii) introduction and promotion of the use of new production technologies and raw materials; and (iv) assessment of the future prospect and development trend of the civil explosives industry.

BUSINESS MODEL

The Target Group principally engages in the manufacturing and sale of civil explosives and the provision of blasting operation and related services.

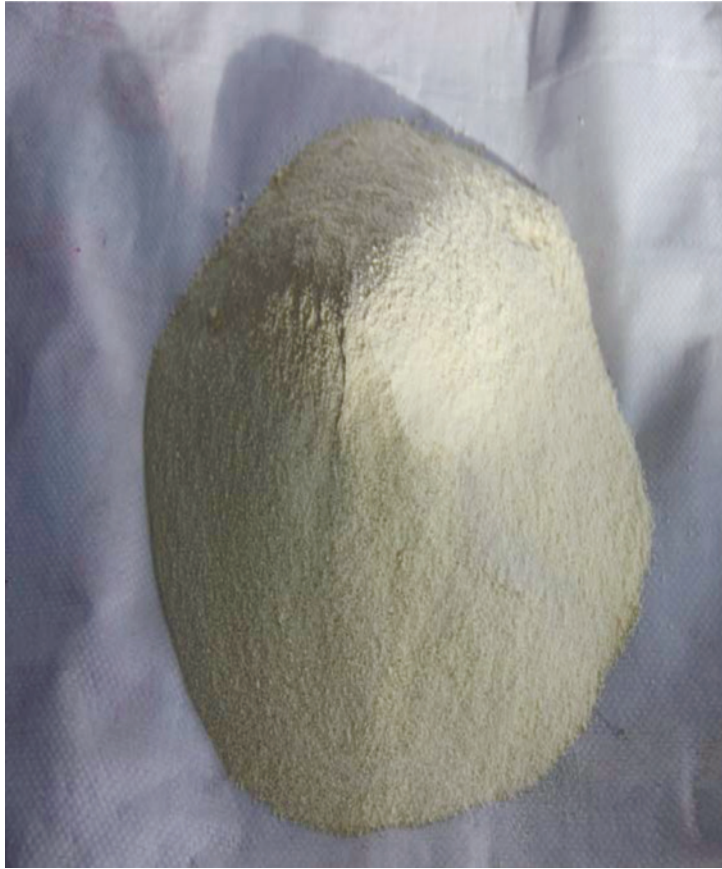
Manufacturing and sale of civil explosives

The civil explosives manufactured by the Target Group, which are widely used in mine blasting, outdoor blasting, underground blasting, rock blasting and civil and infrastructure construction, are sold to (a) civil explosive products resellers which in turn sell civil explosives to end-users; and (b) end-users, such as mining companies, civil and infrastructure construction companies whose operations and projects require the use of civil explosives for blasting. Please refer to the paragraph headed "7. Information on the Target Group – (f) Business of the Target Group – Production – Production process" in this letter for details of the production process of the civil explosives of the Target Group. For the three years ended 31 March 2012, 2013 and 2014 and the nine months ended 31 December 2014, revenue from sale of explosives accounted for approximately 99.99%, 98.71%, 95.34% and 96.94% of the Target Group's revenue respectively. The civil explosives manufactured and sold by the Target Group are divided into two categories, namely, emulsion explosives and ANFO explosives. The table below summarises the types of civil explosives manufactured and sold by the Target Group:

Category of explosives	Forms	Major characteristics	Price range (RMB per tonne)			
			2012	For the year ended 31 March		For the nine months ended 31 December
				2013	2014	2014
Emulsion explosives	Powder emulsion explosives	Water proof, higher sensitivity	5,983 to 9,402	6,325 to 9,402	5,214 to 9,402	4,316 to 9,402
	Water gel emulsion explosives	Water proof, lower sensitivity	5,878 to 7,983	5,299 to 7,983	5,299 to 7,123	4,615 to 7,983
	Site mixed emulsion explosives	Water proof, binary explosives, lower sensitivity	N/A	N/A	Around 4,701	Around 4,701
ANFO explosives	Site mixed ANFO explosives	Non-water proof, binary explosives, lower sensitivity	4,590 to 6,502	4,872 to 6,502	4,444 to 6,502	3,462 to 6,502

LETTER FROM THE BOARD

Powder emulsion explosives



Water gel emulsion explosives

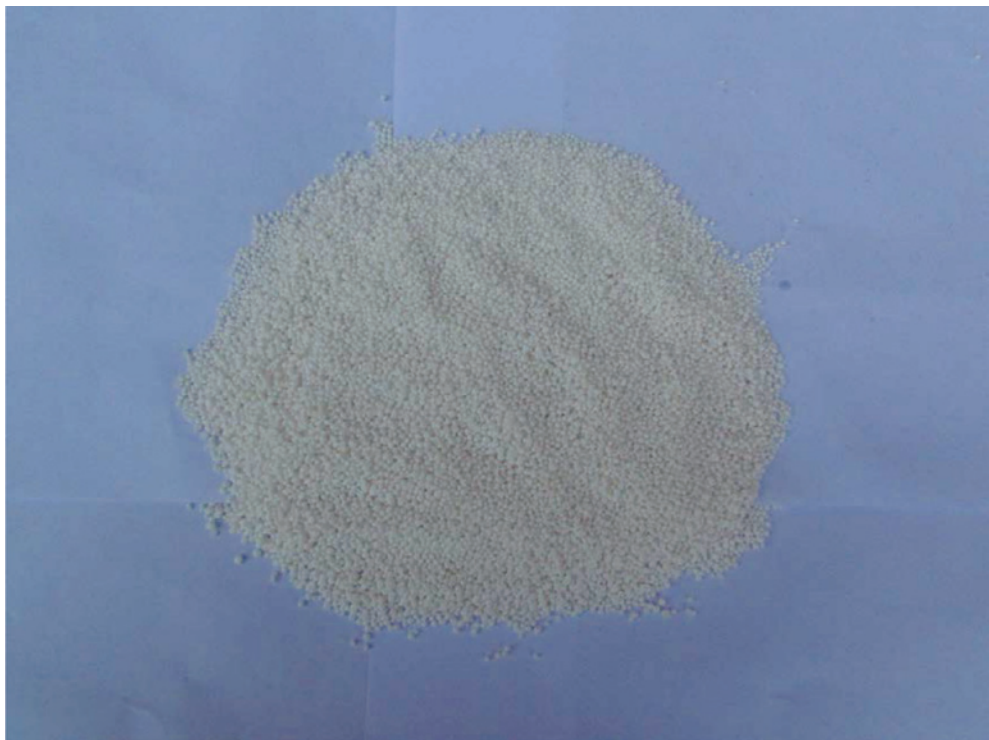


LETTER FROM THE BOARD

Site mixed emulsion explosives



ANFO explosives



LETTER FROM THE BOARD

Due to the high demand of civil explosives amid the fast growth of economy of Inner Mongolia and the limited supply of civil explosives primarily as a result of the restricted authorised limit of production volume by the relevant government authority in the PRC, there has been constant market demand of civil explosives and therefore the civil explosives manufactured and sold by the Target Group are generally not subject to seasonality. During the Relevant Period, price of the civil explosive products of the Target Group had demonstrated a downward trend. Such price trend was primarily due to (i) the price control mechanism of sales of civil explosive products in the PRC set by NDRC (which was abolished on 25 December 2014); and (ii) the dropping price of ammonium nitrate, a major production materials of the Target Group's civil explosives. Please refer to the paragraph headed "7. Information on the Target Group – (f) Business of the Target Group – Pricing policy" in this letter for details of the price control mechanism and the paragraph headed "7. Information on the Target Group – (f) Business of the Target Group – Production materials" in this letter for details of the price of production materials of the Target Group.

Provision of blasting operations and related services

The Target Group also provides a full range of blasting operations and related services to its customers depending on their needs ranging from storage of civil explosives, transportation of blasting equipment and civil explosives (to the extent that such transportation does not require specific permit pursuant to relevant rules and regulations of the PRC) to blasting project design, blasting operations such as drilling of boreholes, rock blasting and drilling blasting, and related consultation. Where customers engage the Target Group for provision of blasting operations services, the explosives used are usually manufactured by the Target Group. For the three years ended 31 March 2012, 2013 and 2014 and the nine months ended 31 December 2014, revenue from provision of blasting operations and related services accounted for approximately 0.01%, 1.29%, 4.66% and 3.06% of the Target Group's revenue respectively.

LETTER FROM THE BOARD

PRODUCTION

Operation flows

Civil explosives of the Target Group are manufactured in accordance with the purchase volume and time frame pursuant to the purchase orders made by its customers. The operation flow of the sale of civil explosives of the Target Group is outlined below:

Step	Description	Department(s) involved
1. Engaging customers	<p>In relation to new customers, as only customers with the requisite 民用爆炸物品購買許可證 (civil explosives purchase permit*) may purchase civil explosives from any particular supplier, it is not uncommon for the potential customers to approach the Target Group to enquire for the supply of civil explosives to them to meet their needs, and the procurement and sales department of the Target Group will handle these enquiries from time to time. In addition, the procurement and sales department of the Target Group may also proactively contact potential customers of the Target Group's products in proximity to the production plants of the Target Group to explore the feasibility of selling civil explosives to them to cater for their business needs and/or blasting projects.</p> <p>For existing customers, as mining and civil and infrastructure construction projects which require explosives for blasting normally last for a long period of time, existing customers would contact the procurement and sales department of the Target Group from time to time in accordance with their needs of civil explosives.</p>	Procurement and sales department
2. Entering into of framework sales agreement	The Target Group enters into framework sales agreement, usually annually, with customers in which the approximate purchase volume and other particulars of sales and purchase are set out. Please refer to the paragraph headed "7. Information on the Target Group – (f) Business of the Target Group – Customers" of this letter for further details of the framework sales and purchase agreements.	Procurement and sales department
3. Placing of order	After framework sales agreements are entered into, customers would place purchase orders with the Target Group to purchase civil explosives based on their business needs from time to time.	Procurement and sales department
4. Procurement of raw materials	Procurement and sales department purchases raw materials in accordance with the quantity of explosives to be manufactured.	Procurement and sales department

LETTER FROM THE BOARD

Step	Description	Department(s) involved	
5.	Checking and storage of raw materials	Upon delivery of raw materials, procurement and sales department conducts preliminary check on the raw materials delivered. Safety and quality control department then conducts sample check for raw materials. If the raw materials are found in order, they will be stored and ready for use in production. Please refer to the paragraph headed “7. Information on the Target Group – (f) Business of the Target Group – Quality control and safety – (2) Procurement and inventory quality control” of this letter for further details.	Procurement and sales department, Safety and quality control department
6.	Production	Please refer to the paragraph headed “7. Information on the Target Group – (f) Business of the Target Group – Production process” of this letter for details of production process of each category of civil explosive of the Target Group.	Production department
7.	In-process quality control	Please refer to the paragraph headed “7. Information on the Target Group – (f) Business of the Target Group – Quality control and safety – (3) Process quality control” of this letter for further details.	Production department, Safety and quality control department
8.	Product quality control	Please refer to the paragraph headed “7. Information on the Target Group – (f) Business of the Target Group – Quality control and safety – (4) Final quality control” of this letter for further details.	Safety and quality control department
9.	Stocking	Please refer to the paragraph headed “7. Information on the Target Group – (f) Business of the Target Group – Quality control and safety – (4) Final quality control” of this letter for further details.	Safety and quality control department
10.	Delivery or collection of products	Final products will be delivered to location specified by customers or collected by customers from warehouse of the Target Group. Where customers choose to collect the products at the warehouse of the Target Group themselves, the customers must present civil explosives transportation license obtained from the local public security bureau in accordance with 民用爆炸物品安全管理條例 (Regulations on Safety Management of Explosives for Civilian Use*) of the transporter or otherwise provide proof to the satisfaction of the Target Group that the transporter has the requisite qualification and license for transportation of the Target Group’s products.	Safety and quality control department, production department

LETTER FROM THE BOARD

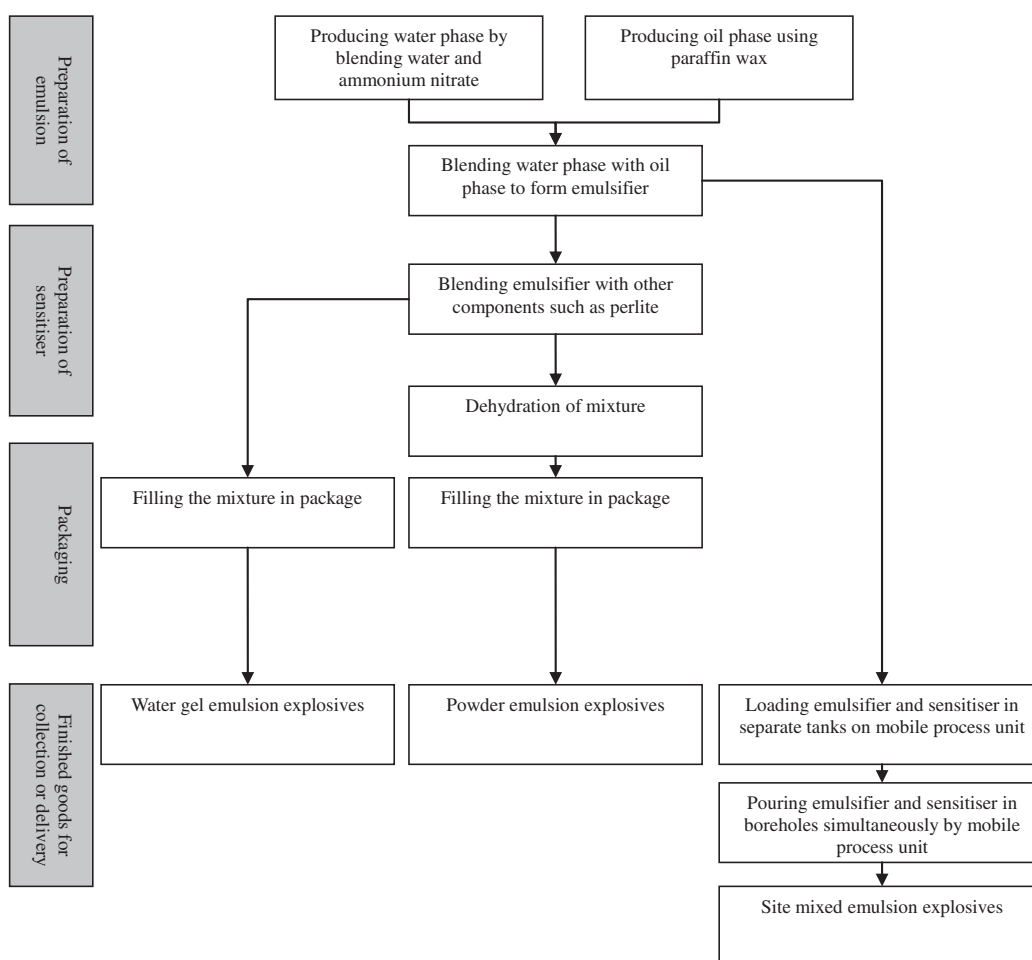
Step	Description	Department(s) involved
	<p>For binary explosives, the semi-finished products will be loaded onto mobile processing unit for mixing at the blasting site of customers.</p> <p>Please refer to the paragraph headed “7. Information on the Target Group – (f) Business of the Target Group – Subcontracting” of this letter for details of transportation and delivery of the finished goods.</p>	
11. Issue of invoice	Upon receipt of final products by customers, finance department will issue invoice to customers to arrange for settlement.	Finance department

LETTER FROM THE BOARD

Production process

Production process of emulsion explosives

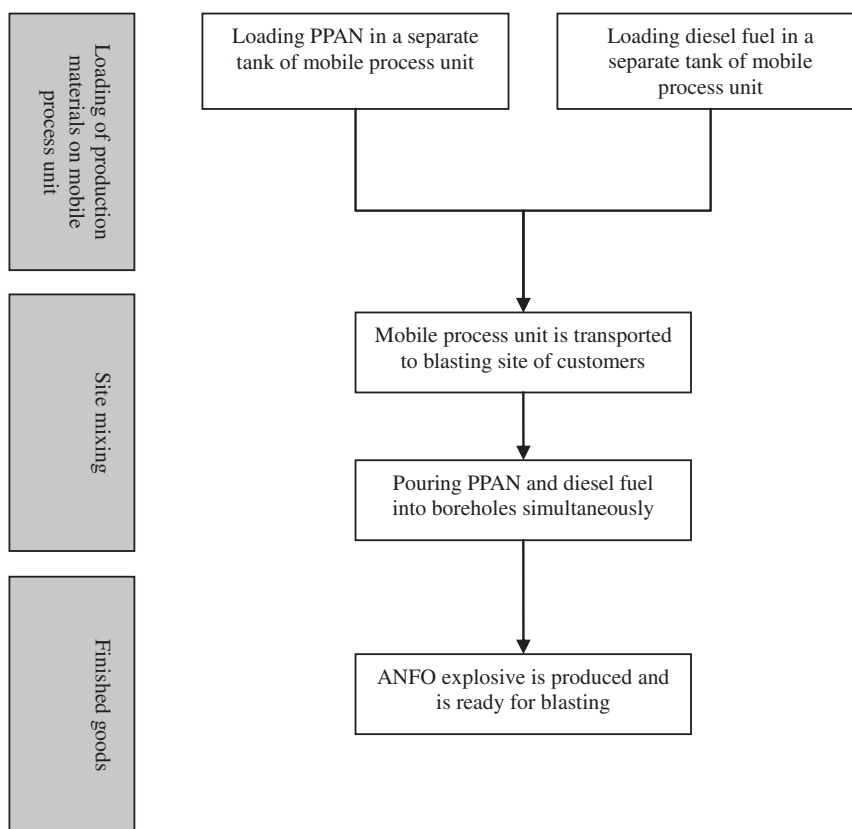
Based on the information provided by the Vendors and to the best of the Directors' Knowledge, information and belief having made all reasonable enquiries, the Directors estimate that the production lead time of emulsion explosives of the Target Group from processing of production materials to packaging of finished goods is within an hour. Under normal circumstances, for every hour of production, the Target Group can produce about 3.2 tonnes of water gel emulsion explosives, about 2.5 tonnes of powder emulsion explosives and about ten tonnes of site mixed emulsion explosives. The following diagram illustrates the major steps involved in the production process of emulsion explosives:



LETTER FROM THE BOARD

Production process of ANFO explosives

Based on the information provided by the Vendors and to the best of the Directors' Knowledge, information and belief having made all reasonable enquiries, the Directors estimate that the production lead time of ANFO explosives of the Target Group from processing of production materials to filling the explosives to boreholes is within an hour. Under normal circumstances, for every hour of production, the Target Group can produce about 8.5 tonnes of ANFO explosives. The following diagram illustrates the major steps involved in the production process of ANFO explosives:



Production facilities

The Target Group has two production plants located at Bayannur, Inner Mongolia, the PRC and one production plant located at Ordos, Inner Mongolia, the PRC. The production plants are located in proximity to areas concentrated with mining and other civil and infrastructure construction so as to minimise transportation costs and risks of explosion during transportation of explosives. For the purpose of production of emulsion explosives, the production plants are equipped with various production equipment including but not limited to explosives preparation stations, boiler facilities, oil tanks, loading machines, emulsion machines, packaging machines and power generators. For production of ANFO explosives and site mixed emulsion explosives, mobile processing units are used at the blasting site of customers. As at 31 December 2014, the Target Group had 12 mobile processing units for production of site mixed emulsion explosives and ANFO explosives.

LETTER FROM THE BOARD

The following table sets out a brief summary of the production plants of the Target Group as of 31 December 2014:

Location	Number of production lines	Gross floor area as of 31 December 2014
Bayinbaolige Town Urad Houqi Bayannur Inner Mongolia, the PRC (the “ Urad Houqi Plant ”)	2	Approximately 14,117 square metres
Hailiutu Town Urad Zhongqi Bayannur Inner Mongolia, the PRC (the “ Urad Zhongqi Plant ”)	1	Approximately 2,256 square metres
Qipanjing Town Otog Ordos Inner Mongolia, the PRC (the “ Ordos Plant ”)	2	Approximately 11,212 square metres

Under the relevant rules and regulations of the PRC (details of which are set out in the paragraph headed “7. Information on the Target Group – (d) Laws and regulations relating to the business of the Target Group” in this letter), production and sales volume of civil explosives shall be subject to an authorised limit as determined by the relevant government authority in the PRC. The tables below set out the authorised limits and the actual production and sales volume for each category of the civil explosives manufactured and sold by each of the production plants of the Target Group for each of the three years ended 31 December 2012, 2013 and 2014 and the three months ended 31 March 2015:

	For the year ended 31 December							For the three months ended 31 March				
	2012		2013		2014			2015				
	Authorised limit (tonne) (Note 1)	Actual production volume (tonne)	Actual sales volume (tonne)	Authorised limit (tonne) (Note 1)	Actual production volume (tonne)	Actual sales volume (tonne)	Authorised limit (tonne) (Note 1)	Actual production volume (tonne) (Note 2)	Actual sales volume (tonne) (Note 2)	Authorised limit (tonne) (Note 1)	Actual production volume (tonne)	Actual sales volume (tonne)
<i>Powder emulsion explosives</i>												
Urad Houqi Plant	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Urad Zhongqi Plant	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Ordos Plant	4,000	5,083.52	5,086.92	4,000	7,333.96	7,067.16	4,000	3,506.44	3,773.24	4,000	1,070.36	1,022.20
<i>Water gel emulsion explosives</i>												
Urad Houqi Plant	12,000	15,147.85	14,953.24	12,000	14,028.84	13,087.63	12,000	10,991.91	12,298.39	12,000	3,527.72	3,192.47
Urad Zhongqi Plant	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Ordos Plant	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
<i>Site mixed emulsion explosives</i>												
Urad Houqi Plant	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Urad Zhongqi Plant	Nil	Nil	Nil	5,000	7,070.64	7,070.64	5,000	12,901.46	12,901.46	5,000	3,811.76	3,811.76
Ordos Plant	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
<i>ANFO explosives</i>												
Urad Houqi Plant	16,000	20,733.68	20,778.84	11,000	18,499.46	17,858.46	11,000	11,854.40	12,645.52	11,000	2,013.76	1,957.04
Urad Zhongqi Plant	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Ordos Plant	28,000	31,690.04	31,518.16	28,000	28,725.76	27,857.12	28,000	20,744.88	21,824.96	28,000	7,288.08	7,257.76
TOTAL	60,000	72,655.09	72,337.16	60,000	75,658.66	72,941.01	60,000	59,999.09	63,443.57	60,000	17,711.68	17,241.23

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Notes:

- (1) *The authorised limit granted by the PRC government authority is for a 12-month period ending 31 December each year.*
- (2) *The actual sales volume was greater than the actual production volume because part of the sales of the civil explosives during the relevant financial year/period were attributable to sales of inventory of the Target Group manufactured during the prior financial year/period.*

Based on the figures set out above, the excessive volume of production for each of the two years ended 31 December 2012 and 2013 represents approximately 21.09% and 26.10%, respectively, of total authorised volume of production of the Target Group. While the Target Group has complied with the authorised limit for total production volume of civil explosives since 1 January 2014, the production and sales volume of site mixed emulsion explosives and ANFO explosives at each production facility of the Target Group had exceeded the applicable authorised limits for the relevant category of the civil explosives for that production plant. The Target Group has complied with the authorised limit for the production and sales volume of each category of the civil explosives at each of the production facilities of the Target Group since 1 January 2015. On the above basis and with reference to the financial information of the Target Group for the Relevant Period as set out in Appendix II to this circular, the Directors are of the view that even if the production and sales volume of the Target Group for each of the two years ended 31 December 2012 and 2013 had not exceeded the authorised limit, the Target Group would have had been profit making throughout the Relevant Period. The excessive production and sales during each of the two years ended 31 December 2012 and 2013 was primarily due to the following reasons:

- (i) fast development of mining industry in Inner Mongolia in recent years which leads to substantial increase in demand for civil explosives;
- (ii) the senior management of each of Shengan Chemical (Bayannur), Shengan Chemical (Urad Middle Banner) and Shengan Chemical (Otog Banner) involved in monitoring and determining the production and sales volume lacked sufficient understanding for the relevant legal requirements. Before the Relevant Period, in light of the excessive production and sales, the Target Group had applied to the relevant PRC government authority for the increase in the authorised limit for the production and sales volume of civil explosives for a few times. For the purpose of such application, the Target Group had to submit, among others, information in relation to the Target Group's historical production and sales volume of civil explosives of the Target Group to the relevant PRC authority. As the Target Group had been granted the approval for the increase of authorised limit despite the past excessive production and sales, the senior management of the Target Group had misapprehended the retrospective application for the increase of the authorised limit as an acceptable practice;

LETTER FROM THE BOARD

- (iii) during each of the three years ended 31 December 2014, although the Target Group had applied to the relevant PRC government authority for the increase of the authorised limit and had obtained the approval for the increase, as the growth rate of mining industry in Inner Mongolia and the demand for civil explosives was much faster than the growth rate expected by the Target Group and the relevant PRC government authority, the increased authorised limit could not meet the demand and actual production volume; and
- (iv) as it takes time by the relevant government authority to review, assess and approve the application for increase of authorised limit, the Target Group could not obtain approval for the increased authorised limit timely in response to the increasing market demand from time to time. The Target Group applied to the relevant government authority for the increase of authorised limit from 60,000 tonnes per year to 98,000 tonnes per year in December 2013 (the application for increase in authorised limit was subsequently adjusted downward to 78,700 tonnes per year in January 2015 (details of the application are set out in the table under the paragraph headed “7. Information on the Target Group – (f) Business of the Target Group – Legal compliance” in this letter)), which was still being processed by the relevant government authority as at the Latest Practicable Date. After the date of dispatch of the Circular, the Company will from time to time disclose the status for the application of the increase in the authorised limit of the Target Group by way of an announcement.

Please refer to the paragraph headed “7. Information on the Target Group – (f) Business of the Target Group – Legal compliance” in this letter for details of the reason, legal consequence and potential maximum penalties and other financial losses of the default in exceeding authorised limit of production volume.

The major production machineries used in the Target Group’s productions are all owned by the Target Group. Based on the information provided by the Vendors and to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, the Directors estimate that the replacement cycle of the production machineries of the Target Group ranges from approximately five to 10 years which is roughly the same as their estimated service life. Also, pursuant to relevant rules and regulations of the PRC, some production machineries of the Target Group have to be replaced within a prescribed period of time. Based on the information provided by the Vendors and to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, given that the production technology for civil explosives has not undergone radical change, production machineries of the Target Group can be fine-tuned to cope with its customers’ specific requirements during the life span of their service life. However, in case there is any significant change in production technology or emergence of any new innovative methods in production, the Target Group will have to review the capability and

LETTER FROM THE BOARD

efficiency of its production machineries to determine whether new and more advanced machinery has to be purchased in place of the existing machineries.

PROVISION OF BLASTING OPERATIONS AND RELATED SERVICES

Operation flows

The blasting operations and relative services provided by the Target Group vary according to the specific needs of and negotiation with each customer. For illustration purpose, the operation flow of the provision of blasting operation and related services of the Target Group is outlined below:

Step	Description	Department(s) involved
1. Engaging customers	<p>Procurement and sales department of the Target Group contact mining companies and civil and infrastructure construction companies in proximity to the production plants of the Target Group for the feasibility of providing its blasting operation and related services for the mining projects or civil and infrastructure construction projects.</p> <p>The procurement and sales department will submit quotation to potential customers for the services required.</p>	Procurement and sales department
2. Entering into of service agreement	Upon negotiation with customers and confirmation of the quotation, the Target Group enters into service agreement, on a project-by-project basis, setting out details of the service required, including but not limited to, technical specification, consideration, procurement of raw materials and explosives required for blasting operation, time frame and personnel involved.	Procurement and sales department
3. Confirmation of service proposal with customers	Safety and quality control department decides the blasting operation plan for customers' approval.	Safety and quality control department
4. Procurement	Upon customers' approval of the blasting operation plan, procurement and sales department will procure materials and equipment required for blasting operation or related services, including but not limited to explosives, electronic detonator and nonel.	Procurement and sales department

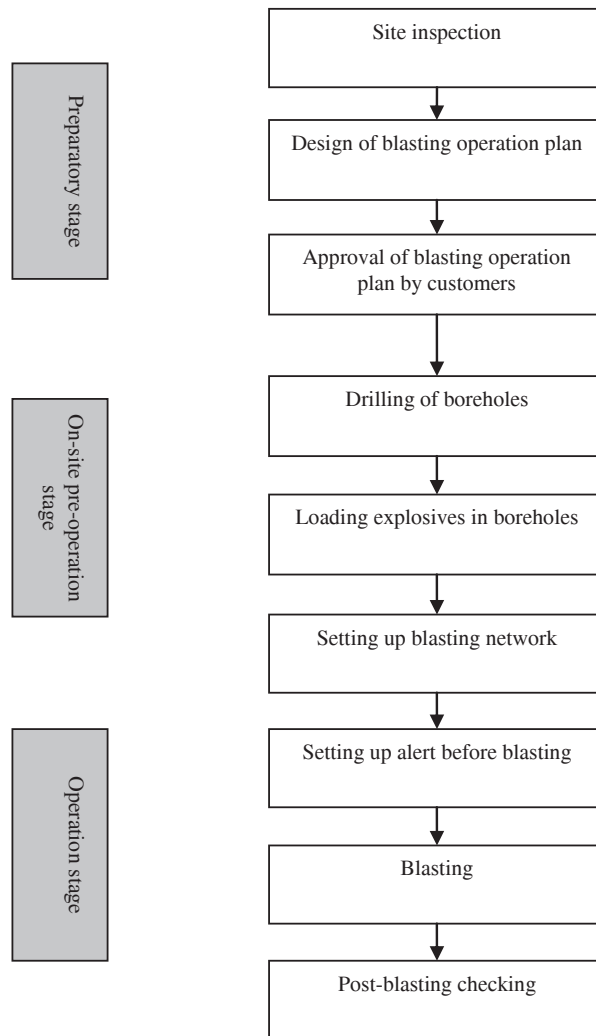
LETTER FROM THE BOARD

Step	Description	Department(s) involved
5. Transportation of required materials and equipment	Required materials and equipment will be delivered to the blasting site of customers. For transportation of materials and equipment that is subject to the requisite qualification and license under the applicable PRC law, the Target Group will engage third party transportation service provider for transportation of such materials and equipment. Please refer to the paragraph headed “7. Information on the Target Group – (f) Business of the Target Group – Subcontracting” of this letter for details of transportation and delivery of the materials and equipment required for blasting operations and related services.	Procurement and sales department, production department
6. Provision of service	Provision of service on the blasting site.	Safety and quality control department
7. In-process quality control	Safety and quality control department supervises the operations to ensure that the blasting operations are carried out properly.	Safety and quality control department
8. Payment of service fee	Generally, service fee shall be paid by customers monthly based on the progress of the service.	Finance department

LETTER FROM THE BOARD

Process of blasting operation

The following diagram illustrates the major steps involved in the process of blasting operation:



Note: depending on the need of the customers, the Target Group may or may not be involved in all the process of blasting operations above.

In performing the blasting operations and related services of the Target Group, various equipments are used, such as excavators, compressors and drilling machines. The major production machineries used in the Target Group's blasting operations and related services are all owned by the Target Group. To the best of the Directors' Knowledge, information and belief having made all reasonable enquiries, the replacement cycle of the machineries of the Target Group is around 10 years which is roughly the same as their estimated service life.

LETTER FROM THE BOARD

QUALITY CONTROL AND SAFETY

The Target Group's commitment to quality and safety has been reflected in its procurement, production process and products. As confirmed by the Vendors and to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, as at the Latest Practicable Date, the Target Group had not received any material claim or complaint about the quality of its products.

As at 31 December 2014, the Target Group had 30 personnel in its safety and quality control department who were responsible for quality control. Most of the quality control staff of the Target Group held a diploma in vocational education or a bachelor's degree, had attended related courses such as trainings courses for senior laboratory technicians and had obtained professional qualifications required for operation of the Target Group's business such as 爆破作業人員許可證 (blasting operations officer license*). The safety and quality control department of the Target Group is designated to maintain and operate quality control system of the Target Group in order to comply with the requirements specified by each customer and the relevant rules and regulations in the PRC. Based on the information provided by the Vendors and to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Directors are of the view that the rate of product return, replacement or refund arising from defects in products was consistently low during the Relevant Period. The objective of the Target Group is to keep defective rate as low as possible by imposing the following quality control procedures on the maintenance of examination and production equipment, selection and testing of raw materials, work-in-progress and the finished goods throughout the production process.

The Target Group has obtained GB/T19001-2008/ISO 9001:2008 (Quality Management System Certificate) and GB/T 28001-2011/OHSAS 18001:2007 (Occupational Health and Safety Management System Certificate) for its efforts in quality control and production safety by application to the relevant accreditation bodies and such accreditation was still valid as at the Latest Practicable Date.

The Target Group's major quality control procedures are as follows:

(1) Equipment quality control

To ensure the accuracy and effectiveness of quality control of the raw materials, machinery and products of the Target Group, the Target Group uses specific examination machineries for various examination and testing procedures. The safety and quality control department of the Target Group keeps record for the name, specification, usage, location and examination records of the examination equipment and production equipment used by the Target Group. The equipment is examined regularly by both quality control personnel of the Target Group and external licensed technicians in accordance with the applicable rules and regulations of the PRC and/or the internal policy of the Target Group. The examination equipment and production equipment should be operated in accordance with its user manual. Where any examination equipment or production equipment is found to be defective, it shall not be used anymore until it is fixed.

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(2) Procurement and inventory quality control

Upon delivery of raw materials, procurement and sales department of the Target Group conducts preliminary check on the raw materials delivered to ensure that they comply with the quantity and quality requirements as stated in the relevant procurement orders. After that, a preliminary examination report is delivered to the safety and quality control department which will then conduct sample check to test various respects of raw materials, including drop melting point, oil content, flashpoint, viscosity, penetration, moisture and appearance of raw materials. If the raw materials are found to be in order, they will be stored in the warehouses and will be ready for use in production. Sub-standard or defective raw materials will be returned to the suppliers. Where raw materials which have passed the sample check are subsequently found to be defective in the inventory or during production process, the defects will be reported to safety and quality control department so that such raw materials will be re-examined to see if they are fit for use. For details of quality control over suppliers and production materials of the Target Group, please refer to the paragraph headed “7. Information on the Target Group – (f) Business of the Target Group – Suppliers” of this letter.

To ensure the safety of the inventory of the Target Group, comprising production materials and finished goods, the Target Group has internal regulations for storage of the inventory to regulate various matters including but not limited to location, density, distance and labelling of inventory. In addition, staffs who enter the storage room shall wear antistatic clothing and are prohibited to carry any flammable items such as matches and lighters.

(3) Process quality control

To ensure the quality of production process and to adhere to customers’ requirements on products’ specification, production department performs sampling tests on semi-finished products and make records for the specifications. Only semi-finished products which have passed the sampling tests can proceed to the next stage of production. For key production procedures, technicians inspect and supervise such production procedures closely to ensure that they are in accordance with the relevant production protocol such that work-in-progress and finished goods can meet the required standards and customers’ specification.

(4) Final quality control

Safety and quality control department inspects, tests and produces product quality control reports on the specifications, functions, performances, packaging and safety of the final products in accordance with the Target Group’s quality control guidelines. This is to ensure that the finished goods comply with all the customers’ specifications, national standards, industry standard and the internal quality control regulations of the Target Group. If any finished goods is found to be defective during inspection, the defective products are dealt with in accordance with the non-conformities control procedure. Final

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products which have passed the quality control examination will be stocked for delivery to customers or collection by customers. Where final products are stocked in warehouse for more than 60 days, they will be re-examined by the safety and quality control department to ensure the quality of these finished goods.

(5) After-sale quality control

After the final products are delivered to the customers or picked up by customers, the procurement and sales department of the Target Group will contact its customers through telephone conversations, questionnaire and meeting so as to obtain feedbacks from customers. Where products are reported to be defective, the Target Group will ratify the defects by way of replacement of goods, or by refund of the purchase price, depending on results of negotiation with customers and magnitude of defects.

Please refer to the paragraph headed “7. Information on the Target Group – (f) Business of the Target Group – Occupational health and safety” in this letter for occupational safety of the Target Group.

(6) Subcontracting quality control

Please refer to the paragraph headed “7. Information on the Target Group – (f) Business of the Target Group – Subcontracting” in this letter for details of the Target Group’s quality control over its subcontractors.

PRICING POLICY

In the past, civil explosive products in the PRC were subject to price control. The NDRC used to set reference prices for civil explosive products based on circumstantial factors such as supply level of the energy required for production and prices of ammonium nitrate and other raw materials. Pursuant to the decision by the NDRC in 2008, the sale prices of civil explosive products must be within the range of 15% above or below the reference prices.

Pursuant to 《關於放開民爆器材出廠價格有關問題的通知》(Notice on Issues Concerning the Liberation of the Sale Price of Explosives for Civilian Use*) issued by the NDRC, with effect from 25 December 2014, price control of civil explosives has been revoked and therefore enterprises will be free to trade civil explosives at such prices as they think fit using the prevailing market price (the “**Abolishment**”). The Directors’ are of the view that the Abolishment is only one of the many different factors affecting the business performance and profitability of the Target Group and, up to the Latest Practicable Date, the Directors were not aware of any significant pricing pressure or other material adverse impact on the business performance and/or profitability of the Target Group that is directly and solely attributable to the Abolishment. Please refer to “7 Information on the Target Group – (h) Financial information and management discussion and analysis of the Target Group” for discussion on and analysis for the financial performance of the Target Group during the Relevant Period.

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The price determination committee of the Target Group fixes the price of its products and services on a cost plus profit margin basis by taking into account various factors, including but not limited to: (i) technological requirements; (ii) volume of purchase; (iii) production, transportation and insurance costs; (iv) price of raw materials; (v) scale of blasting operation of the customers; (vi) quality control requirements; (vii) market prices; and (viii) product and service type.

PRODUCT RETURNS AND WARRANTIES

The Target Group recognises that the quality of its explosive products is crucial to the goodwill and image of the Target Group and safety. The procurement and sales department of the Target Group is responsible for processing customers' complaints. Where customers have filed any complaint, relevant personnel of the production department and safety and quality control department of the Target Group will contact such customers to follow up the defects by way of phone discussion and visiting the warehouse or operation site of its customers to determine whether the defective products shall be refunded or replaced or whether damages will be paid to customers.

As confirmed by the Vendors and to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, during the Relevant Period, the Target Group had not encountered any major product return or claims from its customers nor had the Target Group received any material complaints because of defective products.

CUSTOMERS

For the three years ended 31 March 2012, 2013 and 2014 and the nine months ended 31 December 2014, the Target Group's revenue amounted to approximately RMB355.72 million, RMB393.65 million, RMB405.78 million and RMB268.16 million respectively. During the Relevant Period, all revenue and operating profit of the Target Group were generated in the PRC and none of the products of the Target Group was sold to overseas.

Customers of the Target Group are divided into two categories, namely, (1) explosive purchasers which include (a) civil explosive products resellers which in turn sell civil explosives to end-users; and (b) end-users, such as mining companies, civil and infrastructure construction companies whose operations and projects require the use of civil explosives for blasting; and (2) customers which require blasting services and/or blasting-related consultation services. The Target Group has a diversified customer base. As of 31 December 2014, the Target Group had around 80 customers. For each of the three years ended 31 March 2014 and nine months ended 31 December 2014, there were only two major customers, the sales to each of which accounted for more than 10% of the Target Group's revenue.

Some of the civil explosive products of the Target Group are sold to civil explosive products resellers. Under 《民用爆炸物品安全管理條例》(Regulations on Safety Management of Explosives for Civilian Use*) in the PRC, enterprises wishes to purchase civil explosives

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from any particular supplier (including civil explosives manufacturers or resellers) must first apply for and obtain the 民用爆炸物品購買許可證 (civil explosives purchase permit*) (the “**Purchase Permit**”) from local public security bureau. As advised by the PRC Legal Advisers, local public security bureau would consider each application for the Purchase Permit on a case-by-case basis based on, among other factors, volume of purchase, transportation distance between the purchaser and the relevant civil explosives supplier, suitability of transportation and warehouse facilities of the purchaser. For instance, where an end-user does not have the requisite transportation facility for transportation of civil explosives from a distant civil explosives manufacturer, or does not have the requisite warehouse facilities for bulk purchases of civil explosives directly from civil explosives manufacturer, it may need to rely on purchases from local resellers which may have the requisite transportation and/or warehouse facilities for bulk purchases from civil explosives manufacturers directly. On the above basis, the Directors consider that sales by the Target Group to both civil explosives resellers and end-users are in line with the industrial norm and the relevant rules and regulations in the PRC.

In relation to explosive purchaser customers, the Target Group enters into framework sales and purchase agreements with them. These framework agreements generally contain the following terms which are legally binding:

- (i) term: the framework agreements are generally for a term of one year;
- (ii) purchase volume forecast: the intended volume of purchase is specified in terms of tonnes;
- (iii) pricing: pricing of products is subject to negotiation between the parties when purchase order is made by customers;
- (iv) quality assurance: the quality and product standards must comply with the specification required by customers and national standards; and
- (v) method and cost of delivery: finished products shall either be delivered by the Target Group or picked up by its customers. Where products are delivered by the service provider engaged by the Target Group, framework agreements specify which party shall bear the transportation costs.

There is no minimum purchase commitment by the customers under these framework agreements. Customers may include additional requirements in subsequent purchase orders to meet their needs. At the time when purchase orders are made, customers must present their Purchase Permit obtained from the local public security bureau in accordance with 民用爆炸物品安全管理條例 (Regulations on Safety Management of Explosives for Civilian Use*) in respect of the purchase made under such purchase orders.

In addition, to strengthen the business relationship between the Target Group and one of its major customers, being Customer D as referred to below, which was an Independent Third Party and the sole customer of Urad Zhongqi Plant as at the Latest

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Practicable Date, on 26 May 2014, Shengan Chemical (Inner Mongolia), on behalf of the Target Group, entered into a framework agreement with Customer D containing the following material terms which are legally binding:

- (i) term: the framework agreement is for a term of 10 years from 19 May 2014 to 19 May 2024. Upon expiry of the framework agreement, the party shall have priority over any third party to renew this framework agreement under the same terms and conditions;
- (ii) products: Shengan Chemical (Urad Middle Banner) is responsible for the production, supply, transportation and security of site mixed emulsion explosives to be used in open pit gold mine of Customer D, which is adjacent to the Urad Zhongqi Plant, in such quantity based on production plan of Customer D to be provided to the Target Group from time to time. Shengan Chemical (Urad Middle Banner) shall also be responsible for the technical support and loading of the explosives into boreholes at the blasting site. There is no minimum purchase commitment by Customer D under such framework agreement;
- (iii) pricing: unit price of the site mixed emulsion explosives per tonne has been fixed and stipulated in the framework agreement which had been determined by the parties with reference to the then product costs and market price of similar products. In the event that price of raw materials required for production fluctuates to the extent of more than 10%, subject to confirmation by both parties in writing, unit price of the site mixed emulsion explosives shall be adjusted accordingly provided that the adjusted unit price shall not be higher than the then market unit price of similar products. Otherwise, the customer has the right to purchase the same products from other third party(ies);
- (iv) land: the parcel of land where Urad Zhongqi Plant is located shall be leased to Shengan Chemical (Urad Middle Banner) for use for free but the water and electricity expenses thereon shall be borne by the Target Group;
- (v) sale to third parties: provided that production need of Customer D is satisfied, Shengan Chemical (Urad Middle Banner) has the right to use its mobile processing unit located at Urad Zhongqi Plant to produce and sell its explosives to third parties;
- (vi) termination: where production system of the Urad Zhongqi Plant is suspended or defective as a result of Customer D's improper use of site mixed emulsion explosives on the blasting site or Urad Zhongqi Plant or the suspension or defects is caused by other defaults of Customer D, the Target Group shall have the right to terminate the framework agreement and claim against Customer D for damages; and

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- (vii) change of circumstances: in the event of any material change of market or other circumstances such that the mining projects of Customer D cannot be operated, the parties will negotiate so as to mitigate the loss to be suffered by the Target Group.

In relation to customers which require blasting operations and related services from the Target Group, the Target Group enters into service agreement with its customers on a project-by-project basis setting out details of the service required, including but not limited to, technical specification, consideration, procurement of raw materials and explosives required for blasting operation, time frame and personnel involved.

Major customers of the Target Group are principally engaged in sale of civil explosive products and equipment and mining or civil and infrastructure constructions. The Target Group has established long term relationships with its top five customers, ranging from about one to six years, and is a consistent supplier to them. For the years ended 31 March 2012, 2013 and 2014 and the nine months ended 31 December 2014, revenue contributed by the Target Group's largest customer amounted to approximately RMB149.78 million, RMB163.08 million, RMB104.20 million and RMB71.83 million respectively, representing approximately 42.11%, 41.43%, 25.68% and 26.78% of the turnover of the Target Group respectively. For the years ended 31 March 2012, 2013 and 2014 and the nine months ended 31 December 2014, revenue from the Target Group's five largest customers, in aggregate, amounted to approximately RMB310.34 million, RMB331.65 million, RMB260.73 million and RMB169.75 million respectively, representing approximately 87.24%, 84.25%, 64.25% and 63.30% of the total revenue of the Target Group respectively. The following table sets forth information of the Target Group's five largest customers for each of the three years ended 31 March 2014 and the nine months ended 31 December 2014:

Customers	Nature of main business of the customer	For the year ended 31 March 2012		Credit terms (Note)	Percentage of total turnover of the Target Group (%)
		Length of relationship with the Target Group as at 31 December 2014 (years)			
Ordos Beian	Sales of civil explosive products	5		N/A	42.11
Customer A	Sales of civil explosive products	6		N/A	26.19
Customer B	Sales of civil explosive products	4		N/A	8.18
Antai Explosives	Sales of civil explosive products	5		N/A	6.95
Customer C	Sales of civil explosive products	3		N/A	3.82

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For the year ended 31 March 2013					
Customers	Nature of main business of the customer	Length of relationship with the Target Group as at 31 December 2014 (years)		Credit terms (Note)	Percentage of total turnover of the Target Group (%)
		Ordos Beian	Sales of civil explosive products		
Customer A	Sales of civil explosive products	6		N/A	21.26
Customer D	Gold mining	6		N/A	9.53
Customer C	Sales of civil explosive products	3		N/A	7.16
Antai Explosives	Sales of civil explosive products	5		N/A	4.87

For the year ended 31 March 2014					
Customers	Nature of main business of the customer	Length of relationship with the Target Group as at 31 December 2014 (years)		Credit terms (Note)	Percentage of total turnover of the Target Group (%)
		Ordos Beian	Sales of civil explosive products		
Customer D	Gold mining	6		N/A	22.76
Customer E	Blasting operation service provider	1		N/A	6.53
Inner Mongolia Shuangli	Ironore mining	6		N/A	4.70
Customer F	Blasting operation service provider	1		N/A	4.58

For the nine months ended 31 December 2014					
Customers	Nature of main business of the customer	Length of relationship with the Target Group as at 31 December 2014 (years)		Credit terms (Note)	Percentage of total turnover of the Target Group (%)
		Customer D	Gold mining		
Ordos Beian	Sales of civil explosive products	5		N/A	20.10
Inner Mongolia Shuangli	Ironore mining	6		N/A	6.94
Customer E	Blasting operation services provider	1		N/A	4.93
Customer G	Coal mining	2		N/A	4.55

Note: In general, the Target Group issues invoices to customers by the end of each month based on the actual volume of purchase of explosives, the unit price agreed and the actual progress of the services provided. Customers are required to settle the payments by way of bank transfer or bill upon receipt of the invoices.

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As industry of customers of the Target Group is highly confined to their geographical position, new business opportunities for the Target Group arises when a new mining site is established or when the Target Group established a new production plant in proximity to potential customers. Procurement and sales department of the Target Group would approach new end-user customers and civil explosive product reseller customers which establish their business or mining sites in the proximity to the production plants of the Target Group for potential sale of explosive products or provision of blasting operations and related services.

During the Relevant Period, save for Ordos Beian which was a fellow subsidiary of Jungar Banner Lida which owned 40% interest in the registered capital of Shengan Chemical (Inner Mongolia), none of the Directors or any of their respective close associates or any Shareholder (who or which owns more than 5% of the issued share capital of the Company immediately following the issue of the Conversion Shares) has any interest in the Target Group's five largest customers. As at the Latest Practicable Date, the Target Group's five largest customers to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, were all Independent Third Parties.

CREDIT POLICY AND CREDIT MANAGEMENT

The procurement and sales department of the Target Group is responsible for determining credit terms of its customers. The settlement and credit terms granted to its customers are determined with reference to, among other things, (i) financial position; (ii) credit history; (iii) length of business relationship; (iv) volume of order; and (v) market share and prospect of customers.

In general, the Target Group issues invoices to customers by the end of each month based on the actual volume of purchase of explosives, the unit price agreed and the actual progress of the services provided. Customers are required to settle the payments by way of bank transfer or bill upon receipt of the invoices. The Target Group's trade receivables for the three years ended 31 March 2012, 2013 and 2014 and the nine months ended 31 December 2014 were approximately RMB35.40 million, RMB23.05 million, RMB69.29 million and RMB47.72 million respectively. In addition, the Target Group's bills receivables for the three years ended 31 March 2012, 2013 and 2014 and the nine months ended 31 December 2014 were approximately RMB34.68 million, RMB158.73 million, RMB59.65 million and RMB79.97 million respectively.

The procurement and sales department of the Target Group is responsible for the monitoring procedures to ensure that follow-up action is taken to recover overdue debts. If customers have overdue payments, as a general guideline, the procurement and sales department will determine the proposal of recovering of overdue debts based on business relationship with and credit history of the relevant customers and amount of overdue payment. The procurement and sales department will follow up with customers for settlement of payment by phone calls and keep written records for the status and expected amount and date of settlement as agreed between the Target Group and such customers.

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The following table is an ageing analysis of trade receivables based on invoice date during the Relevant Period:

	As at 31 March			As at
	2012	2013	2014	31 December
	RMB'000	RMB'000	RMB'000	2014
0 to 30 days	35,095	19,537	31,394	3,629
31 to 90 days	–	3,181	20,839	27,037
91 to 365 days	81	333	17,054	14,275
Over 1 year	<u>220</u>	<u>–</u>	<u>–</u>	<u>2,778</u>
	<u>35,396</u>	<u>23,051</u>	<u>69,287</u>	<u>47,719</u>

SUPPLIERS

The production materials purchased by the Target Group mainly comprised ammonium nitrate, PPAN, paraffin wax, compound wax, emulsifier, diesel fuel and perlite. In order to maintain the quality and stability of the production materials procured, the Target Group has developed long-term relationships with its top five suppliers ranging from one to seven years.

The Target Group sources production materials from various suppliers which can meet the standards of the Target Group and the relevant rules and regulations in the PRC so as to reduce reliance on any single supplier. Save for specific production materials which can only be procured from one supplier, the Target Group sources major production materials from at least two suppliers. During the Relevant Period, all the major suppliers of the Target Group were located in the PRC whose major businesses were relating to trading of fuel oil and chemicals. To ensure the stable supply of production materials and to better control the product costs despite potential fluctuation of price of raw materials, the Target Group enters into framework procurement agreements with its major suppliers. These framework agreements generally contain the following terms that are legally binding:

- (i) term: the framework agreements are generally for a term of one year;
- (ii) purchase volume forecast: the intended volume of purchase is specified in terms of tonnes. There is no minimum purchase commitment by the Target Group for the purchase of production materials under the framework agreements;
- (iii) pricing: pricing of production materials is either (a) specified therein but subject to adjustment in the event of change of market price; or (b) subject to negotiation at the time when purchase order is made;

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- (iv) quality assurance: the quality and product standards must comply with the specification required by the Target Group and national standards; and
- (v) method and cost of delivery: production materials shall either be delivered by the suppliers or picked up by the Target Group. The party whom shall bear transportation costs is specified. Generally, framework agreements also specify details of packaging of production materials.

The purchase volume specified under these framework agreements is an estimated volume only and the time and volume of purchase is subject to separate purchase orders. The Target Group may include additional requirements in subsequent purchase orders to meet its needs.

As confirmed by the Vendors and to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, during the Relevant Period, the Target Group had not encountered any material difficulties in the procurement of production materials from its suppliers and there had been no material legal dispute between the Target Group and its suppliers. The Target Group has implemented procedures in selecting and monitoring its suppliers so as to ensure the quality and lead time of production materials procured are in line with the operation needs of the Target Group. When choosing a new supplier, apart from the quality of sample production materials supplied by the new supplier, the Target Group also takes into account the commercial viability of the terms of supply such as the cost of purchase, credibility of suppliers and the principle of proximity.

As all the suppliers are located in the PRC, the payments made to suppliers are dominated in RMB. The Target Group settled its purchases with its suppliers by way of bill and bank transfer. In general, the Target Group is required to settle the payments to its suppliers upon receipt of invoices from its suppliers.

For the three years ended 31 March 2012, 2013 and 2014 and the nine months ended 31 December 2014, the Target Group's largest supplier purchases accounted for approximately 69.63%, 35.01%, 46.17% and 40.67% of the Target Group's total purchases respectively and the Target Group's five largest suppliers accounted for approximately 83.01%, 74.21%, 75.41% and 70.74% of the Target Group's total purchases respectively.

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The following table sets forth information of the Target Group's five largest suppliers for each of the three years ended 31 March 2014 and the nine months ended 31 December 2014:

Suppliers	For the year ended 31 March 2012		Length of relationship with the Target Group as at 31 December 2014 (years)	Credit terms (Note)	Percentage of total Purchases of the Target Group (%)
	Nature of main business of the supplier	Production materials purchased/ services obtained			
Supplier A	Sales of ammonium nitrate and PPAN	Ammonium nitrate and PPAN	4	N/A	69.63
Supplier B	Sales of diesel fuel, gasoline and natural gas	Diesel fuel	6	N/A	7.70
Supplier C	Manufacture and sale of ammonium nitrate and PPAN	Ammonium nitrate and PPAN	3	N/A	2.47
Supplier D	Manufacture and sale of sodium nitrate	Sodium nitrate	6	N/A	1.70
Supplier E	Manufacture and sale of paraffin wax	Paraffin wax	4	N/A	1.51
Suppliers	For the year ended 31 March 2013		Length of relationship with the Target Group as at 31 December 2014 (years)	Credit terms (Note)	Percentage of total Purchases of the Target Group (%)
	Nature of main business of the supplier	Production materials purchased/ services obtained			
Supplier A	Sales of ammonium nitrate and PPAN	Ammonium nitrate and PPAN	4	N/A	35.01
Supplier F	Manufacture and sales of ammonium nitrate and PPAN	Ammonium nitrate and PPAN	7	N/A	20.61
Supplier B	Sales of diesel fuel, gasoline and natural gas	Diesel fuel	6	N/A	7.87
Supplier G	Provision of transportation services	Transportation services	4	N/A	6.17
Supplier H	Manufacture and sale of ammonium nitrate and PPAN	Ammonium nitrate and PPAN	2	N/A	4.55

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For the year ended 31 March 2014

Suppliers	Nature of main business of the supplier	Production materials purchased/ services obtained	Length of relationship with the Target Group as at 31 December 2014 (years)	Credit terms (Note)	Percentage of total Purchases of the Target Group (%)
Supplier A	Sales of ammonium nitrate and PPAN	Ammonium nitrate and PPAN	4	N/A	46.17
Supplier F	Manufacture and sales of ammonium nitrate and PPAN	Ammonium nitrate and PPAN	7	N/A	13.03
Supplier B	Sales of diesel fuel, gasoline and natural gas	Diesel fuel	6	N/A	9.00
Supplier H	Manufacture and sales of ammonium nitrate and PPAN	Ammonium nitrate	2	N/A	4.37
Shengan Transport	Provision of transportation services	Transportation services	1	N/A	2.84

For the nine months ended 31 December 2014

Suppliers	Nature of main business of the supplier	Production materials purchased/ services obtained	Length of relationship with the Target Group as at 31 December 2014 (years)	Credit terms (Note)	Percentage of total Purchases of the Target Group (%)
Supplier A	Sales of ammonium nitrate and PPAN	Ammonium nitrate and PPAN	4	N/A	40.67
Supplier F	Manufacture and sales of ammonium nitrate and PPAN	Ammonium nitrate and PPAN	7	N/A	9.69
Supplier I	Manufacture and sales of PPAN	PPAN	2	N/A	8.32
Supplier H	Manufacture and sales of ammonium nitrate and PPAN	Ammonium nitrate	2	N/A	7.73
Supplier B	Sales of diesel fuel, gasoline and natural gas	Diesel fuel	6	N/A	4.33

Note: in general, the Target Group is required to settle the payments to its suppliers upon receipt of invoices from its suppliers.

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The Target Group has a diversified supplier base. As of 31 December 2014, the Target Group had more than 70 suppliers. For each of the three years ended 31 March 2014 and nine months ended 31 December 2014, there were only one, three, two and two major suppliers respectively, the purchase from each of which accounted for more than 10% of the Target Group's total purchase.

Save for Shengan Transport which is owned as to approximately 90.91% by the brother-in-laws of Mr. Ma Qiang, being the Company's non-executive director, Chairman and controlling Shareholder, none of the Directors or any of their respective close associates or any Shareholder (who or which owns more than 5% of the issued share capital of the Company immediately following the issue of the Conversion Shares) has any interest in the Target Group's five largest suppliers during the Relevant Period. As at the Latest Practicable Date, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Target Group's five largest suppliers were all Independent Third Parties.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, save that (i) there are a few mining companies which are common customers of both the Group and the Target Group; (ii) Ordos Beian, a customer of the Target Group for its sales of civil explosives, is a fellow subsidiary of Jungar Banner Lida; (iii) Shengan Transport, a transportation service provider of the Target Group, is controlled by the brother-in-law of Mr. Ma Qiang, a non-executive Director and controlling Shareholder; (iv) Shengan Security, a security service provider of the Target Group, is owned by the Vendors; (v) Antai Explosives and Tianrun Blasting, customers of the Target Group for its sales of civil explosives, are associates of the Target Group; and (vi) Bayannur Jintai, a supplier of materials of the Target Group, is controlled by Mr. Ma Qiang and his family members and relatives, other customers and suppliers of the Target Group are third parties independent of the Group, its connected persons and the Target Group.

The following table sets forth the amount of revenue and purchase from the customers and suppliers mentioned above with the respective percentage to total revenue and purchase of the Group and the Target Group for the three years ended 31 March 2014 and the nine months ended 31 December 2014:

(a) Customers of the Group

	2012		For the year ended 31 March 2013		2014		For the nine months ended 31 December 2014	
	Percentage to total revenue of the Group		Percentage to total revenue of the Group		Percentage to total revenue of the Group		Percentage to total revenue of the Group	
	Revenue (RMB'000)	(%)	Revenue (RMB'000)	(%)	Revenue (RMB'000)	(%)	Revenue (RMB'000)	(%)
Mining companies which are common customers of both the Group and the Target Group	Nil	N/A	Nil	N/A	Nil	N/A	1,074,797	91.21

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(b) Customers of the Target Group

	For the year ended 31 March						For the nine months ended 31 December	
	2012		2013		2014		2014	
	Revenue (RMB'000)	Percentage to total revenue of the Target Group (%)	Revenue (RMB,000)	Percentage to total revenue of the Target Group (%)	Revenue (RMB'000)	Percentage to total revenue of the Target Group (%)	Revenue (RMB'000)	Percentage to total revenue of the Target Group (%)
Mining companies which are common customers of both the Group and the Target Group	19,800	5.57	17,901	4.55	27,495	6.78	23,993	8.95
Ordos Beian	149,779	42.11	163,076	41.43	104,200	25.68	53,912	20.10
Antai Explosives	24,706	6.95	19,162	4.87	1,137	0.28	Nil	N/A
Tianrun Blasting	Nil	N/A	Nil	N/A	11,986	2.95	3,743	1.40

(c) Suppliers of the Target Group

	For the year ended 31 March						For the nine months ended 31 December	
	2012		2013		2014		2014	
	Purchase/Service fee (RMB'000)	Percentage to total costs of revenue (%)	Purchase/Service fee (RMB'000)	Percentage to total costs of revenue (%)	Purchase/Service fee (RMB'000)	Percentage to total costs of revenue (%)	Purchase/Service fee (RMB'000)	Percentage to total costs of revenue (%)
Shengan Transport	7,120	3.78	Nil	N/A	9,863	6.18	12,347	11.46
Shengan Security	Nil	N/A	Nil	N/A	466	0.29	567	0.53
Bayannur Jintai	262	0.14	598	0.34	1,189	0.75	551	0.51

PRODUCTION MATERIALS

The production materials purchased by the Target Group mainly comprised ammonium nitrate, PPAN, paraffin wax, compound wax, emulsifier, diesel fuel and perlite. The cost of production materials is the major component for the Target Group's cost of revenue. For the three years ended 31 March 2012, 2013 and 2014 and the nine months ended 31 December 2014, the cost of production materials used accounted for approximately 87.47%, 87.83%, 74.32% and 77.43% of the Target Group's cost of revenue respectively.

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The table below sets forth the historical price range of the costs of the Target Group's major materials used during the Relevant Period:

	For the year ended		For the nine	
	31 March		months ended	
	2012	2013	2014	2014
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
	<i>(per tonne)</i>	<i>(per tonne)</i>	<i>(per tonne)</i>	<i>(per tonne)</i>
Ammonium nitrate	1,923 to 2,316	1,496 to 2,060	1,462 to 1,547	1,157 to 1,427
PPAN	1,838 to 2,487	1,590 to 2,274	1,462 to 1,590	1,226 to 1,470
Paraffin wax	7,607 to 8,846	6,496 to 8,103	6,923 to 7,295	6,838 to 7,009
Compound wax	7,355 to 8,675	7,235 to 7,449	7,154 to 7,692	7,316 to 8,376
Emulsifier	9,829 to 10,085	10,000 to 10,256	9,957 to 10,000	9,829 to 9,957
Diesel fuel	6,923 to 8,060	6,735 to 8,074	6,607 to 7,201	6,222 to 7,030
Perlite	3,077 to 3,419	3,419 to 3,504	around 3,504	around 3,504

Save for ammonium nitrate, PPAN and diesel fuel, the production materials purchased by the Target Group during the Relevant Period did not experience material fluctuation. Purchase price of ammonium nitrate and PPAN underwent a downward trend during the Relevant Period mainly because of (i) the decrease of production costs of ammonium nitrate and PPAN as a results of decrease in price of coal, which accounted for the major production costs of these materials; and (ii) excessive supply of these materials in the region as a result of increase in number of suppliers for these materials in the region whereas the authorised production limit of the civil explosive manufacturers was not uplifted at the same time. The downward trend of purchase price of diesel fuel during the Relevant Period was in line with the downward trend of price of oil in both the PRC and overseas.

The Target Group has implemented cost control procedures to minimise expenses such that the Target Group can maintain and maximise its profitability. After receiving quotation or signing framework sales and purchase agreement with customers, procurement and sales department of the Target Group draws up procurement plan and source suitable

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production materials accordingly. To lower costs of purchasing production materials, for production materials of which the purchase price is under RMB100,000, the Target Group's procurement department quotes the purchase prices from a number of suppliers. For production materials of which the purchase price exceeds RMB100,000, suppliers are selected through public tendering.

In the event that the price of production materials fluctuates and is significantly higher than the estimate price at the time of entering into framework sales and purchase agreement with customers, the Target Group intends to shift the burden of purchase of costs of materials to customers by adjusting the selling prices of its products upwards through negotiation with its customers. In general, the framework sales and purchase agreements entered into between the Target Group and its customers do not specify unit price of sales of the Target Group's explosives as the unit price is subject to negotiation at the time of entering into of separate purchaser orders. Such pricing term enables the Target Group to react to the fluctuation of price of production materials timely so as to shift the burden of purchase costs of production materials to its customers.

SUBCONTRACTING

Under the relevant rules and regulations of the PRC, transportation of civil explosives must be made by authorised vehicles. Where customers of the Target Group do not collect the explosive products manufactured by the Target Group from its warehouse or (in case of provision of blasting operation and related services) where customers needs explosives and blasting equipment to be delivered to their blasting site and the transportation of such explosives and blasting equipment is subject to permit from the relevant PRC authority, the Target Group would engage authorised transportation service providers for the delivery of the products and equipment so as to minimise the operation risks of the Target Group during transportation of civil explosives and blasting equipment.

In addition, to ensure the security of the production plants and warehouse of the Target Group and to comply with the relevant rules and regulations in the PRC which require civil explosives manufacturers to hire external security service providers or maintain qualified internal security personnel to provide security services, the Target Group also engages security service providers to provide security services for its production plants, warehouses and transportation vehicles.

The Target Group selects its transportation service subcontractors and security service providers mainly with reference to their status of operating license and permits, track record performance, pricing and payment terms offered, experience in providing service in similar scale and other factors that the Target Group may consider material. Only transportation and security service providers with all the necessary and required licenses and permit will be selected by the Target Group. The Target Group has business relationship with most of its subcontractors and security service providers ranged from one to three years. The Target Group typically enters into subcontracting contracts with

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its transportation subcontractors and security service providers on an annual basis. The subcontracting contracts for transportation services contain the following major terms which are legally binding:

- term: generally the contract term is for a period of one year;
- scope of service and technical requirements: setting out specific safety requirements of the products and equipment to be transported and requirements of personnel involved in transportation of the products and/or equipments of the Target Group;
- pricing: which are usually calculated based on types of goods to be transported, weight, transportation distance and time to be involved, fuel price and such other special circumstances subject to adjustment to be agreed by the parties in the event of change of price of fuel;
- liability: generally in the event of accident occurred during transportation of finished goods or equipment of the Target Group, the transportation service provider shall be liable for the loss of the Target Group;
- payment terms: which usually require settlement of payment every month; and
- compliance: details of requirements of the relevant rules and regulations are set out, including but not limited to keeping record of GPS tracking of vehicles, transportation within authorised roads and areas.

The subcontracting contracts for security service contain the following major terms which are legally binding:

- term: generally the contract term is for a period of one year;
- scope of service: setting out the premises or location of the Target Group where security services is required, generally the security service covers entrance, production plants and warehouse of the Target Group on a 24-7 basis to prevent fire hazard, theft and other security issues, and the number of security guards required;
- pricing: based on the number of security guard and the monthly or annual salary of each security guard;
- payment terms: which usually require settlement of payment every month or every year; and

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- renewal: where the security service providers intend to renew the contract, they shall serve written notice to the Target Group one month before expiration of the existing term and the Target Group shall then consider whether a renewal contract will be entered into with the security service providers.

For the years ended 31 March 2012, 2013 and 2014 and the nine months ended 31 December 2014, transportation and security services subcontracting costs accounted for approximately 10.53%, 21.98%, 18.09% and 18.24% of the Target Group's total cost of revenue respectively. Other than transportation and security services subcontracting, the Target Group had not entered into any other subcontracting arrangements in connection with its operations during the Relevant Period and up to the Latest Practicable Date.

INVENTORY CONTROL

Inventory of the Target Group comprises production materials and finished goods. The Target Group has set up internal control policies in controlling and monitoring its inventory level. In general, the Target Group adopts a demand flow inventory policy for its production materials and therefore maintains a minimum inventory level of production materials. Orders for replenishment of production materials are placed upon receipt of purchase orders from customers. Production materials are generally ordered to be delivered to warehouses of the Target Group about 28 days before product delivery date. The Target Group retrieves its inventory on a first-in-first-out basis and proper approvals are required for inventory retrievals. In the event that purchase price of commonly used production materials drops, the Target Group may purchase those production materials in advance after taking into account of the number of current orders it has received, the forecasted demand on its products, and the delivery time and depletion rate of the production materials.

For each of the three years ended 31 March 2012, 2013 and 2014 and the nine months ended 31 December 2014, inventories of the Target Group, comprising production materials and finished goods, amounted to approximately RMB11.25 million, RMB17.54 million, RMB12.98 million and RMB17.45 million respectively.

RESEARCH AND DEVELOPMENT

The Target Group places great emphasis on research and development so as to keep itself competitive in the industry because the civil explosives industry is characterised by technological advancements. For each of the three years ended 31 March 2012, 2013 and 2014 and the nine months ended 31 December 2014, the Target Group incurred research and development costs of approximately RMB12.86 million, RMB13.95 million, RMB15.29 million and RMB11.11 million respectively, representing approximately 31.03%, 25.33%, 28.43% and 35.44% of the administrative expenses of the Target Group respectively.

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To ensure that the research and development activities of the Target Group can focus on both technological advancement and needs of its customers, the research and development centre of the Target Group works closely with the production department and procurement and sales department of the Target Group. A typical research and development project undertaken by the Target Group includes the following stages: identifying needs of customers and market, technological feasibility analysis, market analysis, development of new products, trial production, mass production and sale. The Target Group engages in various research and development activities which are material to its production and products, including (i) analysis of similar products made by domestic competitors and overseas manufacturers; (ii) improvement of product quality, efficiency and functions of existing products; (iii) introduction and promotion of the use of new production technologies and production materials; and (iv) assessment of the future prospect and development trend of the civil explosives industry. As of 31 December 2014, there were 46 staff in the Target Group who performed research and development function. Most of them held at least a bachelor's degree and had attended related courses such as chemical engineering, inorganic chemistry and applied chemistry. Externally, the Target Group has collaborated with other institutes and market players for research and development projects by entering into research and development cooperation agreements on a project-by-project basis.

The research and development projects undertaken by the Target Group with third parties during the Relevant Period included but not limited to the following:

- (i) increasing production capacity of mobile processing unit for ANFO explosives;
- (ii) development of explosive installation machinery for emulsion explosives with large diameter;
- (iii) water-proof ANFO explosive;
- (iv) information management system for mobile processing unit for ANFO explosives; and
- (v) packaging machinery.

Due to the advanced research and development capabilities of the Target Group, two of its subsidiaries, namely Shengan Chemical (Otog Banner) and Shengan Chemical (Bayannur), were approved as 高新技術企業 (High-new Technology Enterprise*) by Inner Mongolia government authorities since November 2011 and November 2007 respectively and such recognition was still valid as at the Latest Practicable Date. Please refer to the paragraph headed "7. Information on the Target Group – (f) Business of the Target Group – Award and accreditation" in this letter for further information of such recognition. As at the Latest Practicable Date, the Target Group had registered 24 patents in the PRC. Details of the intellectual property rights of the Target Group as of the Latest Practicable Date are set out in the paragraph headed "7. Information on the Target Group – (f) Business of the Target Group – Intellectual property" in this letter.

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MARKET AND COMPETITION

The sales of emulsion explosives and ANFO explosives and provision of blasting operations and related services by the Target Group is a subset of the civil explosives market in the PRC. Given the enormosity of the civil explosives market in the PRC (with the consumption of civil explosives of more than three million tonnes a year as compared with the production volume of civil explosives by the Target Group of approximately 72,655 tonnes, 75,659 tonnes, 59,999 tonnes and 17,712 tonnes respectively for the three years ended 31 December 2012, 2013 and 2014 and the three months ended 31 March 2015), the Target Group considers that its ranking and market share in the civil explosives market in the PRC to be of little significance. Such small market share is in line with the characteristics of the civil explosives market in the PRC which is highly fragmented with numerous market players.

Although the price of civil explosive products of the Target Group had demonstrated a downward trend during the Relevant Period, the Directors expect that there will be an upward trend of price of and demand for civil explosives and blasting operations and related services in the PRC in the future amid the fast growth of the PRC economy, in particular in the Inner Mongolia region, because it requires extensive construction of infrastructures and abundant supply of power resources and other raw materials. As confirmed by the Vendors and to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the downward trend of the price of civil explosives of the Target Group was mainly attributable to the decrease in price of production materials which is expected to be of short-term and therefore would not hinder the growth of price of civil explosives in a long run in light of the growing demand of civil explosives in the market. Civil explosives and blasting operations, which are widely used in mining activities, civil and infrastructure construction, are having an increasing demand at the same time. However, it is expected that the demand of civil explosives in the PRC will be affected by various factors such as slowdown of growth of the PRC economy and possible conservation measures by the PRC government. For details, please refer to the paragraph headed "7. Information on the Target Group – (c) Industry overview" of this letter.

In general, the Target Group considers that it competes with its competitors principally on price, product and service quality and safety, stable supply and proximity to customers.

For competition for manufacturing and sale of civil explosives, the Target Group considers that its emulsion explosives and ANFO explosives compete with other forms of explosives on the safety, environmental friendliness and sensitivity of the civil explosives of the Target Group. In particular, it is expected that ANFO explosives and site mixed emulsion explosives, which are produced by site mixing on the site of blasting operations, will have increasing importance and market share in the PRC civil explosives market, as such products will not become explosives until their components are mixed at the site of blasting and therefore the safety concern and transportation costs of such explosives are highly reduced. The capability of the Target Group to produce both explosives manufactured at traditional production plant and site mixed explosives sharpens the competitive edge of the Target Group.

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For competition for blasting operations and related services, the Target Group considers that its services compete with other service providers on pricing, experience, safety and technical innovation. In particular, as the Target Group has the capability to manufacture civil explosives for its use in blasting operations and related services, pricing of blasting operations of the Target Group can be more competitive than other blasting operation service providers which do not have capability of manufacturing civil explosives themselves and therefore have to rely on procurement of civil explosives from third parties.

Please also refer to the paragraphs headed “7. Information on the Target Group – (f) Business of the Target Group – Competitive strengths” and “7. Information on the Target Group – (c) Industry overview” of this letter for further information regarding the competitive landscape of the civil explosives industry.

ENVIRONMENTAL PROTECTION

Shengan Chemical (Bayannur), Shengan Chemical (Urad Middle Banner) and Shengan Chemical (Otog Banner), being members of the Target Group principally engaged in the manufacture of civil explosives, are subject to the environmental protection laws and regulations of the PRC as set out in paragraph ended “7. Information on the Target Group – (d) Laws and regulations relating to the business of the Target Group” in this letter. During the production process of civil explosives by the Target Group, there are certain wastage generated including smoke, dust, sulphur dioxide and nitrogen oxides. As advised by the PRC Legal Advisers, as at the Latest Practicable Date, the Target Group had obtained all the permits of emission of pollutants required from the local environmental protection bureau.

The Target Group has in place effective environmental procedures regarding reduction of pollution, treatment and disposal of all wastage in accordance with national and local environmental laws and regulations of the PRC. The Target Group has also implemented comprehensive procedures in managing and minimising the use of environmentally harmful substances and dangerous chemicals. In addition, the Target Group has obtained GB/T 24001–2004/ISO 14001:2004 (Environmental Management System Certificate) (details of which are set out in the paragraph headed “7. Information on the Target Group – (f) Business of the Target Group – Award and accreditation” in this letter).

To ensure compliance with the latest environmental laws and regulations, the Target Group reviews the relevant national and local environmental law and regulations to check the Target Group’s status of compliance therewith. The Target Group has adopted the following measures for compliance with the relevant environmental law and regulations in the PRC:

- (i) installation of boiler desulphurization and dust removal device for reduction in exhaust gas emission;

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- (ii) installation of sedimentation tank for sewage treatment in order to reduce the discharge of sewage;
- (iii) installation of ventilation system in all the production plants of the Target Group for reduction of dusts; and
- (iv) the Target Group has dedicated to the senior management of the Target Group with the responsibility to monitor the emission of exhaust gas and sewage to ensure compliance with the relevant environmental law and regulations.

During the Relevant Period and up to the Latest Practicable Date, as advised by the PRC Legal Advisers, the Target Group had complied with all applicable environmental laws and regulations of the PRC in all material respects, had not been subject to any material claims or penalties in relation to environmental protection and had not been involved in any environmental accidents or fatalities.

OCCUPATIONAL HEALTH AND SAFETY

The Target Group is subject to the PRC occupational health and safety laws and regulations. Please refer to the paragraph headed “7. Information on the Target Group – (d) Laws and regulations relating to the business of the Target Group” in this letter for summaries of the relevant occupational health and safety laws and regulations of the PRC.

The Target Group is committed to providing a safe and healthy working environment for the benefit of its employees by having a safety and quality control department to oversee the execution of safety measures established by the Target Group and provide safety education to employees of the Target Group. Besides, the Target Group’s management at all levels have a primary responsibility for the safety and health of its employees. The Target Group has also in place operational safety guidelines and manuals such as the production safety guideline, usage of machinery safety guideline and dangerous production materials manual, to prevent occupational accidents and provide guidance in case of emergency situations. Sufficient supervision is provided by the management and safety and quality control department of the Target Group to ensure that the guidelines are followed. All staffs have to attend mandatory training before they can use and operate machineries used in production and blasting operation. For some production and operation procedures which can only be carried out by personnel with license, only properly licensed personnel can be involved in those procedures.

As confirmed by the Vendors and to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, during the Relevant Period and up to the Latest Practicable Date, the Target Group did not experience any material workplace accidents causing death or serious bodily injury in its business operation and there were no major claims for personal or property damages made by its employees.

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INTELLECTUAL PROPERTY

As of the Latest Practicable Date, the Target Group had registered 24 patents, one trademark and one software copyright in the PRC, which were material to the Target Group's business. Details of these intellectual property rights are as follows:

(a) Patents

	Description of patent	Registered owner	Type	Registration number	Expiry date
1.	成品炸藥傳送裝置 (finished explosives delivery device*)	Shengan Chemical (Bayannur)	Utility	ZL201120503360.5	22 November 2021
2.	乳化炸藥安全降溫裝置 (emulsion explosives safety cooling device*)	Shengan Chemical (Bayannur)	Utility	ZL201120503383.6	22 November 2021
3.	水相過濾裝置 (water phase filtration device*)	Shengan Chemical (Bayannur)	Utility	ZL201120503347.X	22 November 2021
4.	硝酸銨自動分料裝置 (ammonium nitrate automatic feeding device*)(Bayannur)	Shengan Chemical (Bayannur)	Utility	ZL201120503429.4	22 November 2021
5.	一種乳化炸藥輸送皮帶噴霧化水汽裝置 (a vapour spraying device with conveyor belt for emulsion explosives*)	Shengan Chemical (Bayannur)	Utility	ZL201120503404.4	22 November 2021
6.	一種乳化炸藥輸送皮帶噴霧化水汽裝置 (a vapour spraying device with conveyor belt for emulsion explosives*)	Shengan Chemical (Bayannur)	Utility	ZL201120503332.3	22 November 2021
7.	成品炸藥傳輸裝置 (finished explosives delivery device*)	Shengan Chemical (Bayannur)	Utility	ZL201320015351.0	10 January 2023
8.	乳化炸藥水相工藝定量供水裝置 (water supplying device for water phase of production of emulsion explosives*)	Shengan Chemical (Bayannur)	Utility	ZL201320031158.6	21 January 2023
9.	桶裝乳化劑加熱裝置 (bottled emulsifier heating device*)	Shengan Chemical (Bayannur)	Utility	ZL201320031500.2	21 January 2023
10.	硝酸銨螺旋輸送防堵塞裝置 (anti-blocking device for transmission of ammonium nitrate*)	Shengan Chemical (Bayannur)	Utility	ZL201320015363.3	10 January 2023

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	Description of patent	Registered owner	Type	Registration number	Expiry date
11.	用於大直徑藥卷的擗袋計量裝置 (measurement device for packaging of explosives with large diameter*)	Shengan Chemical (Bayannur)	Utility	ZL201320031636.3	21 January 2023
12.	珍珠岩除塵裝置 (dust removal device for perlite*)	Shengan Chemical (Bayannur)	Utility	ZL201320015352.5	10 January 2023
13.	乳化劑配置自動輸送 (automatic transmission device for emulsifier*)	Shengan Chemical (Bayannur)	Utility	ZL201320554092.9	6 September 2023
14.	乳化炸藥間隔分料裝置 (interval device for emulsion explosives*)	Shengan Chemical (Bayannur)	Utility	ZL201320554796.6	6 September 2023
15.	半自動裝藥機自動擠藥裝置 (semi-automatic packaging machine for explosives*)	Shengan Chemical (Bayannur)	Utility	ZL201420299071.1	5 June 2024
16.	快速翻箱裝置 (device for turning packaging with high speed*)	Shengan Chemical (Bayannur)	Utility	ZL201420299132.4	5 June 2024
17.	防止提升機安全門損壞裝置 (device to prevent damage to safety gate*)	Shengan Chemical (Bayannur)	Utility	ZL201420299702.X	5 June 2024
18.	木滑粉加料裝置 (feeding device for wood powder*)	Shengan Chemical (Otog Banner)	Utility	ZL201320231304.X	1 May 2023
19.	多孔粒狀鉍油炸藥現場混裝車側螺旋控油裝置 (Oil control device in screw shape for ANFO explosives*)	Shengan Chemical (Otog Banner)	Utility	ZL201320229284.2	27 April 2023
20.	提升斗下料口濾料裝置 (filtration device with spout bucket*)	Shengan Chemical (Otog Banner)	Utility	ZL201320231303.5	1 May 2023
21.	硝酸鉍放料裝置 (feeding device for ammonium nitrate*)	Shengan Chemical (Otog Banner)	Utility	ZL201320228446.0	27 April 2023

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	Description of patent	Registered owner	Type	Registration number	Expiry date
22.	流化床皮帶輸送機組裝置 (conveyor belt system with fluidised bed*)	Shengan Chemical (Otog Banner)	Utility	ZL201320231596.7	2 May 2023
23.	石蠟快速熔蠟槽裝置 (tank unit for melting paraffin with high speed*)	Shengan Chemical (Otog Banner)	Utility	ZL201320228449.4	27 April 2023
24.	高能型煤礦許用粉狀乳化炸藥及其製備方法 (powder form emulsion explosives used in high energy coal mine and its production process*)	Shengan Chemical (Otog Banner)	Utility	ZL200610039235.7	30 March 2026

(b) Trademark

Trademark	Registered owner	Place of registration	Class	Registration number	Duration of validity
聚力	Shengan Chemical (Inner Mongolia)	PRC	13	5005569	20 October 2018

(c) Software copyright

Description	Copyright owner	Type	Registration number	Date of completion of software
聚力鈹油炸藥批量生產混裝車自動控制系統V1.0 (Juli automatic control system for commercial production of ANFO explosives in mobile processing unit*)	Shengan Chemical (Otog Banner)	Full	2013SR046001	16 January 2013

As of the Latest Practicable Date, the Target Group was not involved in any proceedings with regard to, and the Target Group has not received notice of any claims of infringement of any intellectual property rights that may be threatened or pending in which the Target Group may be involved either as a claimant or respondent.

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EMPLOYEES

As of 31 December 2014, the Target Group had 356 full-time employees and all of them were located in the PRC. The following tables provide a breakdown of the Target Group's employees by function as of 31 December 2014:

Function	Number of employees
Management	12
General and administration	35
Production	167
Procurement and sales	21
Safety and quality control	30
Finance	29
Research and development	46
Others	16
Total	<u><u>356</u></u>

During the Relevant Period, all the employees of the Target Group were employed by the Target Group directly and the Target Group did not engage any employee through employment agencies.

The remuneration package of the Target Group's full-time employees includes basic salary, overtime pays and bonuses. Generally, basic salaries of the Target Group's employees are determined based on the employee's rank, position, qualification, experience and performance.

The Target Group provides trainings for its employees to enhance their skills and knowledge in relation to industry quality standards and work safety standards. New employees are required to participate in induction training programmes to ensure that they have the necessary safety trainings to work safely to reduce work-related risks. In-service trainings are also provided to all employees annually. In addition to internal trainings, the Target Group also provides external training opportunities to its employees given by external training institutions.

As required by the relevant laws and regulations in the PRC, the Target Group contributes to several insurance and employee welfare scheme. Save as disclosed in the paragraph headed "7. Information on the Target Group – (f) Business of the Target Group – Legal compliance" in this letter, the Target Group makes contribution to its employees' social insurance, basic pension insurance fund, basic medical insurance fund, maternity and work-related insurance funds and the retirement benefits scheme in accordance with applicable laws and regulations in the PRC. No contribution of the retirement benefits scheme forfeited by the Target Group on behalf of its employees who leave the scheme prior to vesting fully in such contribution may be used by the Target Group to reduce the existing level of contributions. As confirmed by the Vendors and to the best of the

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Directors' knowledge, information and belief having made all reasonable enquiries, during the Relevant Period and up to the Latest Practicable Date, the Target Group had not been subject to any penalties in relation to any violation of PRC labour laws and regulations and had not experienced any strikes, work stoppage or material labour disputes which affected its business operations.

PROPERTIES

The following tables set forth the land use rights and buildings owned by the Target Group and the properties and land use right leased by the Target Group as of the Latest Practicable Date:

(a) Land use rights

	Address/description	Use	Expiry date of the land use right	Gross floor area (square metre)	Owner	Material encumbrance
1	內蒙古自治區巴彥淖爾市烏拉特後旗巴音鎮烏蘭村工業廠房 (Factory complex located at Lot Nos. HHHL-2010004 Wulan Village, Bayin Zhen Wulatehouqi, Bayannaer City, Inner Mongolia Autonomous Region, the PRC) (Note 1)	Industrial	1 June 2060	58,964.80	Shengan Chemical (Bayannur)	Nil
2	內蒙古自治區巴彥淖爾市烏拉特後旗巴音鎮烏蘭村工業廠房 (Factory complex located at Lot Nos. HHHL-20100011 Wulan Village, Bayin Zhen Wulatehouqi, Bayannaer City, Inner Mongolia Autonomous Region, the PRC) (Note 1)	Industrial	10 November 2060	151,949.50	Shengan Chemical (Bayannur)	Nil

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	Address/description	Use	Expiry date of the land use right	Gross floor area (square metre)	Owner	Material encumbrance
3	內蒙古自治區鄂爾多斯市鄂托克旗阿爾巴斯蘇木賽烏素嘎查109國道南 (Factory complex located at Lot Nos. 604-01-01-01 south of State Road No. 109 Saiyinwusugacha Aerbasisumu Etuoqeqi Eerduosi City, Inner Mongolia Autonomous Region, the PRC) (Note 2)	Industrial	19 December 2036	28,000	Shengan Chemical (Otog Banner)	Nil
4	內蒙古自治區鄂爾多斯市鄂托克旗阿爾巴斯蘇木賽烏素嘎查109國道南 (Factory complex located at Lot Nos. 604-01-01-02 south of State Road No. 109 Saiyinwusugacha Aerbasisumu Etuoqeqi Eerduosi City, Inner Mongolia Autonomous Region, the PRC) (Note 2)	Industrial	19 December 2036	105,000	Shengan Chemical (Otog Banner)	Nil
5	內蒙古自治區鄂爾多斯市鄂托克旗阿爾巴斯蘇木賽烏素嘎查109國道南 (Factory complex located at Lot Nos. 604-01-01-03 south of State Road No. 109 Saiyinwusugacha Aerbasisumu Etuoqeqi Eerduosi City, Inner Mongolia Autonomous Region, the PRC) (Note 2)	Industrial	19 December 2036	10,000	Shengan Chemical (Otog Banner)	Nil

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	Address/description	Use	Expiry date of the land use right	Gross floor area (square metre)	Owner	Material encumbrance
6	內蒙古自治區鄂爾多斯市鄂托克旗阿爾巴斯蘇木賽烏素嘎查109國道南 (Factory complex located at Lot Nos. 604-01-01-04 south of State Road No. 109 Saiyinwusugacha Aerbasisumu Etuoqeqi Eerduosi City, Inner Mongolia Autonomous Region, the PRC) (Note 2)	Industrial	19 December 2036	314.16	Shengan Chemical (Otog Banner)	Nil
7	內蒙古自治區鄂爾多斯市鄂托克旗阿爾巴斯蘇木賽烏素嘎查109國道南 Factory complex located at Lot Nos. 604-01-01-05 south of State Road No. 109 Saiyinwusugacha Aerbasisumu Etuoqeqi Eerduosi City, Inner Mongolia Autonomous Region, the PRC) (Note 2)	Industrial	19 December 2036	20,000	Shengan Chemical (Otog Banner)	Nil

Note 1: As set out in Appendix IV to the Circular, this land use right comprised of buildings numbered 1 to 8 set out in “(f) Business of the Target Group – Properties - (b) Owned buildings” below.

Note 2: As set out in Appendix IV to the Circular, this land use right comprised of buildings numbered 9 to 14 set out in “(f) Business of the Target Group – Properties - (b) Owned buildings” below.

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(b) Owned buildings

	Address/ description	Date of registration	Use	Gross floor area (square metre)	Owner	Material encumbrance
1	內蒙古自治區巴彥 淖爾市烏拉特後旗 巴音鎮團羊水泥廠 附近	13 June 2014	Industrial	603.07	Shengan Chemical (Bayannur)	Nil
2	內蒙古自治區巴彥 淖爾市烏拉特後旗 巴音鎮團羊水泥 廠南	18 June 2014	Office	3,976.06	Shengan Chemical (Bayannur)	Nil
3	內蒙古自治區巴彥 淖爾市烏拉特後旗 巴音鎮團羊水泥 廠南	7 June 2007	Office and dormitory	996.69	Shengan Chemical (Bayannur)	Nil
4	內蒙古自治區巴彥 淖爾市烏拉特後旗 巴音鎮團羊水泥 廠南	7 June 2007	Industrial	1,856.73	Shengan Chemical (Bayannur)	Nil
5	內蒙古自治區巴彥 淖爾市烏拉特後旗 巴音鎮團羊水泥 廠南	7 June 2007	Industrial	622.02	Shengan Chemical (Bayannur)	Nil
6	內蒙古自治區巴彥 淖爾市烏拉特後旗 巴音鎮團羊水泥 廠南	7 June 2007	Industrial	2,604.93	Shengan Chemical (Bayannur)	Nil
7	內蒙古自治區巴彥 淖爾市烏拉特後旗 巴音鎮團羊水泥 廠南	7 June 2007	Industrial	2,147	Shengan Chemical (Bayannur)	Nil
8	內蒙古自治區巴彥 淖爾市烏拉特後旗 巴音鎮團羊水泥廠 西北	30 October 2009	Storage	1,310.56	Shengan Chemical (Bayannur)	Nil
9	內蒙古自治區鄂托 克旗三北羊場	2 June 2009	Industrial	5,796.21	Shengan Chemical (Otog Banner)	Nil
10	內蒙古自治區鄂托 克旗三北羊場	2 June 2009	Industrial	1,233.52	Shengan Chemical (Otog Banner)	Nil
11	內蒙古自治區鄂托 克旗三北羊場	2 June 2009	Industrial	2,310.26	Shengan Chemical (Otog Banner)	Nil

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	Address/ description	Date of registration	Use	Gross floor area (square metre)	Owner	Material encumbrance
12	內蒙古自治區鄂托 克旗三北羊場	2 June 2009	Industrial	16	Shengan Chemical (Otog Banner)	Nil
13	內蒙古自治區鄂托 克旗三北羊場	2 June 2009	Industrial	1,277.44	Shengan Chemical (Otog Banner)	Nil
14	內蒙古自治區鄂托 克旗三北羊場	2 June 2009	Industrial	578.87	Shengan Chemical (Otog Banner)	Nil

(c) Leased properties

	Address/description	Date of tenancy agreement	Term of lease	Rent	Use	Gross floor area (square metre)	Lessee	Material encumbrance
1	烏拉特中旗新忽 熱蘇木長山壕金 礦的場地 (Chang Shan Hao Gold Mine, Xinhuresumu, Wulatezhongqi, Inner Mongolia Autonomous Region, the PRC)	15 August 2012	15 August 2012 to 14 August 2017	Nil	Industrial	2,255.6	Shengan Chemical (Urad Middle Banner)	Nil
2	內蒙古自治區巴彥淖 爾市烏拉特後旗巴 音鎮財富廣場B棟四 樓 Level 4, Block B Fortune Plaza, Bayin Zhen, Wulatehouqi, Bayannaer City, Inner Mongolia Autonomous Region, the PRC (Note)	3 July 2014	3 July 2014 to 2 July 2015	RMB27,275.2 per year	Office	340.94	Juli Blasting	Nil
3	西寧經濟技術開發區 民和路33號的房屋 (No.33 Minhe Road, Xining Economic Development Zone, Xining, Qinghai, the PRC) (Note)	25 March 2014	25 March 2014 to 24 March 2015	Nil	Office	66	Qinghai Fudeyuan	Nil

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	Address/description	Date of tenancy agreement		Rent	Use	Gross floor area (square metre)		Lessee	Material encumbrance
		agreement	Term of lease				Lessee		
4	烏拉特後旗巴音鎮烏蘭村的辦公樓內的辦公室 (Office in the office tower of Wu Lan Cun, Bayin Zhen Wulatehouqi, Bayannaer City, Inner Mongolia Autonomous Region, the PRC) (Note)	10 October 2010	10 October 2010 to 9 October 2015	Nil	Office	62	Shengan Chemical (Inner Mongolia)	Nil	
5	內蒙古自治區巴彥淖爾市烏拉特中旗海流圖鎮海北新區法院街坊23幢3號門點一至二層(Level 1 and 2, Unit 3 No.23 Fayuanjiefang Haibei New District, Hai Liu Tu Zhen, Wulatezhongqi, Bayannaer City, Inner Mongolia Autonomous Region, the PRC) (Note)	10 March 2015	20 April 2015 to 20 April 2016	RMB24,000 per year	Office	155.77	Shengan Chemical (Urad Middle Banner) and Shengan Trading	Nil	

Note: Please refer to the paragraph headed "Business – Legal compliance" of this circular for details of non-compliances in relation to the properties numbered 2 to 5 set out in the table headed "(f) Business of the Target Group – Properties – (c) Leased properties" above.

(d) Leased land use rights

	Address/description	Date of tenancy agreement		Rent	Use	Gross floor area (square metre)		Lessee	Material encumbrance
		agreement	Term of lease				Lessee		
1	內蒙古自治區巴彥淖爾市烏拉特中旗新忽熱蘇木牧人嘎查廠房 (Factory complex located at Lot No. 607-01 Murengacha Xinhuresumu Wulatezhongqi Bayannaer City, Inner Mongolia Autonomous Region, the PRC)	15 August 2012	15 August 2012 to 14 August 2017	Nil	Industrial	99,535	Shengan Chemical (Urad Middle Banner)	Nil	

For details of the above properties, please refer to the valuation report set out in Appendix IV to this circular.

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LICENSES AND PERMITS

As advised by the PRC Legal Advisers, the business of the Target Group is regarded as “Permitted Industry Category for Foreign Investment” under the PRC foreign investment regulations, pursuant to which acquisition by foreign investors of domestic companies in the PRC engaging in such industry category shall be approved by the Ministry of Industry and Information Technology of the PRC and the competent branch of the Ministry of Commerce of the PRC, and accordingly, as the Target Company is a company incorporated in the British Virgin Islands, no such approval has to be obtained from the Ministry of Industry and Information Technology of the PRC and the competent branch of the Ministry of Commerce of the PRC for the purpose of the Acquisition. As advised by the PRC Legal Advisers, save for certain legal non-compliance of the Target Group as disclosed in the paragraph headed “7. Information on the Target Group – (f) Business of the Target Group – Legal compliance” in this letter, all such approvals in relation to the investments by the Target Company (which is regarded as foreign investor under the relevant rules and regulations of the PRC) in the subsidiaries of the Target Company in the PRC and all licenses and permits required for the Target Group’s manufacturing and sales of civil explosives and its provision of blasting operations and related services pursuant to the relevant rules and regulations of the PRC have been obtained.

The following tables set forth particulars of the principal licenses, permits and approvals obtained by the Target Group for its operations insofar as required by the relevant rules and regulations in the PRC:

Type of license	Licensee	License number	Date of obtaining license	Expiry date (note 1)
1. Production License	Shengan Chemical (Inner Mongolia) (note 2)	MB生許證字 034號	13 May 2013	13 May 2016 (note 3)
2. Production Safety License	Juli Blasting	(蒙) FM安 許證字2014 004917號	30 October 2014	29 October 2017 (note 4)
3. 爆破作業單位許可證 (一級) (營業性) (blasting unit license (first class)*)	Juli Blasting	1500001300095	8 January 2014	8 January 2017 (note 5)
4. 爆破作業單位許可證 (二級) (營業性) (blasting unit license (second class)*)	Juli Blasting	1500001300053	11 July 2013	11 July 2016 (note 5)

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Notes:

1. As advised by the PRC Legal Advisers, under the relevant regulations of the PRC, each of the licenses is valid for a term of three years subject to renewal for an additional term of three years to be applied with the relevant PRC authorities prior to the expiry of the license.
2. As advised by the PRC Legal Advisers, such license is also applicable for the operation of Shengan Chemical (Inner Mongolia)'s subsidiaries, namely, Shengan Chemical (Bayannur), Shengan Chemical (Urad Middle Banner) and Shengan Chemical (Otog Banner).
3. Please refer to the paragraph headed "7. Information on the Target Group – (d) Laws and regulations relating to the business of the Target Group – Laws on Production License" for details of the criterion for renewal of Production License.
4. Please refer to the paragraph headed "7. Information on the Target Group – (d) Laws and regulations relating to the business of the Target Group – Laws on Production Safety License" for details of the criterion for renewal of Production Safety License.
5. Please refer to the paragraph headed "7. Information on the Target Group – (d) Laws and regulations relating to the business of the Target Group – Laws on 爆破作業單位許可證 (blasting unit license*)" for details of the criterion for renewal of 爆破作業單位許可證 (blasting unit license*).

Based on the information provided by the Vendors, the Directors are of the view that the Target Group can satisfy all the regulatory requirements to renew all the aforementioned licenses pursuant to relevant regulations of the PRC prior to the expiry of the licenses.

AWARDS AND ACCREDITATIONS

The following table sets out the selected awards and accreditations received by the Target Group from relevant PRC authorities and organisations in relation to its operation in recent years and which were still subsisting as at the Latest Practicable Date:

Award or recognition	Recipient	Date of award or recognition	Expiry date	Issuing organisation
1. 高新技術企業證書 (High-new Technology Enterprise certificate*)	Shengan Chemical (Bayannur)	20 August 2013	19 August 2016	內蒙古自治區科學技術廳 (Inner Mongolia Science and Technology Department*), 內蒙古自治區財政廳 (Inner Mongolia Finance Department*), 內蒙古自治區國稅局 (Inner Mongolia Office of State Administration of Taxation*) and 內蒙古自治區地稅局 (Administration of Local Taxation of Inner Mongolia*)

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Award or recognition	Recipient	Date of award or recognition	Expiry date	Issuing organisation
2. GB/T 19001-2008/ISO 9001:2008: Quality Management System Certificate	Shengan Chemical (Bayannur)	29 November 2013	28 November 2016	北京興國環球認證有限公司 (Beijing Xingguo Global Accreditations Limited*)
3. GB/T 24001-2004/ISO 14001:2004: Environmental Management System Certificate	Shengan Chemical (Bayannur)	29 November 2013	28 November 2016	北京興國環球認證有限公司 (Beijing Xingguo Global Accreditations Limited*)
4. GB/T 28001-2011/OHSAS 18001:2007: Occupational Health and Safety Management System Certificate	Shengan Chemical (Bayannur)	29 November 2013	28 November 2016	北京興國環球認證有限公司 (Beijing Xingguo Global Accreditations Limited*)
5. 高新技術企業證書 (High-new Technology Enterprise certificate*)	Shengan Chemical (Otog Banner)	29 August 2014	28 August 2017	內蒙古自治區科學技術廳 (Inner Mongolia Science and Technology Department*), 內蒙古自治區財政廳 (Inner Mongolia Finance Department*), 內蒙古自治區國稅局 (Inner Mongolia Office of State Administration of Taxation*) and 內蒙古自治區地稅局 (Administration of Local Taxation of Inner Mongolia*)
6. GB/T 19001-2008/ISO 9001:2008: Quality Management System Certificate	Shengan Chemical (Otog Banner)	20 November 2013	19 November 2016	北京興國環球認證有限公司 (Beijing Xingguo Global Accreditations Limited*)
7. GB/T 24001-2004/ISO 14001:2004: Environmental Management System Certificate	Shengan Chemical (Otog Banner)	20 November 2013	19 November 2016	北京興國環球認證有限公司 (Beijing Xingguo Global Accreditations Limited*)
8. GB/T 28001-2011/OHSAS 18001:2007: Occupational Health and Safety Management System Certificate	Shengan Chemical (Otog Banner)	20 November 2013	19 November 2016	北京興國環球認證有限公司 (Beijing Xingguo Global Accreditations Limited*)
9. GB/T 19001 – 2008/ISO 9001:2008: Quality Management System Certificate	Juli Blasting	11 September 2012	10 September 2015	北京興國環球認證有限公司 (Beijing Xingguo Global Accreditations Limited*)

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Award or recognition	Recipient	Date of award or recognition	Expiry date	Issuing organisation
10. GB/T 24001 – 2004 idt ISO 14001:2004: Environmental Management System Certificate	Juli Blasting	11 September 2012	10 September 2015	北京興國環球認證有限公司 (Beijing Xingguo Global Accreditations Limited*)
11. GB/T 28001 – 2011/ OHSAS 18001:2007: Occupational Health and Safety Management System Certificate	Juli Blasting	11 September 2012	10 September 2015	北京興國環球認證有限公司 (Beijing Xingguo Global Accreditations Limited*)
12. GB/T 19001-2008/ISO 9001:2008: Quality Management System Certificate	Shengan Chemical (Urad Middle Banner)	14 April 2015	13 April 2018	北京興國環球認證有限公司 (Beijing Xingguo Global Accreditations Limited*)
13. GB/T 24001-2004/ ISO 14001:2004: Environmental Management System Certificate	Shengan Chemical (Urad Middle Banner)	14 April 2015	13 April 2018	北京興國環球認證有限公司 (Beijing Xingguo Global Accreditations Limited*)
14. GB/T 28001-2011/ OHSAS 18001:2007: Occupational Health and Safety Management System Certificate	Shengan Chemical (Urad Middle Banner)	14 April 2015	13 April 2018	北京興國環球認證有限公司 (Beijing Xingguo Global Accreditations Limited*)

INSURANCE

In accordance with the regulatory requirements of the PRC, the Target Group maintains insurance for high-risks industry safety production liability and group accidents for its staffs, vehicles and automobile liability. As advised by the PRC Legal Advisers, the Target Group is required to maintain social insurance and housing provident fund contributions for its PRC employees. The Target Group has also joined defined contributions for its employees, such as basic pension scheme, basic medical insurance, unemployment insurance, injury insurance and maternity insurance.

For each of the years ended 31 March 2012, 2013 and 2014 and the nine months ended 31 December 2014, the Target Group had paid an aggregate of approximately RMB1.75 million, RMB2.51 million, RMB3.41 million, and RMB3.64 million respectively as insurance premium payment for its various insurance policies (excluding housing provident fund contributions). During the Relevant Period, the Target Group was not subject to any insurance claims that were material.

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Based on the information provided by the Vendors and to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, save for insurance claims for vehicle damages and repairs arising from immaterial traffic accidents which did not relate to the transportation of the civil explosives or blasting equipment of the Target Group, the Target Group did not have any claim for compensation from the insurance company in the past.

Taken into account (1) the existing scope of insurance coverage insured by the Target Group which complies with the applicable laws and regulations in the PRC; (2) the Target Group's good historical records regarding product quality, and the absence of any material claim or complaint in relation to the quality of its products, product liability or production process; (3) the safety and product quality control measures taken by the Target Group; (4) the probability of risks and losses arising from areas which are not covered by the current insurance coverage maintained by the Target Group is low and can be sufficiently minimised by other measures such as (a) engaging authorised transportation service providers who are responsible to insure against any such risk and (b) allocation of certain percentage of its sales revenue of the previous financial year for safety production expenses; and (5) as advised by the PRC Legal Adviser, the risk or potential losses arising from the application of the Target Group's products is remote and minimal as the risk of the finished good passes to customers of the Target Group upon delivery and acceptance by its customers under the relevant PRC laws and regulations, the Directors are of the view that the insurance coverage currently maintained by the Target Group and the measures taken are in line with industry norm and are sufficient to address the potential risks and losses and safeguard the interest of the shareholders.

Upon Completion, management of the Enlarged Group would review the insurance coverage and measures taken by the Target Group from time to time so as to ensure that the interests of the Company's shareholders and investors would be safeguarded.

HEDGING POLICIES

During the Relevant Period and up to the Latest Practicable Date, the Target Group had not maintained any hedging policies in respect of interest rates and/or costs of its production materials.

LEGAL COMPLIANCE

As advised by the PRC Legal Advisers, save as disclosed below, each members of the Target Group in the PRC had obtained all requisite certificates, permits and licenses from the relevant regulatory authorities in the PRC in relation to its establishment and business operations, and had complied with all the relevant laws and regulations in relation to its operations in all material respects.

LETTER FROM THE BOARD

As confirmed by the Vendors and to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, as at the Latest Practicable Date, no member of the Target Group was engaged in any litigation or arbitration of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened by or against any member of the Target Group that would have a material adverse effect on the results of the operations or financial condition of the Target Group.

The table below summaries the non-compliance incidents by the Target Group of the applicable laws and regulations during the Relevant Period and up to the Latest Practicable Date:

LETTER FROM THE BOARD

Events of non-compliance	Reason(s) for non-compliance	Legal consequences and potential maximum penalties and other financial losses (where applicable)	Latest status/remedial actions for rectifying non-compliance incidents	Measures taken/to be taken to prevent future breaches and ensure on-going compliance
<p>The Target Group failed to comply with the relevant requirements for registering the employees' housing provident fund and making contribution to PRC employees' housing provident fund for all of its employees.</p> <p>For the years ended 31 March 2012, 2013 and 2014 and the nine months ended 31 December 2014, the Target Group failed to pay the employees' housing provident fund for its employees in the amount of approximately RMB0.61 million, RMB0.78 million, RMB1.07 million and RMB0.87 million respectively.</p>	<p>The reason for the non-compliance is mainly because many employees of the Target Group are originated from other provinces of the PRC and have no intention to purchase properties in Inner Mongolia, thus most of them are unwilling to participate in such employees' housing provident fund imposed by local authorities.</p>	<p>As advised by the PRC Legal Advisers, under the relevant PRC laws and regulations, for default in registering the employees' housing provident fund and making contribution thereto for its employees, the Target Group may be ordered to register housing provident fund for its employees and make up all outstanding contribution within a prescribed period, failing which a penalty from RMB10,000 to RMB50,000 may be imposed. As advised by the PRC Legal Advisers, such non-compliance would not have material impact on the business operations of the Target Group.</p>	<p>As at the Latest Practicable Date, each of the relevant competent government authorities at Urad Middle Banner, Otog Banner and Bayannur, Inner Mongolia, in charge of the administration of housing provident fund (i.e. 住房公积金管理中心 (the Housing Provident Fund Management Centre*)) has issued confirmation that it will not take any action against Shengan Chemical (Inner Mongolia), Shengan Chemical (Bayannur), Juli Blasting, Shengan Chemical (Otog Banner) and Shengan Chemical (Urad Middle Banner) for their past failure to register the employees' housing provident fund and make contribution to PRC employees' housing provident fund for their employees nor will it order Shengan Chemical (Inner Mongolia), Shengan Chemical (Bayannur), Juli Blasting, Shengan Chemical (Otog Banner) and Shengan Chemical (Urad Middle Banner) to make up the outstanding contribution in the past pursuant to the relevant rules and regulations in the PRC. As advised by the PRC Legal Advisers, the aforementioned government authorities are competent authorities to deal with this matter and give the confirmation and the PRC Legal Advisers is of the view that the risk that Shengan Chemical (Inner Mongolia), Shengan Chemical (Bayannur), Juli Blasting, Shengan Chemical (Otog Banner) and Shengan Chemical (Urad Middle Banner) would be subject to any administrative punishment in relation to their past failure to register the employees' housing provident fund and make contribution to PRC employees' housing provident fund for its employees, or requirement to pay fines or make up any outstanding contribution is minimal.</p>	<p>Upon completion, the management of the Enlarged Group shall endeavour to ensure the Target Group's compliance with the relevant requirements regarding contribution to the housing provident fund by educating its employees about the importance of making full contributions and communicating with the relevant PRC governmental authorities on the latest requirement to ensure full compliance with the relevant regulations.</p> <p>Mr. Zhang Lijun, the chief financial officer of the Target Group has also been appointed to oversee the overall compliance with the relevant requirements.</p>

LETTER FROM THE BOARD

Events of non-compliance	Reason(s) for non-compliance	Legal consequences and potential maximum penalties and other financial losses (where applicable)	Latest status/remedial actions for rectifying non-compliance incidents	Measures taken/to be taken to prevent future breaches and ensure on-going compliance
<p>The actual volume of production and sale of civil explosives by the Target Group was in excess of the authorised limit set by the local government authority for each category of civil explosive products at each production facility pursuant to the relevant rules and regulations in the PRC for the three years ended 31 March 2014 and up to 31 December 2014. Please refer to the paragraph headed “7. Information in the Target Group – (8) Business of the Target Group – Production – Production facilities” for details of such excessive production and sale.</p>	<p>Please refer to the paragraph headed “7. Information on the Target Group – (f) Business of the Target Group – Production – Production facilities” for the reasons for non-compliance.</p>	<p>As advised by the PRC Legal Advisers, under the relevant PRC laws and regulations, for any production and sales of amount and category of explosives which is in contravention of the relevant PRC laws and regulations, the Target Group’s production may be ordered to ratify the default within a prescribed period of time and can be liable for a penalty from RMB100,000 to RMB500,000, failing which the Target Group’s production may be ordered for suspension or its Production License may be revoked.</p>	<p>As at the Latest Practicable Date, the relevant competent government authority at the provincial level in charge of regulating production and sales of civil explosives (i.e. NDSI office) has issued two confirmations (the “confirmations”) dated 8 January 2015 in response to the report submitted by 巴彥淖爾市經濟和信息化委員會 (Bayannur City Economic and Information Committee*) on 29 December 2014 and the report submitted by 鄂爾多斯市經濟和信息化委員會 (Otog City Economic and Information Committee*) on 30 December 2014 in relation to the exceed of authorised limit by the Target Group, the NDSI Office confirmed that it will not take any actions against the Target Group for any failure to comply with the authorised limit for production. As the Confirmations were both dated 8 January 2015 and did not specify the period covered by the Confirmations, the Directors are of the view that the Confirmations covered all period of exceed of authorised limit up to 8 January 2015 including the exceed by Urad Zhongqi Plant in 2014. As advised by the PRC Legal Advisers, the aforementioned government authority is a competent authority to deal with this matter and give the Confirmations and the PRC Legal Advisers is of the view that the risk that the Target Group would be subject to any administrative punishment in relation to the unauthorised sales and production of civil explosives, or requirement to pay fines or rectify this non-compliance incident is minimal.</p>	<p>The Target Group has progressively rectified the non-compliance by complying with the authorised limit for total production volume of civil explosives at all its production facilities since 1 January 2014, and by complying with the authorised limit for total production and sales volume of civil explosives for each category of civil explosive products at each production facility since 1 January 2015.</p> <p>The Target Group has taken and will continue to take the following rectification measures to mitigate the historical excessive production and to avoid excessive production in the future:</p>

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Events of non-compliance	Reason(s) for non-compliance	Legal consequences and potential maximum penalties and other financial losses (where applicable)	Latest status/remedial actions for rectifying non-compliance incidents	Measures taken/to be taken to prevent future breaches and ensure on-going compliance
				<p>(i) the Target Group has applied to the relevant government authority for increase of authorised limit from 60,000 tonnes per year to 98,000 tonnes per year in December 2013. Based on the information provided by the Vendors and to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, as requested by the relevant PRC government authority in August 2014, the Target Group prepared and submitted a feasibility study report setting out details of reason for the application, including but not limited to the demand for civil explosives from its customer(s) and detailed proposal for the increase in production volume to the relevant government authority in November 2014 (the "Feasibility Report"). In January 2015, the Target Group submitted the revised Feasibility Report to address the verbal comments (including but not limited to the adjustment of authorised limit to be applied from 98,000 tonnes per year to 78,700 tonnes per year) provided by the relevant PRC government authority in December 2014 and as at the Latest Practicable Date, the Target Group has not received further enquiries or updates in relation to the Feasibility Report and the application from the relevant PRC government authority. After the date of dispatch of the Circular, the Company will from time to time disclose the status for the application of the increase in the authorised limit of the Target Group by way of an announcement</p>

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Events of non-compliance	Reason(s) for non-compliance	Legal consequences and potential maximum penalties and other financial losses (where applicable)	Latest status/remedial actions for rectifying non-compliance incidents	Measures taken/to be taken to prevent future breaches and ensure on-going compliance
				<p>(ii) upon Completion, the Enlarged Group will appoint Jingtian & Gongcheng, a qualified PRC law firm, as its external PRC legal advisers so that the Enlarged Group can seek PRC legal advice on the applicable rules and regulations in the PRC in relation to its business operations from time to time and arrange the PRC legal advisers to provide training seminar to senior management of the Enlarged Group in relation to the latest and relevant rules and regulations in the PRC from time to time. This is to ensure that the relevant personnel of the Enlarged Group has sufficient understanding of the relevant legal requirements to ensure the compliance of such requirements by the Enlarged Group; and</p>

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Events of non-compliance	Reason(s) for non-compliance	Legal consequences and potential maximum penalties and other financial losses (where applicable)	Latest status/remedial actions for rectifying non-compliance incidents	Measures taken/to be taken to prevent future breaches and ensure on-going compliance
				<p>(iii) considering that it takes considerable time to obtain approval for increase of authorised limit, the directors of the Target Group has dedicated to senior management of the Target Group the responsibility to monitor the production and sales volume of civil explosives on a monthly basis so as to ensure that the actual production and sales volume will be within the existing authorised limit before approval for application for increase of the authorised limit filed to the relevant PRC government authority has been obtained. The senior management of the Target Group has also been dedicated the responsibility to review the demand for each category of civil explosives from each region from time to time and (where necessary) apply to the relevant PRC government authority for adjusting the authorised limit for each category of civil explosives in each region (which is expected to take less time for approval) in addition to applying for the increase of the overall authorised limit for the production and sales of civil explosives by the entire Target Group.</p>

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Events of non-compliance	Reason(s) for non-compliance	Legal consequences and potential maximum penalties and other financial losses (where applicable)	Latest status/remedial actions for rectifying non-compliance incidents	Measures taken/to be taken to prevent future breaches and ensure on-going compliance
As at the Latest Practicable Date, the lease contracts in respect of properties numbered 2 to 5 set out in “(f) Business of the Target Group – Properties – (c) Leased properties” in this letter which were used by the Target Group as offices had not been registered with the relevant authorities of the PRC.	The non-compliance was principally due to the lack of professional knowledge of the handling staff of the Target Group on legal issues relating to properties and lease matters.	As advised by the PRC Legal Advisers, under the relevant PRC laws and regulations, if a tenant or a lessor fails to register the lease properly, it may be subject to corrective orders, failing which an administrative fine of RMB1,000 to RMB10,000 may be imposed. The maximum amount of penalty which the Target Group may be subject to is about RMB40,000.	The non-compliance has not been rectified as the relevant landlords were unwilling to arrange for registration of the relevant lease contracts.	In prevention of future breaches, upon Completion, the Enlarged Group will appoint the management of the Target Group to oversee the compliance with the rules in relation to leases in the PRC who will be responsible for the management of the Target Group’s real estate, communication with government departments, checking the relevant title ownership certificates, and requiring the landlord to agree to the registration of the lease before entering into lease agreement with the Enlarged Group as well as the timely handling of the relevant procedures in accordance with the procedural requirements of the relevant authorities. They will check whether there is any non-compliance incident from time to time and seek legal advice where appropriate. They will work closely with the handling staff to implement actions required to ensure the Target Group’s compliance with relevant regulation.

On the basis that (i) the Target Group has obtained confirmations from the aforementioned competent government authority that no action will be taken against the Target Group in relation to the excessive production and sale of civil explosives; (ii) the failure to register lease contracts would not affect the validity of the lease by the Target Group; (iii) the potential penalty for the Target Group’s default in registration and contribution of the employee’s housing fund and failure to register lease contracts is immaterial; and (iv) under the SP Agreement, the Vendors and Shiny Ocean have agreed to indemnify and keep the Company indemnified against any losses, costs (including legal costs), claims, damages, liabilities, interests and expenses that the Company and/or the Target Group may suffer or incur arising from and in connection with such non-compliance incidents, the Directors are of the view that the above non-compliance incidents do not have material impacts on the Target Group.

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Key internal control measures to be implemented by the Enlarged Group

In order to continuously improve the corporate governance of the Enlarged Group upon Completion, to further reinforce the existing internal control procedures and to prevent recurrence of non-compliance in the future, it is proposed that the Enlarge Group shall adopt the following internal control measures upon Completion:

- (i) Mr. Zhang Lijun, the chief financial officer of the Target Group, will be appointed as compliance officer. Mr. Zhang is experienced in business and financial management and will assist the Board to identify, assess and devise appropriate internal control and risk management procedures in managing the risks associated with the Enlarged Group's operation from time to time to ensure due compliance of laws, rules and regulations applicable to the Enlarged Group;
- (ii) Ms. Qin Chunhong, an executive Director, will act as the principal channel of communication between members of the Enlarged Group and the Company in relation to legal and regulatory compliance matters of the Enlarged Group as well as the chief coordinators to oversee the implementation of the internal control and risk management procedures in general. Upon receipt of any queries or reports on legal and regulatory compliance matters, she will look into the matter and, if considered appropriate, seek advice, guidance and recommendation from professional advisers and report to relevant members of the Enlarged Group and/or the Board; Mr. Zhang and Ms. Qin will also communicate with each other at regular intervals to ensure there is an effective coordination between the actual operation in the PRC, the effectiveness of the relevant internal control and risk management procedures and the implementation thereof, and the compliance with the relevant laws, rules and regulations applicable to the Enlarged Group;
- (iii) Jingtian & Gongcheng, a qualified PRC law firm will be appointed as the external PRC legal advisers to assist the Enlarged Group in complying with the relevant laws, rules and regulations applicable to the Enlarged Group;
- (iv) training, development programmes and/or updates regarding the legal and regulatory requirements applicable to the business operations of the Enlarged Group will be provided to the Directors, senior management and employees involved in the operation of the Enlarged Group from time to time;
- (v) employees of the Enlarged Group will be reminded from time to time of their obligations to contribute to their part of the housing provident funds in order to comply with the applicable PRC laws and regulations, and they will be advised on the procedures for making such contributions; and

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Internal control review

On 8 March 2015, the Company has appointed Protiviti, an independent internal control adviser, to review, among others, the measures taken and to be taken by the Target Group to prevent future breaches and ensure on-going compliance in relation to the requirements of authorised limit. As advised by Protiviti, such measures in relation to compliance with authorised production and sales limit are adequate to ensure compliance with the relevant laws and regulations. In addition, Protiviti further proposes, which the Directors agree, to adopt the following additional measures upon completion of the Acquisition:

- (i) to prepare for written report for the production and sales volume of each production plants and category of civil explosives regularly which shall be reviewed by senior management so that the Target Group can adjust its annual production and sales strategy timely. Besides, where the actual production and sales volume have reached a prescribed level (the “**Annual Prescribed Level**”) to be set by the senior management every year for the purpose of alerting the potential exceed of authorised limit in advance, the frequency of preparation of the production and sales volume report should be increased so as to monitor the status of production and sales volume more closely and the Target Group shall also file application for increase of authorised limit in advance. The effectiveness in monitoring the Target Group’s compliance with the authorised limit will be taken into account as one of the key performance indicators during the appraisal of the relevant personnel;
- (ii) to prepare for monthly written report in relation to volume of sales to each customer and the expected annual sales volume to such customer as set out in the sale and purchase framework agreement. The monthly report shall be reviewed by senior management of the Target Group from time to time so that the Target Group can monitor whether there may be exceed in sales volume for each customers and can set a more realistic expected annual sales volume when the Target Group enters into sale and purchase framework agreement with such customer next year. Where the actual sales volume to any customer has reached a prescribed level to be set by the senior management every year for the purposes of alerting the potential exceed of authorised limit in advance or the potential exceed of estimated sales volume set out in the sale and purchase framework agreement, the Target Group shall consider whether the Target Group should limit further sales to such customer;
- (iii) to establish a system under which regional sales representatives of the Target Group can only accept purchase orders from customers after they have obtained approval from the senior management at subsidiary level. Where the actual production and sales volume have reached the Annual Prescribed Level, such approval shall be obtained from the head of the procurement and sales department, the general manager of the relevant subsidiary, chief financial officer of the Target Group and the directors of the Target Company; and

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- (iv) to establish a system under which the Target Group shall prepare for production plan (which would specify the types of civil explosives, date of production, expected production volume and personnel involved, etc) prior to commencement of production. Such production plan shall be reviewed, and where appropriate, approved by the senior management of the Target Group before the production line can commence production accordingly.

View of the Directors

In the light of the foregoing, the Directors are of the view that the Enlarged Group has adequate internal control procedures and policies in place to prevent further occurrence of the above non-compliances in the future. Further, in light of the preventive measures mentioned above, the Directors are of the view that the Enlarged Group will have adequate and effective internal control procedures in place, will have established procedures, systems and controls that will enable the Enlarged Group to comply with the GEM Listing Rules and other relevant legal and regulatory requirements and provide a reasonable basis to make a proper assessment of its financial position and prospects on an ongoing basis.

(g) Directors and senior management of the Target Group

The following tables set out the information of the directors of the Target Company and senior management of the Target Group as at the Latest Practicable Date:

(i) *Directors of the Target Company*

Name	Age	Directorship in the Target Group (date of appointment)	Other position held in the Target Group	Date of joining the Target Group	Responsibilities in the Target Group
Ma Qiang (馬強)	48	Director of the Target Company (1 November 2013)	General manager of Qinghai Fudeyuan	November 1996	Overall strategic development and decision making for the Target Group
		Director of Ample Ocean HK (19 November 2013)			
		Director of Shengan Chemical (Inner Mongolia) (13 August 2010)			

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Name	Age	Directorship in the Target Group (date of appointment)	Other position held in the Target Group	Date of joining the Target Group	Responsibilities in the Target Group
Xiong Zeke (熊澤科)	40	Director of the Target Company (1 November 2013) Director of Ample Ocean HK (19 November 2013) Director of Qinghai Fudeyuan (22 July 2014)	N/A	November 2013	Overall decision making for the Target Group in relation to investment, financing and merger and acquisitions
Qin Chunhong (秦春紅)	42	Director of the Target Company (1 November 2013) Director of Ample Ocean HK (19 November 2013) Director of Qinghai Fudeyuan (22 July 2014)	N/A	November 2013	Overall financing and banking management for the Target Group, including financial risk management, tax risk assessment and overseeing the internal auditing of the Target Group

(ii) Senior management of the Target Group

Name	Age	Position	Date of becoming senior management of the Target Group	Responsibilities in the Target Group
Wang Nai (王乃)	47	General manager of Shengan Chemical (Inner Mongolia)	June 2013	Overseeing the management of the Target Group
Zhang Lijun (張立君)	53	Chief financial officer of Shengan Chemical (Inner Mongolia)	August 2011	Overseeing the overall financial management of the Target Group
Yan Zhihe (閻志賀)	49	Chief engineer of Shengan Chemical (Inner Mongolia)	August 2009	Overseeing the overall quality control, safety and technical support of the Target Group

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DIRECTORS OF THE TARGET COMPANY

Mr. Ma Qiang (馬強), aged 48, a non-executive Director and one of the Vendors, is one of the founders of the Target Group and a director of the Target Company, Ample Ocean HK and Shengan Chemical (Inner Mongolia) and the general manager of Qinghai Fudeyuan. He is responsible for the overall strategic development and decision making for the Target Group. Mr. Ma was appointed as director of the Target Company, Ample Ocean HK and Shengan Chemical (Inner Mongolia) on 1 November 2013, 19 November 2013 and 13 August 2010 respectively. Mr. Ma graduated from Inner Mongolia Radio and Television University in July 1989 with a speciality in education. Mr. Ma was the chairman of the board of directors of Dongyitai Chemical from August 1993 to February 2006 and 北京盛世華軒投資有限公司 (Beijing Shengshi Huaxuan Investment Co., Ltd*) (a company which was principally engaged in the business of mineral related investment management) (“**Shengshi Huaxuan**”) from April 2008 to May 2013, during which he gained extensive experience in the civil explosives and mining industry. As at the Latest Practicable Date, save as disclosed in the paragraph headed “Disclosure of interests of directors and chief executive” in Appendix V to this circular, Mr. Ma did not have any interest in the shares, underlying shares or debenture in the Company within the meaning of Part XV of the SFO. As at the Latest Practicable Date, save that Mr. Ma was the cousin of Mr. Liu Fali, a director of members of the Target Group, Mr. Ma was not related to any other directors and senior management of the Target Group. Save that Mr. Ma is a non-executive Director of the Company, he has not at any time during the three years preceding the Latest Practicable Date served nor is currently serving as a director of any other publicly listed companies in Hong Kong or overseas.

Mr. Xiong Zeke (熊澤科), aged 40, an executive Director and chief executive officer of the Company, and one of the Vendors, is a director of the Target Company, Ample Ocean HK and Qinghai Fudeyuan. He is responsible for the overall decision making for the Target Group in relation to investment, financing and merger and acquisitions. Mr. Xiong was appointed as director of the Target Company, Ample Ocean HK and Qinghai Fudeyuan on 1 November 2013, 19 November 2013 and 22 July 2014 respectively. Mr. Xiong obtained a bachelor’s degree in economics from International Economics of the Peking University in July 1996. From July 1996 to March 2005, Mr. Xiong worked in various departments of the Shenzhen branch of China Construction Bank. Subsequently, he became the deputy general manager of Shengshi Huaxuan from September 2008 to November 2012 during which he was responsible for investment, financing and merger and acquisition of Shengshi Huaxuan. As at the Latest Practicable Date, save as disclosed in the paragraph headed “Disclosure of interests of directors and chief executive” in Appendix V to this circular, Mr. Xiong did not have any interest in the shares, underlying shares or debenture in the Company within the meaning of Part XV of the SFO. As at the Latest Practicable Date, Mr. Xiong was not related to any other directors and senior management of the Target Group. Save that Mr. Xiong is (i) an executive Director of the Company; (ii) an independent director of 華東醫藥股份有限公司 (Huadong Medicine Co., Ltd.*), a company listed on the Shenzhen Stock Exchange, since August 2009; and was (iii) an independent director of 盛屯礦業集團股份有限公司 (Chengtun Mining Group

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Co. Ltd.*) (formerly known as 廈門雄震礦業集團股份有限公司 (Xiamen Eagle Mining Group Co. Ltd.*)), a company listed on the Shanghai Stock Exchange, from August 2008 to March 2011, he has not at any time during the three years preceding the Latest Practicable Date served nor is currently serving as a director of any other publicly listed companies in Hong Kong or overseas.

Ms. Qin Chunhong (秦春紅), aged 42, an executive Director and one of the Vendors, is a director of the Target Company, Ample Ocean HK and Qinghai Fudeyuan. She is responsible for the overall financing and banking management for the Target Group, including financial risk management, tax risk management and overseeing the internal auditing of the Target Group. Ms. Qin was appointed as director of the Target Company, Ample Ocean HK and Qinghai Fudeyuan on 1 November 2013, 19 November 2013 and 22 July 2014 respectively. Ms. Qin obtained a bachelor's degree in economics from Henan Institute of Finance and Economics in June 2003. In July 2009, she obtained a master's degree in business administration from the School of Business Administration in Peking University. She has been a member of the China Certified Tax Agents Association since September 2009 and a member of the Chinese Institute of Certified Public Accountants since December 2009. Ms. Qin was the chief financial officer of 內蒙古雙利礦業有限責任公司 (Inner Mongolia Shuangli Mining Co., Limited*) from 2006 to 2009 and the chief financial officer of Western Mining Group (Hong Kong) Company Limited from 2005 to 2006. Since March 2010, Ms. Qin has been the chief financial officer of Shengshi Huaxuan. As at the Latest Practicable Date, save as disclosed in the paragraph headed "Disclosure of interests of directors and chief executive" in Appendix V to this circular, Ms. Qin did not have any interest in the shares, underlying shares or debenture in the Company within the meaning of Part XV of the SFO. As at the Latest Practicable Date, Ms. Qin was not related to any other directors and senior management of the Target Group. Save that Ms. Qin is an executive Director of the Company, she has not at any time during the three years preceding the Latest Practicable Date served nor is currently serving as a director of any other publicly listed companies in Hong Kong or overseas.

SENIOR MANAGEMENT OF THE TARGET GROUP

Mr. Wang Nai (王乃), aged 47, is the general manager of Shengan Chemical (Inner Mongolia) and is responsible for overseeing the management of the Target Group. He has over 20 years of experience in the civil explosives industry. From September 1983 to March 1986, he worked in the production department of 准格爾旗化工廠 (Jungar Banner Chemical Industry*) (currently known as 內蒙古生力資源(集團)有限責任公司 (Inner Mongolia Shengli Resources Group Co., Limited*)). From March 1986 to November 2007, he worked in the quality control department and subsequently safety control department of 准格爾旗生力民爆有限公司 (Jungar Banner Shengli Civil Explosives Co., Limited*) whereby he was responsible for the implementation of quality and safety control of production process of civil explosives. From November 2007 to June 2010, he worked in 內蒙古生力資源(集團)有限責任公司 (Inner Mongolia Shengli Resources Group Co., Limited*) whereby he was responsible for the design and implementation of production plan of manufacturing of civil explosives. In June 2010, he was promoted as

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the assistant to general manager and was responsible for assisting the general manager for daily operation management until he joined the Target Group in June 2013.

Mr. Zhang Lijun (張立君), aged 53, is the chief financial officer of Shengan Chemical (Inner Mongolia) and is responsible for the overall financial management of the Target Group. He has graduated from 南京糧食經濟學院 (Nanjing Food Economics Institute*) with a specialty in statistics in December 1989. Prior to joining the Target Group, Mr. Zhang has acquired extensive finance experience in mining industry. From June 2006 to February 2007, he was a finance manager in 內蒙古雙利鐵礦有限公司 (Inner Mongolia Shuangli Iron Ore Co., Limited*) which was principally engaged in the sale of mineral products. From March 2007 to September 2008, he was the vice-general manager and chief financial officer of 內蒙古金地礦業有限責任公司 (Inner Mongolia Jindi Mining Co., Limited*) (which was principally engaged in mining investment); and the chief financial officer of 烏海市烏化礦業有限責任公司 (Wu Hai Shi Wu Hua Mining Co., Limited*) (which was principally engaged in mining) and 烏海市正興煤化有限責任公司 (Wu Hai Shi Zheng Xing Coal Co., Limited*) (which was principally engaged in coal mining). Before he joined the Target Group in August 2011, he was the vice-president of 烏海中榮實業有限責任公司 (Wu Hai Zhong Rong Shiye Industrial Co., Limited*) (which was principally engaged in sales of mineral products) from October 2008 to July 2011 during which he was responsible for financial management, business management and human resources management.

Mr. Yan Zhihe (閔志賀), aged 49, is the chief engineer of Shengan Chemical (Inner Mongolia) and is responsible for the overall quality control, safety and technical support of Shengan Chemical (Inner Mongolia). Mr. Yan obtained a bachelor's degree majoring in explosives and related technology in 淮南礦業學院 (Huainan Mining Institute*) (currently known as 安徽理工大學 (Anhui University of Science & Technology*)) in July 1990. He was qualified as a 國家質量工程師 (national quality engineer*) and 國家註冊安全工程師 (national safety engineer*) in December 2002 and January 2006 respectively. From July 1990 and February 2005, he held various positions such as engineer, senior engineer, technical supervisor and quality control supervisor in 開灤礦務局 (Kailung Coal Mining Bureau*), a production base of cleaned coal in the PRC. From February 2005 to April 2007, he worked as an assistant general manager in 承德興湘化工有限公司 (Chengde Xing Xiang Chemical Co., Limited*) (currently known as 河北興安民爆有限公司 (Hebei Xingan Civil Explosives Co., Limited*)), which was then principally engaged in the production of civil explosives. Before he joined the Target Group in August 2009, he was an assistant general manager of 內蒙古日盛民爆集團有限公司 (Inner Mongolia Ri Sheng Civil Explosives Co., Limited*) (which was principally engaged in the production of civil explosives) from April 2007 to July 2009 during which he was responsible for technical support and safety management.

The Directors have no present intention to change the composition of the board or the senior management of the Target Group upon Completion.

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REMUNERATION POLICY

The Target Group offers competitive remuneration packages to its directors and senior management based on the job duties, relevant experience and qualification and market rate. The aggregate amount of emolument (including directors' remuneration, wages, salaries, benefits and retirement benefit costs) paid to employees of the Target Group for the three years ended 31 March 2012, 2013 and 2014 and the nine months ended 31 December 2014 were approximately RMB16.37 million, RMB22.47 million, RMB26.86 million and RMB19.05 million, respectively.

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(h) Financial information and management discussion and analysis of the Target Group

The following discussion and analysis should be read in conjunction with the financial information of the Target Group for the three years ended 31 March 2014 and the nine months ended 31 December 2014 together with the accompanying notes thereto as set out in Appendix II to this circular. You should read the whole of the financial information of the Target Group and not rely merely on the information contained below.

OVERVIEW OF THE TARGET GROUP'S OPERATION

The Target Group is principally engaged in (i) the manufacturing and sale of civil explosives; and (ii) provision of blasting operation and related services. The civil explosives manufactured and sold by the Target Group are divided into two categories, namely, emulsion explosives and ANFO explosives, and are widely used in mine blasting, outdoor blasting, underground blasting, rock blasting and civil and infrastructure construction. The Target Group also provides a full range of blasting operations and related services to its customers depending on their needs ranging from storage of civil explosives, transportation of blasting equipment and civil explosives (to the extent that such transportation does not require specific permit pursuant to relevant rules and regulations of the PRC) to blasting project design, blasting operations such as drilling of boreholes, rock blasting and drilling blasting, and related consultation. Where customers engage the Target Group for provision of blasting operations, the explosives used are usually manufactured by the Target Group.

KEY FACTORS AFFECTING THE TARGET GROUP'S RESULTS OF OPERATIONS

Based on the information provided by the Vendors and to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Directors believes that the Target Group's business, financial position and operating results as well as the period-to-period comparability of its operating results have been, and are expected to continue to be, affected by a number of factors including those set out below:

Market demand for the products and services of the downstream market players of the civil explosives and mining industry in Inner Mongolia

As the Target Group is a supplier of civil explosives and related services to civil explosive products resellers and end-users such as mining companies, civil and infrastructure construction companies whose operations and projects require the use of civil explosives for blasting, demand for the Target Group's products and services directly correlates with demand for such products and services from the downstream market players of the civil explosives and mining industry in Inner Mongolia. Such demands are, in turn, determined by the economy of the PRC, in particular in Inner Mongolia, which directly affects the demand for mineral resources and civil and infrastructure construction. During the Relevant Period, the mining industry of Inner Mongolia developed quickly and therefore the demand for civil explosives and blasting operation services had been increasing. This in turn contributed the growth of revenue of the Target Group during the Relevant Period.

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Authorised limit for production and sales of civil explosives granted by the relevant PRC government authority

Under the relevant rules and regulations of the PRC (details of which are set out in the paragraph headed “7. Information on the Target Group - (d) Laws and regulations relating to the business of the Target Group” in this letter), production and sales volume of civil explosives shall be subject to an authorised limit as determined by the relevant government authority in the PRC. Therefore, the amount of revenue from sales of civil explosives that the Target Group can generate is directly affected by such authorised limit.

Costs of production materials

The table below sets forth the major cost of revenue during the Relevant Period:

	For the year ended				For the nine months ended					
	2012		31-Mar 2013		2014		31-Dec 2013		2014	
	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total
<i>(unaudited)</i>										
Production materials:										
Ammonium nitrate	29,526	15.69%	27,023	15.43%	29,947	18.77%	24,582	19.31%	21,917	20.34%
PPAN	101,989	54.18%	93,328	53.28%	57,438	36.00%	51,497	40.45%	35,551	32.99%
Paraffin wax	2,008	1.07%	1,283	0.73%	790	0.50%	630	0.49%	745	0.69%
Compound wax	3,479	1.85%	4,805	2.74%	4,583	2.87%	3,927	3.08%	3,219	2.99%
Emulsifier	3,716	1.97%	4,610	2.63%	6,064	3.80%	4,876	3.83%	5,344	4.96%
Diesel fuel	13,681	7.27%	14,815	8.46%	11,881	7.45%	10,027	7.88%	7,843	7.28%
Perlite	704	0.37%	544	0.31%	237	0.15%	212	0.17%	111	0.10%
Other production materials	9,532	5.06%	7,425	4.24%	7,653	4.80%	5,523	4.34%	8,711	8.08%
Subtotal	164,635	87.47%	153,833	87.83%	118,593	74.32%	101,274	79.55%	83,441	77.43%
Labour	7,789	4.13%	8,950	5.11%	7,500	4.70%	6,007	4.72%	6,224	5.78%
Depreciation	3,779	2.01%	3,872	2.21%	6,209	3.90%	4,517	3.55%	4,737	4.40%
Others	12,024	6.39%	8,496	4.85%	27,261	17.08%	15,506	12.18%	13,355	12.39%
Total	188,227	100.00%	175,151	100.00%	159,563	100.00%	127,304	100%	107,757	100%

Cost of production materials is the Target Group’s major cost of revenue which accounted for approximately 87.47%, 87.83%, 74.32% and 77.43% of cost of revenue during the three years ended 31 March 2014 and the nine months ended 31 December 2014 respectively. The price determination committee of the Target Group fixes the price of its products and services on a cost plus profit margin basis by taking into account various factors, including but not limited to: (i) technological requirements; (ii) volume of purchase; (iii) production, transportation and insurance costs; (iv) price of production materials; (v) scale of operation; (vi) quality control requirements; (vii) market prices; and (viii) product and service type. During the Relevant Period, the Target Group experienced a gradual decrease in both the cost of revenue and cost of production materials. The

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decrease of cost of production materials in turn contributed to the increase in gross profit of the Target Group during the Relevant Period with approximately RMB167.50 million, RMB218.50 million, RMB246.22 million and RMB160.41 million for the three years ended 31 March 2014 and the nine months ended 31 December 2014 respectively. Please refer to the paragraph headed “7. Information on the Target Group – (f) Business of the Target Group – Production materials” in this letter for the reason for the decrease of cost of production materials.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Recognition of revenues and income

Revenue comprises the fair value for the sale of goods, rendering services and the use by others of the Target Group’s assets yielding interest, net of value-added tax, rebates and discounts.

The Target Group recognises revenues when the amount of revenues can be reliably measured and the following criteria have been met for each of the Target Group’s activities as described below.

- (i) revenue from sales of explosives or related products is recognised on transfer of risks and rewards of ownership, which is at the time of delivery and the title is passed to customer.
- (ii) revenue from the provision of blasting operation or related services is recognised when the services are rendered.
- (iii) interest income is accrued on a time basis according to the principal outstanding at the applicable interest rate.

Depreciation of property, plant and equipment

The Target Group’s management determines the estimated useful lives, and related depreciation charges for its property, plant and equipment. The estimates are based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions subject to periodical review. Management of the Target Group will increase the depreciation charges of its property, plant and equipment where useful lives are less than the previously estimated lives and will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Such periodic review could result in a change in depreciable lives and therefore affect the depreciation charges in future periods.

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Estimated provision for inventories

The management of the Target Group estimates the net realisable value of inventories primarily based on the latest market prices and current market conditions of inventories. The management of the Target Group carries out inventory review at the end of each reporting period and makes allowance on obsolete and slow moving items to write off or write down inventories to their net realisable values.

Impairment of trade and other receivables

Recoverability of loans and receivables are reviewed by management of the Target Group based on the aging characteristics of the loans or receivables, and the current creditworthiness and past collection history of customers or debtors. Judgment is required in assessing the ultimate realisation of these loans and receivables, and the financial conditions of these customers or debtors may undergo adverse changes since the last management evaluation. If the financial conditions of the customers or debtors deteriorate, resulting in an impairment as to their ability to make payments, additional provision may be required in future accounting periods.

DESCRIPTION OF CERTAIN INCOME STATEMENT ITEMS

The following table sets forth a summary of the Target Group's consolidated income statement for the Relevant Period which has been extracted from the Financial Information of the Target Company set out in Appendix II to this circular. This information should be read together with the consolidated financial statement of the Target Company and accompanied notes, which have been prepared in accordance with HKFRSs issued by the HKICPA.

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Consolidated statements of comprehensive income

	Year ended 31 March			Nine months ended 31 December	
	2012 <i>RMB'000</i>	2013 <i>RMB'000</i>	2014 <i>RMB'000</i>	2013 <i>RMB'000</i> (unaudited)	2014 <i>RMB'000</i>
Revenue	355,724	393,652	405,782	335,926	268,162
Cost of revenue	<u>(188,227)</u>	<u>(175,151)</u>	<u>(159,563)</u>	<u>(127,304)</u>	<u>(107,757)</u>
Gross profit	167,497	218,501	246,219	208,622	160,405
Other income and gains	466	1,586	1,365	1,283	607
Share of (loss)/profit of associates	(766)	(742)	1,614	1,859	512
Selling and distribution expenses	(11,652)	(30,359)	(21,744)	(19,170)	(16,567)
Administrative expenses	(41,442)	(55,076)	(53,772)	(42,453)	(31,337)
Other operating expenses	(5,076)	(1,519)	(152)	(140)	(260)
Finance costs	<u>(786)</u>	<u>(4,075)</u>	<u>(2,362)</u>	<u>(2,148)</u>	<u>(810)</u>
Profit before income tax	108,241	128,316	171,168	147,853	112,550
Income tax expense	<u>(12,123)</u>	<u>(22,432)</u>	<u>(26,922)</u>	<u>(22,701)</u>	<u>(16,837)</u>
Profit for the year/period	<u>96,118</u>	<u>105,884</u>	<u>144,246</u>	<u>125,152</u>	<u>95,713</u>
Other comprehensive income	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(701)</u>
Total comprehensive income for the year/period	<u>96,118</u>	<u>105,884</u>	<u>144,246</u>	<u>125,152</u>	<u>95,012</u>
Profit attributable to:					
Owners of the Target Company	96,118	105,884	86,000	76,518	56,942
Non-controlling interest	<u>–</u>	<u>–</u>	<u>58,246</u>	<u>48,634</u>	<u>38,771</u>
	<u>96,118</u>	<u>105,884</u>	<u>144,246</u>	<u>125,152</u>	<u>95,713</u>
Total comprehensive income attributable to:					
Owners of the Target Company	96,118	105,884	86,000	76,518	56,241
Non-controlling interest	<u>–</u>	<u>–</u>	<u>58,246</u>	<u>48,634</u>	<u>38,771</u>
	<u>96,118</u>	<u>105,884</u>	<u>144,246</u>	<u>125,152</u>	<u>95,012</u>
Earnings per share					
Basic and diluted	<u>RMB1,922</u>	<u>RMB2,118</u>	<u>RMB1,720</u>	<u>RMB1,530</u>	<u>RMB1,139</u>

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Revenue

Revenue represented the net invoiced value of goods sold net of value-added tax and services rendered. The revenue generated by the Target Group during the Relevant Period could be broadly divided into two categories, namely sales of civil explosives and provision of blasting operations and related services.

The following table is a breakdown of the revenue and percentage of revenue attributable to each of sales of civil explosives and provision of blasting operations and related services during the Relevant Period:

	For the year ended 31 March				For the nine months ended 31 December					
	2012		2013		2014		2013		2014	
	RMB'000	% of turnover	RMB'000	% of turnover	RMB'000	% of turnover	RMB'000	% of turnover	RMB'000	% of turnover
Sales of civil explosives	355,674	99.99	388,559	98.71	386,871	95.34	322,224	95.92	259,947	96.94
Provision of blasting operations and related services	50	0.01	5,093	1.29	18,911	4.66	13,702	4.08	8,215	3.06
	<u>355,724</u>	<u>100</u>	<u>393,652</u>	<u>100</u>	<u>405,782</u>	<u>100</u>	<u>335,926</u>	<u>100</u>	<u>268,162</u>	<u>100</u>

For each of the three years ended 31 March 2014, revenue of the Target Group had been increasing primarily because of the increasing demand for civil explosives and blasting operations services from its clients as a result of the rapid growth of the economy and mining industries of Inner Mongolia during the period. Revenue for the nine months ended 31 December 2014 decreased as compared to that for the nine months ended 31 December 2013 primarily because senior management of the Target Group closely monitored and kept the production and sales volume of civil explosives of the Target Group within the then authorised limit granted by the relevant PRC government authority.

During the Relevant Period, the Target Group generated a substantial portion of revenue from sales of civil explosives. The percentage of revenue derived from provision of blasting operations and related services had a general growing trend during the Relevant Period primarily because it was the Target Group's strategy to expand its business of provision of blasting operations and related services and to integrate its sales of explosives with provision of blasting operations and related services business so as to become a one-stop civil explosive solutions provider.

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Cost of revenue

The table below sets forth the breakdown of cost of revenue and their corresponding percentages for the Relevant Period:

	2012		For the year ended 31-Mar 2013		2014		For the nine months ended 31-Dec 2013		2014	
	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total
Production materials:										
Ammonium nitrate	29,526	15.69%	27,023	15.43%	29,947	18.77%	24,582	19.31%	21,917	20.34%
PPAN	101,989	54.18%	93,328	53.28%	57,438	36.00%	51,497	40.45%	35,551	32.99%
Paraffin wax	2,008	1.07%	1,283	0.73%	790	0.50%	630	0.49%	745	0.69%
Compound wax	3,479	1.85%	4,805	2.74%	4,583	2.87%	3,927	3.08%	3,219	2.99%
Emulsifier	3,716	1.97%	4,610	2.63%	6,064	3.80%	4,876	3.83%	5,344	4.96%
Diesel fuel	13,681	7.27%	14,815	8.46%	11,881	7.45%	10,027	7.88%	7,843	7.28%
Perlite	704	0.37%	544	0.31%	237	0.15%	212	0.17%	111	0.10%
Other production materials	9,532	5.06%	7,425	4.24%	7,653	4.80%	5,523	4.34%	8,711	8.08%
Subtotal	164,635	87.47%	153,833	87.83%	118,593	74.32%	101,274	79.55%	83,441	77.43%
Labour	7,789	4.13%	8,950	5.11%	7,500	4.70%	6,007	4.72%	6,224	5.78%
Depreciation	3,779	2.01%	3,872	2.21%	6,209	3.90%	4,517	3.55%	4,737	4.40%
Others	12,024	6.39%	8,496	4.85%	27,261	17.08%	15,506	12.18%	13,355	12.39%
Total	188,227	100.00%	175,151	100.00%	159,563	100.00%	127,304	100%	107,757	100%

Cost of revenue comprised principally the Target Group's cost of production materials such as ammonium nitrate and PPAN, labour cost, other manufacturing expenses such as electricity and maintenance fee for equipment and depreciation. The major component of the Target Group's cost of revenue during the Relevant Period was the cost of production materials, which account for approximately 87.47%, 87.83%, 74.32% and 77.43% for the three years ended 31 March 2014 and the nine months ended 31 December 2014 respectively. While the labour costs, other manufacturing expenses and depreciation were relatively stable during the Relevant Period, the cost of production materials had been decreasing and therefore the cost of revenue had been decreasing during the Relevant Period despite the upward trend of revenue and gross profit during the Relevant Period. Please refer to the paragraph headed "(f) Business of the Target Group – Production materials" in this letter for the reason for the decrease of cost of production materials during the Relevant Period.

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Gross profit and gross profit margin

The table below sets forth the Target Group's gross profit and gross profit margin for its sales of civil explosives and provision of blasting operations and related services during the Relevant Period:

	For the year ended 31 March				For the nine months ended 31 December					
	2012		2013		2014		2013		2014	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Sales of civil explosives	167,604	47.12%	216,365	55.68%	242,347	62.64%	205,224	63.69%	157,197	60.47%
Provision of blasting operations and related services	-107	N/A	2,136	41.94%	3,872	20.47%	3,398	24.80%	3,208	39.05%
Overall	<u>167,497</u>	<u>47.09%</u>	<u>218,501</u>	<u>55.51%</u>	<u>246,219</u>	<u>60.68%</u>	<u>208,622</u>	<u>62.10%</u>	<u>160,405</u>	<u>59.82%</u>

(unaudited)

The Target Group's gross profit margin had been increasing during the Relevant Period. Such increase was primarily attributable to the decrease in price of major production materials used in the production of the Target Group as cost of production materials was the major part of cost of revenue of the Target Group during the Relevant Period. Please refer to the paragraph headed "7. Information on the Target Group – (f) Business of the Target Group – Production materials" in this letter for particulars of the decrease in price of major production materials of the Target Group during the Relevant Period and reason for such decrease.

The gross profit margin for sales of civil explosives had been increasing during the three years ended 31 March 2014. Such increase was primarily attributable to (i) the increase in sales volumes of the civil explosives that lowered the fixed cost per unit of production; and (ii) the decrease in purchase price of the major production materials at such rate which was faster than the decrease in reference prices for sale of civil explosive products set by NDRC (such price control mechanism was abolished with effect from 25 December 2014). The decrease of gross profit margin for the nine months ended 31 December 2014 was in line with the decrease in production and sales volume of civil explosives for the nine months ended 31 December 2014. The table below sets forth the

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average purchase price per tonne of ammonium nitrate and PPAN, being two of the major production materials of the Target Group, during the Relevant Period:

	For the year ended 31 March			For the nine months ended 31 December	
	2012	2013	2014	2013	2014
	<i>RMB</i> <i>(per tonne)</i>	<i>RMB</i> <i>(per tonne)</i>	<i>RMB</i> <i>(per tonne)</i>	<i>RMB</i> <i>(per tonne)</i>	<i>RMB</i> <i>(per tonne)</i>
Ammonium nitrate	2,165.95	1,674.96	1,465.83	1,476.65	1,377.60
PPAN	2,400.88	1,917.76	1,505.35	1,482.33	1,355.46

In relation to the provision of blasting operations and related services, the Target Group recorded negative gross profit for the year ended 31 March 2012 as the Target Group just commenced this business segment in June 2011 with relatively minimal revenue contribution. The significant increase in gross profit margin for the provision of blasting operations and related services for the year ended 31 March 2013 to approximately 41.94% was primarily attributable to the relatively low labour costs as this business segment was still at the early stage of development and therefore the Target Group only employed a few employees to operate this business segment. The Target Group's gross profit margin of blasting operations and related services subsequently decreased to approximately 20.47% for the year ended 31 March 2014 primarily because there was an increase in labour costs and equipment costs associated with the Target Group's strategy to further develop this business segment so as to enlarge its customer base and capture more business opportunities. This also explained the improvement of gross profit margin to approximately 39.05% for the nine months ended 31 December 2014.

Other income and gains

The following table sets forth the breakdown of the Target Group's other income and gains for the Relevant Period:

	For the year ended 31 March			For the nine months ended 31 December	
	2012	2013	2014	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Government grants	360	1,440	280	280	–
Interest income	92	58	351	334	115
Gain on disposal of property, plant and equipment	–	80	31	31	184
Sundry income	14	8	703	638	308
	<u>466</u>	<u>1,586</u>	<u>1,365</u>	<u>1,283</u>	<u>607</u>

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Other income and gains of the Target Group principally represented the government grants, interest income, gain on disposal of property, plant and equipment and sundry income received by the Target Group. The government grants for the year ended 31 March 2012 represented the government grants received from 烏拉特後旗財政局 (Urad Middle Banner Finance Bureau*) and 烏拉特後旗安檢局 (Urad Middle Banner Security Bureau*) to support development of small and medium-sized enterprises and in recognition of the Target Group's effort to replace old production lines with more effective new production lines. The government granted for the year ended 31 March 2013 represented the government grants received from local government authority of Otog Banner, Inner Mongolia, the PRC in relation to the development fund for small and medium-sized enterprise and a recognition for the Target Group's effort in application of advanced technology in its operation. The sundry income for the year ended 31 March 2014 and the nine months ended 31 December 2014 mainly represented income from sales of wastages and vehicles.

Selling and distribution expenses

The following table sets forth the breakdown of selling and distributable expenses for the Relevant Period:

	For the year ended 31 March				For the nine months ended 31 December					
	2012		2013		2014		2013		2014	
	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total
Transportation costs	9,675	83.03%	25,307	83.36%	18,795	86.44%	16,529	86.22%	13,763	83.07%
Staff costs	1,214	10.42%	1,592	5.24%	816	3.75%	611	3.19%	465	2.81%
Travelling expenses	165	1.42%	1,173	3.86%	1,176	5.41%	1,024	5.34%	1,057	6.38%
Other business related expenses	598	5.13%	2,287	7.53%	957	4.40%	1,006	5.25%	1,282	7.74%
Total	11,652	100%	30,359	100%	21,744	100%	19,170	100%	16,567	100%

The Target Group's selling and distribution expenses comprise mainly transportation costs, staff costs, travelling expenses and other business related expenses. During the Relevant Period, transportation costs was the major selling and distribution expenses of the Target Group which accounted for approximately 83.03%, 83.36%, 86.44% and 83.07% of the total selling and distribution expenses for the three years ended 31 March 2014 and the nine months ended 31 December 2014. Transportation costs were mainly the costs incurred in the delivery of the Target Group's products to the location specified by its customers where the customers do not pick up the finished goods from warehouse of the Target Group. The transportation costs for the year ended 31 March 2013 increased significantly mainly because of (i) the increase in volume of sales of civil explosives of the Target Group as a result of the increase in authorised limit granted by the relevant PRC government authority; (ii) the increase in fuel price; and (iii) that there were more customers requiring the Target Group to deliver the finished goods to their designated

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locations instead of picking up the finished goods from the warehouse of the Target Group themselves. For the year ended 31 March 2014, transportation costs decreased despite the increase in revenue because Shengan Chemical (Urad Middle Banner) commenced its operation starting from April 2013. As Shengan Chemical (Urad Middle Banner) had site mixed explosives station and mobile processing unit located in the premises of its sole customer, which was also one of the five largest customers of the Target Group for the year ended 31 March 2014 and the nine months ended 31 December 2014, lower transportation costs was incurred. This also explained the decrease in transportation costs for the nine months ended 31 December 2014.

Administrative expenses

The following table sets forth the breakdown of administrative expenses for the Relevant Period:

	2012		For the year ended 31 March		2014		For the nine months ended 31 December		2014	
	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total
Staff costs	6,108	14.74%	9,749	17.70%	15,835	29.45%	11,775	27.74%	8,454	26.98%
Research and development expenses	12,858	31.03%	13,952	25.33%	15,287	28.43%	14,214	33.48%	11,105	35.44%
Safety production expenses	787	1.90%	14,268	25.91%	6,426	11.95%	4,523	10.65%	2,601	8.30%
Depreciation and amortisation	1,635	3.95%	2,355	4.28%	2,459	4.57%	1,896	4.47%	2,278	7.27%
Office expenses	460	1.11%	1,148	2.08%	1,030	1.92%	822	1.94%	837	2.67%
Travelling expenses	1,907	4.60%	2,767	5.02%	3,390	6.30%	2,611	6.15%	2,286	7.29%
Others	17,687	42.68%	10,837	19.68%	9,345	17.38%	6,612	15.57%	3,776	12.05%
Total	41,442	100.00%	55,076	100.00%	53,772	100.00%	42,453	100.00%	31,337	100.00%

Administrative expenses mainly consisted of staff costs, research and development expenses and safety production expenses. Staff costs represented salaries, wages and benefits for the administrative and senior management of the Target Group. Research and development expenses mainly represented the Target Group's expenses on research and development of production machinery, technology and materials which include, among others, machineries and production materials used during the research and development, staff costs of the research and development department and research fees paid to research and development partners. Safety production expenses represented the purchase price and maintenance fee for safety device and assets, security services fees, insurance, fees for internal and external training courses provided to staff for safety production and fee for safety assessment paid to external safety assessment service providers. Under the

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relevant rules and regulations of the PRC, civil explosives manufacturers should allocate certain percentage of its sales revenue of the previous financial year (ranging from 0.2% to 4.0% depending on the amount of revenue) for safety production expenses for the then financial year.

Finance costs

Finance costs mainly comprised interest in bank and other borrowings and discounting charge for bills receivables.

Income tax expenses

Income tax expenses of the Target Group represented the PRC Enterprise Income Tax of the PRC operating subsidiaries of the Target Group. No Hong Kong profits tax had been provided as there was no assessable profit earned in or derived from Hong Kong during the Relevant Period. The Target Group's current PRC Enterprise Income Tax was approximately RMB12.12 million, RMB22.43 million, RMB26.92 million and RMB16.84 million for the three years ended 31 March 2014 and the nine months ended 31 December 2014 respectively. During the Relevant Period, the effective tax rate for the Target Group was approximately 11.20%, 17.48%, 15.73% and 14.96% for the three years ended 31 March 2014 and the nine months ended 31 December 2014 respectively. Save as the preferential tax treatments enjoyed by Shengan Chemical (Bayannur) and Shengan Chemical (Otog Banner) as disclosed below, the PRC Enterprise Income Tax rate of applicable to the operating subsidiaries of the Target Group during the Relevant Period was 25%.

In November 2007, Shengan Chemical (Bayannur) was recognised as 高新技術企業 (High-new Technology Enterprise*). Pursuant to the recognition, Shengan Chemical (Bayannur) was entitled to full exemption from tax for a period of five years from 1 January 2007 up to 31 December 2011, after which Shengan Chemical (Bayannur) was entitled to a preferential PRC Enterprise Income Tax rate of 15% for a period of three years from 1 January 2012. Such full tax exemption enjoyed by Shengan Chemical (Bayannur) up to 31 December 2011 explained the substantial increase in current taxation for the year ended 31 March 2013 as compared to that for the year ended 31 March 2012.

In addition, in November 2011, Shengan Chemical (Otog Banner) was recognised as 高新技術企業 (High-new Technology Enterprise*). Pursuant to the recognition, Shengan Chemical (Otog Banner) was entitled to a preferential PRC Enterprise Income Tax rate of 15% for a period of three years from 1 January 2012.

As confirmed by the Vendors and to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, as at 31 December 2014, the Target Group has paid all relevant taxes due and did not have any dispute or unresolved issue with the relevant tax authorities.

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MANAGEMENT'S DISCUSSION AND ANALYSIS ON RESULTS OF OPERATIONS

Nine months ended 31 December 2014 compared with nine months ended 31 December 2013

Revenue

Revenue of the Target Group decreased by approximately RMB67.77 million or 20.17% from approximately RMB335.93 million for the nine months ended 31 December 2013 to approximately RMB268.16 million for the nine months ended 31 December 2014. The primary reason for the decrease in revenue was that senior management of the Target Group closely monitored and kept the production and sales volume of civil explosives of the Target Group within the then authorised limit granted by the relevant PRC government authority.

Cost of revenue

Cost of revenue of the Target Group decreased by approximately RMB19.54 million or 15.35% from approximately RMB127.30 million for the nine months ended 31 December 2013 to approximately RMB107.76 million for the nine months ended 31 December 2014. The decrease was a combined effect of (i) decrease in production and sales volume of civil explosives so as to comply with the authorised limit granted by the PRC government authority as mentioned above; and (ii) decrease in purchase price of major production materials used in the Target Group's production of civil explosives. The cost of production materials decreased by approximately RMB17.83 million or 17.61% from approximately RMB101.27 million for the nine months ended 31 December 2013 to approximately RMB83.44 million for the nine months ended 31 December 2014. Please refer to the paragraph headed "7. Information on the Target Group – (f) Business of the Target Group – Production materials" in this letter for the reason for the decrease of cost of production materials.

Gross profit and gross profit margin

Gross profit of the Target Group decreased by approximately RMB48.21 million or 23.11% from approximately RMB208.62 million for the nine months ended 31 December 2013 to approximately RMB160.41 million for the nine months ended 31 December 2014, and the Target Group's gross profit margin decreased from approximately 62.10% for the nine months ended 31 December 2013 to approximately 59.82% for the nine months ended 31 December 2014. The decrease in gross profit and gross profit margin was in line with the decrease in production and sales volume of civil explosives for the nine months ended 31 December 2014 as mentioned above.

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Other income and gains

Other income and gains of the Target Group for the nine months ended 31 December 2013 and the nine months ended 31 December 2014 principally represented interest income, gain on disposal of property, plant and equipment and sundry income received by the Target Group. Other income and gains of the Target Group decreased by approximately RMB0.68 million or 52.69% from approximately RMB1.28 million for the nine months ended 31 December 2013 to approximately RMB0.61 million for the nine months ended 31 December 2014. The substantial decrease in other income and gains for the nine months ended 31 December 2014 was attributable to the (i) absence of government grant for the nine months ended 31 December 2014, (ii) combined effect of substantial decrease in interest income as a result of absence of interest derived from pledged deposit as in the nine months ended 31 December 2014 and (iii) the decrease in sundry income as a result of absence on sundry income from indemnity for maintenance of insured vehicles and gain on disposal of vehicles as in the nine months ended 31 December 2014.

Selling and distribution expenses

Selling and distribution expenses of the Target Group decreased by approximately RMB2.60 million or 13.58% from approximately RMB19.17 million for the nine months ended 31 December 2013 to approximately RMB16.57 million for the nine months ended 31 December 2014. The decrease was primarily attributable to (i) the decrease in fuel price and (ii) the commencement of operation of Shengan Chemical (Urad Middle Banner) in April 2013. As Shengan Chemical (Urad Middle Banner) had site mixed explosives station and mobile processing unit located in the premises of its sole customer, which was also one of the five largest customers of the Target Group for the nine months ended 31 December 2014, lower transportation costs were incurred.

Administrative expenses

Administrative expenses of the Target Group decreased by approximately RMB11.12 million or 26.18% from approximately RMB42.45 million for the nine months ended 31 December 2013 to approximately RMB31.34 million for the nine months ended 31 December 2014. Administrative expenses mainly consisted of staff costs, research and development expenses and safety production expenses. The decrease in administrative expenses was mainly attributable to (i) the decrease in staff costs as a result of the decrease in bonuses in administrative and senior management of the Target Group due to the decrease in revenue of the Target Group for the nine months ended 31 December 2014. Please refer to the paragraph headed “7. Information on the Target Group – (h) Financial information and management discussion and analysis of the Target Group – Management discussion and analysis on results of operations – Nine months ended 31 December 2014 compared with nine months ended 31 December 2013” in this letter for the reason for the decrease in revenue; (ii) the decrease in research and development costs as a result of the decrease in consumption of materials used for research and development; and (iii)

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the decrease in safety production expenses. The safety production expenses for the nine months ended 31 December 2013 far exceeded that of the nine months ended 31 December 2014 because the Target Group had incurred a one-time expenses for the maintenance of the performance testing ground of approximately RMB1.15 million and the installation of monitoring system in the warehouse, production plant and office of approximately RMB0.97 million during the nine months ended 31 December 2013.

Finance cost

Finance costs of the Target Group decreased by approximately RMB 1.34 million or 62.29% from approximately RMB 2.15 million for the nine months ended 31 December 2013 to approximately RMB 0.81 million for the nine months ended 31 December 2014. The decrease in finance costs was mainly because there was no new bank borrowing during the nine months ended 31 December 2014.

Income tax expenses

Income tax expenses of the Target Group decreased by approximately RMB5.86 million or 25.83% from approximately RMB22.70 million for the nine months ended 31 December 2013 to approximately RMB16.84 million for the nine months ended 31 December 2014. The decrease in income tax expenses was in line with the decrease in revenue and profit before income tax during the nine months ended 31 December 2014.

Profit for the period

As a combined result of the factors discussed above, profit for the period decreased from approximately RMB125.15 million for the nine months ended 31 December 2013 to approximately RMB95.71 million for the nine months ended 31 December 2014.

Year ended 31 March 2014 compared with year ended 31 March 2013

Revenue

Revenue of the Target Group increased by approximately RMB12.13 million or 3.08% from approximately RMB393.65 million for year ended 31 March 2013 to approximately RMB405.78 million for the year ended 31 March 2014. The primary reasons for the increase in revenue were (i) the increase in total sales volume of civil explosives by the Target Group from approximately 70,630 tonnes for the year ended 31 March 2013 to approximately 75,447 tonnes for the year ended 31 March 2014 as a result of increasing demand for civil explosives following the rapid growth of mining industries in Inner Mongolia; and (ii) the substantial increase in revenue from provision of blasting operations and related services from approximately RMB5.09 million for the year ended 31 March 2013 to approximately RMB18.91 million for the year ended 31 March 2014, which was in line with the Target Group's strategy to expand its business in provision of blasting operations and related services.

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Cost of revenue

Cost of revenue of the Target Group decreased by approximately RMB15.59 million or 8.90% from approximately RMB175.15 million for the year ended 31 March 2013 to approximately RMB159.56 million for the year ended 31 March 2014. The decrease was primarily attributable to the decrease in purchase price of major production materials used in the Target Group's production of civil explosives as cost of production materials was the major part of cost of revenue of the Target Group. The cost of production materials decreased by approximately RMB35.24 million or 22.91% from approximately RMB153.83 million for the year ended 31 March 2013 to approximately RMB118.59 million for the year ended 31 March 2014 (the reasons for the decrease of cost of production materials and price range of major production materials during the Relevant Period are set out in the paragraph headed "(f) Business of the Target Group – Production materials" in this letter). The decrease in purchase price was slightly offset by the increase in depreciation from approximately RMB3.87 million for the year ended 31 March 2013 to RMB6.21 million for the year ended 31 March 2014 as a result of the commencement of production of Shengan Chemical (Urad Middle Banner) in April 2013.

Gross profit and gross profit margin

Gross profit of the Target Group increased by approximately RMB27.72 million or 12.69% from approximately RMB218.50 million for the year ended 31 March 2013 to approximately RMB246.22 million for the year ended 31 March 2014, and the Target Group's gross profit margin increased from approximately 55.51% for the year ended 31 March 2013 to approximately 60.68% for the year ended 31 March 2014. The increase in gross profit and gross profit margin was in line with the increase in revenue and decrease in cost of revenue as explained above.

Other income and gains

Other income and gains of the Target Group for the year ended 31 March 2013 and the year ended 31 March 2014 principally represented government grants, interest income, gain on disposal of property, plant and equipment and sundry income received by the Target Group. Other income and gains of the Target Group decreased by approximately RMB0.22 million or 13.93% from approximately RMB1.59 million for the year ended 31 March 2013 to approximately RMB1.37 million for the year ended 31 March 2014. The decrease in other income and gains for the year ended 31 March 2014 was primarily attributable to the substantial decrease in government grants received by the Target Group from approximately RMB1.44 million for the year ended 31 March 2013 to RMB0.28 million for the year ended 31 March 2014 as a result of an extra government grant of approximately RMB1.40 million received by Shengan Chemical (Otog Banner) in relation to the development fund for small and medium-sized enterprise and a recognition for the Target Group's effort in application of advanced technology in its operation for the year

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ended 31 March 2013. The effect of the decrease in government granted was slightly offset by (i) the substantial increase in interest income from approximately RMB58,000 for the year ended 31 March 2013 to approximately RMB0.35 million for the year ended 31 March 2014 as a result of interest derived from pledged deposit; and (ii) significant increase in sundry income from approximately RMB8,000 for the year ended 31 March 2013 to approximately RMB0.70 million for the year ended 31 March 2014 as a result of income from sale of wastage (i.e. package materials for production materials) of approximately RMB0.32 million, indemnity for maintenance of insured vehicles of approximately RMB0.11 million and gain on disposal of vehicles of approximately RMB0.17 million during the year ended 31 March 2014.

Selling and distribution expenses

Selling and distribution expenses of the Target Group decreased by approximately RMB8.62 million or 28.38% from approximately RMB30.36 million for the year ended 31 March 2013 to approximately RMB21.74 million for the year ended 31 March 2014. The decrease was primarily attributable to the commencement of operation of Shengan Chemical (Urad Middle Banner) in April 2013. As the production plant of Shengan Chemical (Urad Middle Banner) is located in close proximity to its sole customer, which was also one of the five largest customers of the Target Group for the year ended 31 March 2014, lower transportation costs were incurred.

Administrative expenses

Administrative expenses of the Target Group decreased by approximately RMB1.30 million or 2.37% from approximately RMB55.08 million for the year ended 31 March 2013 to approximately RMB53.77 million for the year ended 31 March 2014. Administrative expenses mainly consisted of staff costs, research and development expenses and safety production expenses which was connected to the scale of business of the Target Group and thereby would not fluctuate much. The decrease in administrative expenses was primarily because of the substantial decrease in safety production expenses from approximately RMB14.27 million for the year ended 31 March 2013 to approximately RMB6.43 million for the year ended 31 March 2014, representing a decrease of approximately 54.96%. The safety production expenses for the year ended 31 March 2013 far exceeded that of other years/period during the Relevant Period because there was significantly more rainfall for the year ended 31 March 2013 which required the Target Group to incur one-time expenses to strengthen safety facilities such as warehouse and production facilities embankment. The impact brought by the decrease in safety production expenses was partially offset by the increase in staff costs for the year ended 31 March 2014.

Finance cost

Finance costs of the Target Group decreased by approximately RMB1.71 million or 42.04% from approximately RMB4.08 million for the year ended 31 March 2013 to approximately RMB2.36 million for the year ended 31 March 2014. Finance costs of the Target Group mainly comprised of interest in bank and other borrowings and discounting

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charge for bills receivables. The substantial decrease in finance costs for the year ended 31 March 2014 was primarily because there were no discounting charge for bills receivables incurred for the year ended 31 March 2014.

Income tax expenses

Income tax expenses of the Target Group increased by approximately RMB4.49 million or 20.02% from approximately RMB22.43 million for the year ended 31 March 2013 to approximately RMB26.92 million for the year ended 31 March 2014. The increase in income tax expenses was in line with the increase in profit before tax from approximately RMB128.32 million for the year ended 31 March 2013 to approximately RMB171.17 million for the year ended 31 March 2014.

Profit for the year

Profit for the year increased from approximately RMB105.88 million for the year ended 31 March 2013 to approximately RMB144.25 million for the year ended 31 March 2014, representing an increase of approximately 36.23% which far exceeded the increase in revenue by approximately 3.08%. The substantial increase in profit for the year was attributable to a combined result of the factors discussed above, in particular, the decrease in purchase price of major production materials used in the Target Group's production of civil explosives which led to the increase in gross profit margin from approximately 55.51% for the year ended 31 March 2013 to approximately 60.68% for the year ended 31 March 2014.

Year ended 31 March 2013 compared with year ended 31 March 2012

Revenue

Revenue of the Target Group increased by approximately RMB37.93 million or 10.66% from approximately RMB355.72 million for the year ended 31 March 2012 to approximately RMB393.65 million for the year ended 31 March 2013. The primary reasons for the increase in revenue were (i) the increase in total sales volume of civil explosives by the Target Group from approximately 63,305 tonnes for the year ended 31 March 2012 to approximately 70,630 tonnes for the year ended 31 March 2013 as a result of increasing demand for civil explosives following the rapid growth of mining industries in Inner Mongolia together with the increase in authorised limit of production and sales granted to the Target Group from 45,000 tonnes a year for the year ended 31 March 2012 to 60,000 tonnes a year for the year ended 31 March 2013; and (ii) the substantial increase in revenue from provision of blasting operations and related services from approximately RMB0.05 million for the year ended 31 March 2012 to approximately RMB5.09 million for the year ended 31 March 2013, which was in line with the Target Group's strategy to expand its business in provision of blasting operations and related services.

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Cost of revenue

Cost of revenue of the Target Group decreased by approximately RMB13.08 million or 6.95% from approximately RMB188.23 million for the year ended 31 March 2012 to approximately RMB175.15 million for the year ended 31 March 2013. The decrease was primarily attributable to the decrease in purchase price of major production materials used in the Target Group's production of civil explosives as cost of production materials contributed to the major part of cost of revenue of the Target Group. The cost of production materials decreased by approximately RMB10.80 million or 6.56% from approximately RMB164.64 million for the year ended 31 March 2012 to approximately RMB153.83 million for the year ended 31 March 2013 (the reasons for the decrease in cost of production materials and price range of major production materials during the Relevant Period are set out in the paragraph headed "(f) Business of the Target Group – Production materials" in this letter). The decrease in purchase price was slightly offset by the increase in labour costs and other manufacturing expenses brought by the increase in production volume of civil explosives of the Target Group from approximately 61,808.33 tonnes for the year ended 31 March 2012 to approximately 72,039.09 tonnes for the year ended 31 March 2013.

Gross profit and gross profit margin

Gross profit of the Target Group increased by approximately RMB51.00 million or 30.45% from approximately RMB167.50 million for the year ended 31 March 2012 to approximately RMB218.50 million for the year ended 31 March 2013, and the Target Group's gross profit margin increased from approximately 47.09% for the year ended 31 March 2012 to approximately 55.51% for the year ended 31 March 2013. The increase in gross profit and gross profit margin was in line with the increase in revenue and decrease in cost of revenue as explained above.

Other income and gains

Other income and gains of the Target Group for the year ended 31 March 2012 and the year ended 31 March 2013 principally represented government grants, interest income, gain on disposal of property, plant and equipment and sundry income received by the Target Group. Other income and gains of the Target Group increased by approximately RMB1.12 million or 240.34% from approximately RMB0.47 million for the year ended 31 March 2012 to approximately RMB1.59 million for the year ended 31 March 2013. The significant increase in other income and gains for the year ended 31 March 2013 was primarily attributable to the substantial increase in government grants received by the Target Group from approximately RMB0.36 million for the year ended 31 March 2012 to RMB1.44 million for the year ended 31 March 2013 as a result of an extra government grant of approximately RMB1.40 million received by Shengan Chemical (Otog Banner) in relation to the development fund for small and medium-sized enterprise and a recognition for the Target Group's effort in application of advanced technology in its operation for the year ended 31 March 2013.

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Selling and distribution expenses

Selling and distribution expenses of the Target Group increased by approximately RMB18.71 million or 160.55% from approximately RMB11.65 million for the year ended 31 March 2012 to approximately RMB30.36 million for the year ended 31 March 2013. The significant increase was primarily attributable to the combined effect of (i) the increase in volume of sales of civil explosives of the Target Group as a result of the increase in authorised limit granted by the relevant PRC government authority; (ii) the increase in fuel price; and (iii) that there were more customers requiring the Target Group to deliver the finished goods to their designated locations instead of picking up the finished goods from the warehouse of the Target Group themselves.

Administrative expenses

Administrative expenses of the Target Group increased by approximately RMB13.63 million or 32.90% from approximately RMB41.44 million for the year ended 31 March 2012 to approximately RMB55.08 million for the year ended 31 March 2013. The increase in administrative expenses was primarily because of the substantial increase in safety production expenses from approximately RMB0.79 million for the year ended 31 March 2012 to approximately RMB14.27 million for the year ended 31 March 2013, representing an increase of approximately 1,712.96%. The safety production expenses for the year ended 31 March 2013 far exceeded that of other years/period during the Relevant Period because there was significantly more rainfall for the year ended 31 March 2013 which required the Target Group to incur one-time expenses to strengthen safety facilities such as warehouse and production facilities embankment. The increase in administrative expenses during the year ended 31 March 2013 was also in line with the expansion of the Target Group's business in both production and sale of civil explosives and provision of blasting operations and related services as a result of increasing demand for civil explosives following the rapid growth of mining industries in Inner Mongolia which incurred more staff costs, research and development expenses and other related expenses.

Finance cost

Finance costs of the Target Group increased by approximately RMB3.29 million or 418.45% from approximately RMB0.79 million for the year ended 31 March 2012 to approximately RMB4.08 million for the year ended 31 March 2013. The significant increase in finance costs for the year ended 31 March 2013 was mainly attributable to the combined effect of (i) the substantial increase in bank loans obtained by the Target Group from approximately RMB19 million for the year ended 31 March 2012 to approximately RMB47 million for the year ended 31 March 2013; and (ii) incurrence of discounting charge for bills receivables of approximately RMB1.77 million for the year ended 31 March 2013.

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Income tax expenses

Income tax expenses of the Target Group increased by approximately RMB10.31 million or 85.04% from approximately RMB12.12 million for the year ended 31 March 2012 to approximately RMB22.43 million for the year ended 31 March 2013. The significant increase in income tax expenses was attributable to the combined effect of (i) the full exemption from tax enjoyed by Shengan Chemical (Bayannur) for a period of five years up to 31 December 2011 as a result of its recognition as 高新技術企業 (High-new Technology Enterprise*) in November 2007; and (ii) the increase in profit before income tax from approximately RMB108.24 million for the year ended 31 March 2012 to approximately RMB128.32 million for the year ended 31 March 2013.

Profit for the year

Profit for the year increased from approximately RMB96.12 million for the year ended 31 March 2012 to approximately RMB105.88 million for the year ended 31 March 2013, representing an increase of approximately 10.16% as a result of the combined effect of the factors discussed above.

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DISCUSSION OF SELECTED ITEMS OF CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Net current assets/(liabilities)

The following table sets forth the Target Group's current assets, current liabilities and net current assets/(liabilities) as at the dates indicated:

	As at 31 March		As at 31 December	
	2012	2013	2014	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current assets				
Inventories	11,252	17,538	12,983	17,454
Trade and bills receivables	70,072	181,785	128,935	127,693
Other receivables, prepayments and deposits	51,090	9,230	22,641	9,247
Prepaid lease payments for land	203	203	203	203
Amount due from a director	–	4,689	–	–
Amounts due from shareholders	840	–	3,355	390
Amounts due from associates	266	735	2,817	2,696
Amounts due from related companies	162,992	274,480	10,600	31
Pledged deposits	–	30,000	–	–
Bank balances and cash	28,541	16,973	28,332	62,503
	<u>325,256</u>	<u>535,633</u>	<u>209,866</u>	<u>220,217</u>
Current liabilities				
Trade and bills payables	58,085	140,990	60,816	59,693
Other payables and accruals	33,935	35,505	25,544	29,430
Dividend payable	–	–	94,355	57,200
Consideration payable for restructuring	–	–	53,500	–
Borrowings	19,000	84,807	–	–
Amounts due to related companies	–	14,500	2,950	14,650
Income tax payable	2,317	2,730	8,053	8,424
	<u>113,337</u>	<u>278,532</u>	<u>245,218</u>	<u>169,397</u>
Net current assets/(liabilities)	<u><u>211,919</u></u>	<u><u>257,101</u></u>	<u><u>(35,352)</u></u>	<u><u>50,820</u></u>

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The Target Group had net current assets of approximately RMB211.92 million and RMB257.10 million as at 31 March 2012 and 31 March 2013 respectively, representing an increase of approximately RMB45.18 million or 21.32%. The increase in net current assets was mainly due to the profit of approximately RMB105.88 million generated for the year reduced by the dividend declared of approximately RMB26.82 million and increase in non-current assets of approximately RMB33.88 million.

As at 31 March 2014, the Target Group had net current liabilities of approximately RMB35.35 million. The change from net current assets to net current liabilities was mainly due to the profit of approximately RMB144.25 million generated for the year reduced by the dividend declared of approximately RMB369.70 million and consideration of RMB127.50 million for the acquisition of 90% equity interest in Shenan Chemical (Inner Mongolia) by Qinghai Fudeyuan (particulars of the restructuring exercise of the Target Group are set out in the paragraph headed “(e) History of the Target Group” in this letter).

As at 31 December 2014, the Target Group had net current assets of approximately RMB50.82 million. The change from net current liabilities to net current assets was mainly due to decrease in dividend payable and consideration payable for restructuring settled with cash generated from operation.

As at the Latest Practicable Date, the Target Group had net current assets of approximately RMB98.58 million, representing an increase of approximately RMB47.76 million as compared to that as at 31 December 2014. Such increase was attributable to the increase in cash and cash equivalent as at 31 December 2014 as a result of the contribution from cash generated from operating activities for the nine months ended 31 December 2014.

Inventories

The following table sets forth the Target Group’s inventory positions as at the dates indicated:

	As at 31 March			As at
	2012	2013	2014	31 December
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	9,522	12,460	9,855	17,265
Finished goods	<u>1,730</u>	<u>5,078</u>	<u>3,128</u>	<u>189</u>
	<u><u>11,252</u></u>	<u><u>17,538</u></u>	<u><u>12,983</u></u>	<u><u>17,454</u></u>

Inventories of the Target Group comprised raw materials and finished goods. The Target Group’s inventories increased from approximately RMB11.25 million as at 31 March 2012 to approximately RMB17.54 million as at 31 March 2013, (representing an increase of approximately 55.87%). but decreased to approximately RMB12.98 million

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as at 31 March 2014, and further increased to approximately RMB17.45 million as at 31 December 2014. The increase in inventory level as at 31 December 2014 was mainly attributable to the increase in raw materials from RMB 9.86 million as at 31 March 2014 to RMB 17.27 million as at 31 December 2014, representing an increase of approximately RMB 7.41 million or 75.19%. The inventory of raw materials as at 31 December 2014 was much higher than the inventory of raw materials as at 31 March 2014 primarily because the senior management of the Target Group has closely controlled and monitored the production and sales volume of civil explosives since December 2014 so as to ensure that the actual production and sales volume would be within the then authorised limit as soon as possible, the demand for civil explosives from the Target Group's customers was not fully satisfied by the end of 2014. Therefore, to meet the customers' own production demand and optimal inventory level for civil explosives, the Target Group had stocked more raw materials as at 31 December 2014 for production of civil explosives in early 2015 in order to meet the outstanding demand of such customers. The inventory level as at 31 March 2013 was much higher than that as of other reporting dates during the Relevant Period primarily because the lunar new year in year 2013 was much closer to the reporting date of 31 March than that in years 2012 and 2014 such that the impact to the Target Group's inventories brought by lunar new year was bigger as at 31 March 2013. In order to minimise the impact brought by lunar new year (during which many enterprises in the PRC are on holiday and may have very limited business operation) to the business operation of the Target Group, the Target Group adopts the practice of stocking more raw materials before lunar new year such that its production during the post-lunar new year period will not be affected in the event that its suppliers have not resumed business operation yet. In addition, as many customers of the Target Group are having holiday during or around the lunar new year, the Target Group would have more finished goods in stock.

The following table sets forth a summary of the average inventory turnover days for the periods indicated:

	For the year ended 31 March		For the nine months ended 31 December	
	2012	2013	2014	2014
Inventory turnover (days) (<i>Note</i>)	24.56	30	34.91	38.84

Note: the number of inventory turnover days is calculated based on the number of days in the year/period multiplied by the division of cost of revenue of the respective years/period by the average inventory of the Target Group (sum of opening and closing balances of inventory of respective years/period and then divided by two).

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The Target Group's inventory turnover days increased from 24.56 days for the year ended 31 March 2012 to 30 days for the year ended 31 March 2013 and increased further to 34.91 days for the year ended 31 March 2014. The increase was primarily due to the increase in inventories as a result of the establishment of new production plant for operation of Shengan Chemical (Urad Middle Banner). The inventory turnover days increased from 34.91 days for the year ended 31 March 2014 to 38.84 days for the nine months ended 31 December 2014. The increase was in line with the increase in inventory as at 31 December 2014. In general, the Target Group's inventory level is higher as at 31 March 2014 because of the impact brought by lunar new year as discussed above.

Trade and bills receivables

The following table sets forth the Target Group's trade and bills receivables as at the dates indicated:

	As at 31 March			As at 31 December
	2012	2013	2014	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	35,396	23,051	69,287	47,719
Bills receivables	<u>34,676</u>	<u>158,734</u>	<u>59,648</u>	<u>79,974</u>
	<u>70,072</u>	<u>181,785</u>	<u>128,935</u>	<u>127,693</u>

The settlement and credit terms granted to the Target Group's customers are determined with reference to, among other things, (i) financial position; (ii) credit history; (iii) length of business relationship; (iv) volume of order; and (v) market share and prospect of customers. In general, the Target Group issues invoices to customers by the end of each month based on the actual volume of purchase of explosives, the unit price agreed and the actual progress of the services provided. Customers are required to settle the payments by way of bank transfer upon receipt of the invoices.

The trade receivables decreased from approximately RMB35.40 million as at 31 March 2012 to approximately RMB23.05 million as at 31 March 2013. The decrease was mainly due to the Target Group's shift of focus of customer composition from civil explosives resellers to civil explosives end-users during the year ended 31 March 2013. As the business relationship between the new end-user customers and the Target Group was at the initial stage, their transaction volume with the Target Group was fewer as compared to that between the Target Group and its existing civil explosive reseller customers.

The trade receivables increased from approximately RMB23.05 million as at 31 March 2013 to approximately RMB69.29 million as at 31 March 2014, but decreased to approximately RMB47.72 million as at 31 December 2014. The increase as at 31 March 2014 was mainly attributable to (i) the increase in revenue; and (ii) the increase in transaction volume with the new end-user customers engaged by the Target Group which had longer credit term starting from the year ended 31 March 2013. The decrease as at 31 December 2014 was attributable to the decrease in trade receivables due from one of its major customers, being Customer D as referred in this letter.

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The bill receivables increased from approximately RMB34.68 million as at 31 March 2012 to approximately RMB158.73 million as at 31 March 2013, representing an increase of approximately 357.76%. The significant increase in bill receivables was primarily due to the tightening of monetary control policy by the PRC government such that customers incline to settle their trade payables due to the Target Group by bill instead of cash. The bill receivables decreased to approximately RMB59.65 million as at 31 March 2014 as a result of the relaxation of the tightening of monetary control policy by the PRC government but increased to approximately RMB79.97 million as at 31 December 2014 primarily due to the tightening of monetary control by the PRC government such that customers incline to settle their trade payable due to the Target Group by bill instead of cash.

The following table sets forth the turnover days of the Target Group's trade receivables for the period indicated:

	For the year ended 31 March		For the nine months ended 31 December	
	2012	2013	2014	2014
Average trade receivables turnover (days) (<i>Note</i>)	<u>23.89</u>	<u>27.10</u>	<u>41.53</u>	<u>59.99</u>

Note: The number of average trade receivables turnover days is calculated based on the number of days in the year/period multiplied by the division of revenue of the respective years/period by the average trade receivables of the Target Group (sum of opening and closing balances of trade receivables of respective years/period and then divided by two).

The trade receivables turnover days increased from approximately 23.89 days as at 31 March 2012 to approximately 27.10 days as at 31 March 2013 because the Target Group's customer composition by the end of the year ended 31 March 2012 was mainly civil explosives resellers which inclined to settle their payables later, and therefore there were more trade receivables as at 31 March 2012 and as at 1 April 2012 and the average trade receivables of the Target Group was higher for the year ended 31 March 2013 as compared with that for the year ended 31 March 2012. The trade receivable turnover days increased from approximately 27.10 days as at 31 March 2013 to approximately 41.53 days as at 31 March 2014 mainly because of the trade receivables due from one of its major customers, being Customer D as referred in this letter, of approximately RMB34 million as a result of the limited cash flow of such customer due to its construction of infrastructure which required much capital. As a result, the Target Group agreed to the later settlement of trade receivables due from such customer. As at 31 December 2014, the trade receivables turnover days increased further to approximately 59.99 days as a result of the combined effect of the decrease in revenue for the nine months ended 31 December 2014 and the increase of opening balance of trade receivables for the year ended 31 March 2014. As confirmed by the Vendors and to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Directors' are of the view that the recoverability of trade receivables due from Customer D is relatively high as it is a state-owned mining enterprise with no previous record for default in settlement

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for trade receivables. Customer D had settled all the trade receivables due to the Target Group for the year ended 31 March 2014 in July 2014.

There had been an increasing trend for the average trade receivables turnover days and inventory turnover days during the three years ended 31 March 2014 and for the nine months ended 31 December 2014 which had led to a relatively slower cash inflow into the Target Group.

The following table set forth the ageing analysis of the trade receivables based on the invoice dates as at the dates indicated:

	As at 31 March			As at 31 December
	2012	2013	2014	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 month	35,095	19,537	31,394	3,629
1 to 3 months	–	3,181	20,839	27,037
More than 3 months but less than				
1 year	81	333	17,054	14,275
Over 1 year	220	–	–	2,778
	<u>35,396</u>	<u>23,051</u>	<u>69,287</u>	<u>47,719</u>

Trade receivables by invoice dates which had the age of over three months but less than one year, amount to approximately RMB0.08 million, RMB0.33 million, RMB17.05 million and RMB14.28 million as at 31 March 2012, 31 March 2013, 31 March 2014 and 31 December 2014 respectively. The significant increase from 31 March 2013 to 31 March 2014 was mainly due to in line with the Target Group's shift of focus of customer composition from civil explosives resellers to civil explosives end-users starting from the year ended 31 March 2013. As at 31 March 2014, the number of end-user customers of the Target Group and the relevant transaction volume increased. However, as those end-user customers were of smaller scale with less cash flow, they could only settle the trade payables due to the Target Group when their mining enterprise customers had settled the trade payables due to them.

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Other receivables, prepayments and deposits

The following table sets forth the other receivables, prepayment and deposits as at the dates indicated:

	As at 31 March			As at 31 December
	2012	2013	2014	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Other receivables and deposits	44,811	6,105	6,226	6,749
Prepayments	<u>11,104</u>	<u>11,647</u>	<u>18,765</u>	<u>11,643</u>
	55,915	17,752	24,991	18,392
Less: non-current portion				
Deposits for purchase of property, plant and equipment	<u>(4,825)</u>	<u>(8,522)</u>	<u>(2,350)</u>	<u>(9,145)</u>
Current portion	<u><u>51,090</u></u>	<u><u>9,230</u></u>	<u><u>22,641</u></u>	<u><u>9,247</u></u>

The Target Group's other receivables, prepayments and deposits mainly included other receivables in relation to loans granted by the Target Group to an entity for its business needs and prepayments to suppliers for production materials. The other receivables as at 31 March 2012 mainly included loans granted by the Target Group to an entity for its business needs. The other receivables, prepayments and deposits decreased significantly by approximately RMB41.86 million or 81.93% from approximately RMB51.09 million as at 31 March 2012 to approximately RMB9.23 million as at 31 March 2013. The decrease was primarily due to the substantial decrease in other receivables as a result of repayment of loans. The other receivables, prepayments and deposits increased to approximately RMB22.64 million as at 31 March 2014 because the Target Group had made more prepayments for purchase of major production materials in light of the decrease in purchase price so as to maximise its profit margin.

Trade and bills payables

The following table sets forth the trade and bill payables as at the dates indicated:

	As at 31 March			As at 31 December
	2012	2013	2014	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade and bill payables	<u><u>58,085</u></u>	<u><u>140,990</u></u>	<u><u>60,816</u></u>	<u><u>59,693</u></u>

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The trade and bill payables of the Target Group mainly comprised payables to its suppliers for purchase of production materials. The trade and bill payables increased by approximately 142.73% or RMB82.91 million from approximately RMB58.09 million as at 31 March 2012 to approximately RMB140.99 million as at 31 March 2013. The increase was in line with the increase in bill receivables as a result of the tightening of monetary control policy by the PRC government such that customers inclined to settle their trade payables due to the Target Group by bills instead of cash. In order to minimise the interest expenses incurred by the Target Group as a result of the use of bills by its customers, the Target Group settled its payment to its suppliers using the bills provided by its customers. Under the accounting policy of the Target Group, trade and bill payables of the Target Group settled by bills would still subsist until such bills expire.

The following table set forth the ageing analysis of trade payables based on the invoice dates as at the dates indicated:

	As at 31 March			As at 31 December
	2012	2013	2014	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 month	54,500	74,276	53,028	11,210
1 to 3 months	2,778	5,088	5,907	23,926
More than 3 months	807	1,626	1,881	24,557
	<u>58,085</u>	<u>80,990</u>	<u>60,816</u>	<u>59,693</u>

Trade payables based on the invoice dates which had the age of over three months, amount to approximately RMB0.81 million, RMB1.63 million, RMB1.88 million and RMB24.56 million as at 31 March 2012, 31 March 2013, 31 March 2014 and 31 December 2014 respectively. The increase in trade and bills payables of more than three months as at 31 March 2013 and 31 December 2014 was mainly due to the increasing use of bills (which generally had a term of six months) in settlement of trade and bill payables.

The following table sets forth the turnover days of the Target Group's trade payables for the period indicated:

	For the year ended 31 March			For the nine months ended 31 December
	2012	2013	2014	2014
Average trade payables turnover (days) (Note)	<u>57.37</u>	<u>52.24</u>	<u>42.97</u>	<u>52.81</u>

LETTER FROM THE BOARD

Note: The number of average trade payables turnover days is calculated based on the number of days in the year/period multiplied by the division of cost of revenue of the respective years/period by the average trade payables of the Target Group (the average trade payables of the Target Group is calculated based on the sum of opening and closing trade payables of the respective year/period excluding balances settled by bills receivables and not yet fulfill derecognition criteria of respective years/period)

Given that the average trade payables turnover days remained relatively stable during the Relevant Period and as such, the impact on the cash flow of the Target Group is relatively insignificant.

Other payables and accruals

The following table sets forth the other payables and accruals as at the dates indicated:

	As at 31 March			As at 31 December
	2012	2013	2014	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Other payables and accruals	<u>33,935</u>	<u>35,505</u>	<u>25,544</u>	<u>29,430</u>

Other payables and accruals of the Target Group mainly represented the staff salary, value-added tax, transportation expenses, purchase price of fixed assets and other payables. Other payables and accruals as at 31 March 2012 and 31 March 2013 were higher because of (i) the payables to other civil explosives manufacturers to obtain their unused authorised limit of production and sales of civil explosives as approved by the relevant PRC government authority and (ii) (in respect of the position as at 31 March 2013 only) the payables for the fixed assets purchased for the production plant of Shengan Chemical (Urad Middle Banner).

Income tax payables

The income tax payables increased from approximately RMB2.32 million as at 31 March 2012 to approximately RMB2.73 million as at 31 March 2013, increased to approximately RMB8.05 million as at 31 March 2014 and approximately RMB8.42 million as at 31 December 2014.

The increase in income tax payables during the Relevant Period was in line with the increase in income tax expense. The substantial increase in income tax payables as at 31 March 2014 and 31 December 2014 was mainly attributable to the income tax expenses for the previous quarter as the relevant tax bureaus requested the Target Group to pay a substantial part of income tax expenses for the previous quarter at a later date.

LETTER FROM THE BOARD

Property, plant and equipment

The Target Group's property, plant and equipment mainly comprised buildings, plant and machinery, furniture and fixtures, motor vehicles and construction in progress. The property, plant and equipment increased from approximately RMB45.84 million as at 31 March 2012 to approximately RMB76.99 million as at 31 March 2013, increased to approximately RMB81.18 million as at 31 March 2014 and approximately RMB84.69 million as at 31 December 2014.

The significant increase in property, plant and equipment from 31 March 2012 to 31 March 2013 was primarily due to the addition in buildings and construction in progress of approximately RMB21.18 million and increase in plant and machinery of approximately RMB14.43 million as a result of the construction of the production plant of Shengan Chemical (Urad Middle Banner). The increase in property, plant and equipment as at 31 December 2014 was mainly attributable to the establishment of a new emulsion explosive production line in Bayannur in place of an existing production line. Please refer to the paragraph headed "7. Information on the Target Group – (f) Business of the Target Group – Business strategies – expanding its existing production facilities and capabilities" in this letter for further details of the new production line.

Intangible assets

The intangible assets of the Target Group comprised computer software and patents. The amount of intangible assets during the Relevant Period was rather stable.

Bank borrowings

Please refer to the paragraph headed "(h) Financial information and management discussion and analysis of the Target Group – Indebtedness – Bank borrowings" below for further information.

Amounts due from/to related companies and directors

As at 31 March 2012, 2013, 2014 and as at 31 December 2014, the amounts due from related companies were approximately RMB162.99 million, RMB274.48 million, RMB10.60 million and RMB0.03 million. These companies were related to the Target Group as they were under the control or significant influence of a director of the Target Company, Mr. Ma Qiang or his close family member. The balance with related companies mainly represented fund advance for their daily operation. The amounts were unsecured, non-interest bearing and repayable on demand. Save for the settlement by way of setting off with dividend payable in the amount of RMB24.14 million and RMB255.11 million for the years ended 31 March 2013 and 2014 respectively, the rest of the settlements were made by cash payment.

LETTER FROM THE BOARD

As at 31 March 2012, 2013, 2014 and as at 31 December 2014, the amounts due to related companies were nil, approximately RMB14.50 million, RMB2.95 million and RMB14.65 million. The amounts due to related companies mainly represented advances from entities which were under the control of Mr. Ma Qiang, a director of the Target Company. Save that the amount due to a related company was repayable on 22 July 2017 and interest bearing at the rate of 6% per annum (i. e. the Restructuring Loan), the amounts due to related companies were unsecured, non-interest bearing and repayable on demand.

As at 31 March 2013, the amounts due from a director was approximately RMB4.69 million and was a loan advanced to Mr. Ma Qiang, a director of the Target Company. The amounts due were unsecured, non-interest bearing and repayable on demand. The loan was repaid in the year ended 31 March 2014.

As at the Latest Practicable Date, the amount due to related companies was the Restructuring Loan of approximately RMB52.65 million

LETTER FROM THE BOARD

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Liquidity

During the Relevant Period, the Target Group's principal sources of liquidity and capital resources were cash flow generated from operations. The following table summarises the Target Group's cash flows during the Relevant Period:

	For the year ended 31 March			For the nine months ended 31 December	
	2012 <i>RMB'000</i>	2013 <i>RMB'000</i>	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>	2014 <i>RMB'000</i>
				<i>(unaudited)</i>	
Net cash generated from operating activities	101,769	121,838	113,026	71,071	122,178
Net cash (used in)/generated from investing activities	(101,971)	(206,956)	31,287	15,334	(9,318)
Net cash generated from/ (used in) financing activities	20,017	73,550	(132,954)	(58,740)	(78,692)
Net increase/(decrease) in cash and cash equivalents	19,815	(11,568)	11,359	27,665	34,168
Cash and cash equivalents at beginning of year/period	8,726	28,541	16,973	16,973	28,332
Effect of exchange rate changes on cash and cash equivalents	-	-	-	-	3
Cash and cash equivalents at the end of year/period	28,541	16,973	28,332	44,638	62,503

LETTER FROM THE BOARD

Cash flows from operating activities

Net cash generated from operating activities

The Target Group's net cash generated from operating activities primarily consisted of profit before income tax adjusted for depreciation and amortisation, finance costs, interest income, share of results of associates and (gain)/loss on disposal of property, plant and equipment.

Net cash generated from operating activities for the year ended 31 March 2012 was approximately RMB101.77 million, which was mainly attributable to profit before tax of approximately RMB108.24 million. Such amount was adjusted for depreciation of property, plant and equipment of approximately RMB5.41 million, the decrease in inventories of approximately RMB2.76 million, increase in trade and bills payables of approximately RMB34.86 million and increase in other payables and accruals of approximately RMB9.28 million, and offset by the increases in trade and bills receivables of approximately RMB40.87 million and increase in other receivables, prepayments and deposits of approximately RMB9.19 million.

Net cash generated from operating activities for the year ended 31 March 2013 was approximately RMB121.84 million, which was mainly attributable to profit before tax of approximately RMB128.32 million. Such amount was adjusted for depreciation of property, plant and equipment of approximately RMB6.62 million and finance costs of approximately RMB4.08 million, the decrease in other receivables, prepayments and deposits of approximately RMB41.86 million, increase in trade and bills payables of approximately RMB82.91 million and increase in other payables and accruals of approximately RMB1.57 million, and offset by increase in inventories of approximately RMB6.29 million, increase in trade and bills receivables of approximately RMB111.71 million and increase in amounts due from directors and shareholders of approximately RMB3.85 million.

Net cash generated from operating activities for the year ended 31 March 2014 was approximately RMB113.03 million. The amount was mainly attributable to profit before tax of approximately RMB171.17 million, adjusted for depreciation of property, plant and equipment of approximately RMB9.75 million and finance costs of approximately RMB2.36 million, the decrease in inventories of approximately RMB4.56 million, decrease in trade and bills receivables of approximately RMB52.85 million and decrease in amounts due from directors and shareholders of approximately RMB1.33 million, and offset by increase in other receivables, prepayments and deposits of approximately RMB13.41 million, increase in amounts due from associates of approximately RMB2.08 million, decrease in trade and bills payables of approximately RMB80.17 million and decrease in other payables and accruals of approximately RMB9.96 million.

Net cash generated from operating activities for the nine months ended 31 December 2014 was approximately RMB122.18 million. The amount was mainly attributable to profit before tax of approximately RMB112.55 million, adjusted for depreciation of property, plant and equipment of approximately RMB10.22 million, decrease in other receivables, prepayments and deposits of approximately RMB13.33 million, decrease in

LETTER FROM THE BOARD

amounts due from directors and shareholders of approximately RMB2.97 million, and increase in other payables and accruals of approximately RMB3.73 million, decrease in trade and bills receivables of approximately RMB1.11 million, and offset by decrease in trade and bills payables of approximately RMB1.11 million, increase in inventories of approximately RMB4.47 million and decrease in amounts due from associates of approximately RMB0.12 million.

Net cash (used in)/generated from investing activities

The Target Group's cash used in investing activities mainly represented the cash used in the purchase of property, plant and equipment.

Net cash used in investing activities for the year ended 31 March 2012 was approximately RMB101.97 million arising from (i) cash outflow primarily in respect of payments for purchase of property, plant and equipment of approximately RMB9.26 million as a result of establishment of Shengan Chemical (Urad Middle Banner) in July 2012 which required purchase of plant and equipment for its operation; and (ii) increase in amounts due from related companies of approximately RMB92.78 million.

Net cash used in investing activities for the year ended 31 March 2013 was approximately RMB206.96 million, representing an increase of approximately RMB104.99 million or 102.96%. Such significant increase arose from (i) cash outflow primarily in respect of payments for purchase of property, plant and equipment of approximately RMB41.56 million as a result of establishment of Shengan Chemical (Urad Middle Banner) in July 2012 which required purchase of plant and equipment for its operation; (ii) increase in amounts due from related companies of approximately RMB135.63 million; and (iii) increase in pledged deposits of approximately RMB30.00 million.

Net cash generated from investing activities for the year ended 31 March 2014 was approximately RMB31.29 million arising from (i) cash outflow primarily in respect of payments for purchase of property, plant and equipment of approximately RMB8.00 million; (ii) proceeds from disposal of property, plant and equipment of approximately RMB0.26 million; (iii) decrease in amounts due from related companies of approximately RMB8.77 million; and (iv) decrease in pledged deposits of approximately RMB30.00 million.

Net cash used in investing activities for the nine months ended 31 December 2014 was approximately RMB9.32 million arising from cash outflow primarily in respect of payments for purchase of property, plant and equipment of approximately RMB22.22 million as a result of the establishment of a new production line for emulsion explosives.

LETTER FROM THE BOARD

Net cash generated from/(used in) financing activities

The Target Group's financing activities during the Relevant Period mainly included capital contribution, consideration paid for restructuring, disposal and acquisition of interest in subsidiary, dividends paid to shareholders, interest paid on borrowings, amounts due to related companies, proceeds from borrowings and repayment of borrowings.

Net cash generated from financing activities for the year ended 31 March 2012 was approximately RMB20.02 million. The amount was mainly attributable to (i) capital contribution from a shareholder of approximately RMB2.80 million; (ii) decrease in amounts due to related companies of approximately RMB1.00 million; and (iii) proceeds from borrowings of approximately RMB19.00 million.

Net cash generated from financing activities for the year ended 31 March 2013 was approximately RMB73.55 million. The amount was mainly attributable to (i) proceeds from borrowings of approximately RMB84.81 million; and (ii) increase in amounts due to related companies of approximately RMB14.50 million, which were partially offset by (i) repayment of borrowings of approximately RMB19.00 million; (ii) interest paid on borrowings of approximately RMB4.08 million; and (iii) dividend paid to shareholders of approximately RMB2.68 million.

Net cash used in financing activities for the year ended 31 March 2014 was approximately RMB132.95 million. The amount was mainly attributable to (i) the consideration paid for the acquisition of 90% equity interest in Shengan Chemical (Inner Mongolia) by Qinghai Fudeyuan on 2 May 2013 of approximately RMB74.00 million; (ii) consideration paid for the acquisition of additional 5% interest in Shengan Chemical (Inner Mongolia) by Qinghai Fudeyuan on 10 January 2014 of approximately RMB10.00 million (details of the restructuring exercise in relation to Shengan Chemical (Inner Mongolia) are set out in the paragraph headed "(e) History of the Target Group - Corporate development and structure - Shengan Chemical (Inner Mongolia)" in this letter and notes 2, 31(ii) and 36 to the accountants' report of the Target Group as set out in Appendix II to this circular); (iii) dividends paid to shareholders of approximately RMB20.24 million; and (iv) repayment of borrowings of approximately RMB84.81 million, where were partially offset by the proceed from disposal of 35% equity interest in Shengan Chemical (Inner Mongolia) by Qinghai Fudeyuan of approximately RMB60.00 million, on 2 May 2013.

Net cash used in financing activities for the nine months ended 31 December 2014 was approximately RMB78.69 million. The amount was mainly attributable to (i) the consideration paid for the acquisition of 90% equity interest in Shengan Chemical (Inner Mongolia) by Qinghai Fudeyuan on 2 May 2013 and consideration paid for the acquisition of entire equity interest in Qinghai Fudeyuan by Ample Ocean HK on 25 August 2014 of approximately RMB103.37 million; (ii) dividends paid to shareholders of approximately RMB37.16 million, which were partially offset by increase in amounts due to related companies of approximately RMB61.55 million.

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Capital expenditures

The Target Group's capital expenditures during the Relevant Period principally represented the expenditures for the acquisition of property, plant and equipment. The following table sets forth the amount of capital expenditures contracted for but not provided as at the date indicated.

	Year ended 31 March			Nine months ended
	2012	2013	2014	31 December
	2014	2014	2014	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Purchase of property, plant and equipment	9,263	41,562	7,992	22,215
Purchase of intangible assets	209	–	98	–
	<u>9,472</u>	<u>41,562</u>	<u>8,090</u>	<u>22,215</u>

The capital expenditures for the year ended 31 March 2013 was much higher because of the establishment of Shengan Chemical (Urad Middle Banner) which led to the increase in purchase of property, plant and equipment. The capital expenditures for the nine months ended 31 December 2014 was also much higher because of the establishment of a new emulsion explosive production line in Bayannur in place of an existing production line.

The Directors expect that the future capital expenditure requirements will be met through the Target Group's available cash and cash equivalents, cash generated from operating activities, internal resources and/or bank borrowings.

Working capital position

The Target Group had net current assets of approximately RMB211.92 million, RMB257.10 million and RMB50.82 million as at 31 March 2012, 31 March 2013 and 31 December 2014 and net current liabilities of approximately RMB35.35 million as at 31 March 2014. The change from net current assets to net current liabilities as at 31 March 2014 was primarily due to the acquisition of 90% equity interest in Shengan Chemical (Inner Mongolia) by Qinghai Fudeyuan with the consideration of RMB127.50 million and the declaration of dividends to shareholders.

The Target Group financed its working capital requirement primarily through cash flow from its operating activities and bank borrowings. The net cash generated from the Target Group's operating activities amounted to approximately RMB101.77 million, RMB121.84 million, RMB113.03 million and RMB122.18 million during the three years ended 31 March 2014 and the nine months ended 31 December 2014. The bank balances and cash as at 31 December 2014 amounted to approximately RMB62.50 million.

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Capital commitments and operating lease commitments

Capital commitments

	As at 31 March			As at
	2012	2013	2014	31 December
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2014 <i>RMB'000</i>
Commitment for the acquisition of property, plant and equipment	4,860	29	624	8,020

The capital commitments incurred as at 31 March 2012 was much higher because of the fixed assets acquired for construction of staff canteen for Shengan Chemical (Bayannur). The further increase as at 31 December 2014 was attributable to the fixed assets for the establishment of a new emulsion explosive production line in Bayannur in place of an existing production line.

The Directors expect that the future capital commitments requirements will be met by the internal resources of the Target Group.

Operating lease commitments

During the Relevant Period, the Target Group leased certain office premises and leasehold lands under operating lease arrangements, with leases negotiated for terms ranging from one to five years.

The table below sets forth the total future minimum lease payments under non-cancellable operating leases falling due as at the date indicated:

	As at 31 March			As at
	2012	2013	2014	31 December
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2014 <i>RMB'000</i>
Within one year	7	29	14	18
In the second to fifth years, inclusive	—	6	—	—
	7	35	14	18

LETTER FROM THE BOARD

INDEBTEDNESS

Borrowings

The following table sets forth the Target Group's borrowings as at the date indicated:

	As at 31 March			As at
	2012	2013	2014	31 December
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>2014</i> <i>RMB'000</i>
Bank loans, secured	19,000	47,000	–	–
Asset-backed financing (<i>Note</i>)	–	37,807	–	–
	<u>19,000</u>	<u>84,807</u>	<u>–</u>	<u>–</u>

Note: This represents the financing obtained in invoice discounting transactions which do not meet the de-recognition requirements in HKAS 39. The corresponding financial assets are included in bill receivables of the Target Group.

As at 31 March 2012, 31 March 2013, 31 March 2014 and 31 December 2014, the Target Group had bank loans of approximately RMB19 million, RMB47 million, nil and nil. The increase in bank borrowings as at 31 March 2013 as compared to 31 March 2012 primarily was reflected by the increase in working capital expenditure associated with the increase in revenue from both the sales of civil explosives and provision of blasting operations and related services and the establishment of Shengan Chemical (Urad Middle Banner) which required purchase of property, plant and equipment. The decrease in bank borrowings as at 31 March 2014 as compared to 31 March 2013 was primarily attributable to (i) all the bank loans had been repaid as at 31 March 2014 and no further bank loans were further obtained after the repayment of the then existing bank loans due to improvement in planning for capital expenditure such that the internal resources was sufficient for its working capital expenditure requirement.

All the bank loans obtained by the Target Group were repayable within one year. As at 31 March 2012, the Target Group's bank loans were secured by certain properties of a related party. As at 31 March 2013, the Target's Group's bank loans were secured by the properties of a related party, and personal guarantee of certain shareholders and a related company. The average effective interest rates of the Target Group's borrowings was 7.25% per annum for the year ended 31 March 2012 and range from 4.67% to 7.8% per annum for the year ended 31 March 2013.

LETTER FROM THE BOARD

The bank loans of the Target Group generally include covenants such as requirements to seek consents from or notify the banks in the event of material corporate actions, material adverse changes in operations and financial conditions of the relevant borrowers, and restriction on the use of proceeds from the bank borrowings proceeds.

The Directors are of the view that the recent changes in market interest rates do not have any material adverse impact on the Target Group's results and financial positions and the Directors are not aware of any circumstances where the Target Group's ability to obtain external financing in the future may be affected by the volatility in the PRC financial market.

In addition to bank loans, the Target Group had also advanced amounts from related companies during the Relevant Period. The amounts due to related companies was nil, approximately RMB14.50 million, RMB2.95 million and RMB66.01 million as at 31 March 2012, 31 March 2013, 31 March 2014 and 31 December 2014 respectively. The amounts due to related companies represented advances from entities which were under the control of Mr. Ma Qiang, a director of the Target Company. The amounts due to related companies were unsecured. With the exception of the Restructuring Loan, the amounts due to related companies were interest-free and repayable on demand.

The Restructuring Loan was unsecured, repayable on 22 July 2017 and interest bearing at the rate of 6% per annum. Further details of the Restructuring Loan are set out in bullet point (2) under the paragraph headed "2. Acquisition – (a) SP Agreement – Assets to be acquired" of this letter.

At the close of business on 30 April 2015, being the latest practicable date for indebtedness purposes, the Target Group was indebted to related company as follows:

	<i>RMB'000</i>
Amount due to Shiny Ocean (<i>note</i>)	<u>52,049</u>

Note:

The amount due was unsecured, interest bearing at 6% per annum and due for repayment by 22 July 2017.

As confirmed by the Vendors and to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, as at 30 April 2015, the Target Group did not have any plan to raise material external debt financing.

Save as disclosed above, as at 30 April 2015, the Target Group did not have any other borrowings, bank overdrafts, liabilities under acceptances (other than normal trade bills) or acceptance credits or hire purchase commitments or other similar indebtedness.

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Guarantees

As confirmed by the Vendors and to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, during the Relevant Period and as at 30 April 2015, the Target Group did not provide any guarantee to any third party.

Debt securities

As confirmed by the Vendors and to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, as at 30 April 2015, the Target Group had no debt securities issued outstanding or authorised or otherwise created but unissued.

Contingent liabilities, mortgage and charges

As confirmed by the Vendors and to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, as at 30 April 2015, the Target Group did not have any material contingent liabilities, mortgages, charges and guarantees.

As confirmed by the Vendors and to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, there have been no material changes to the Target Group's indebtedness and contingent liabilities since 31 December 2014.

FINANCIAL RISK

Credit risk

The Target Group's credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Target Group. The Target Group's maximum exposure to credit risk is represented by the carrying amount of each financial asset at the end of each reporting period in the consolidated statements of financial position after deducting any impairment allowance.

The Target Group's credit risk also relates to concentration of credit risk by customers as approximately 94%, 95%, 77% and 36% of total trade and bills receivables and other receivables was due from the Target Group's five largest customers as at 31 March 2012, 31 March 2013, 31 March 2014 and 31 December 2014 respectively.

In order to minimise credit risk in respect of trade receivables, other receivables and amounts due from related parties, the Target Group has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. Credit evaluations of its customers' financial position and condition are performed on each major customer periodically. These evaluations focus on the customer's past history of making payments when due and its current ability to pay, taking into account of information specific to the customer as well as pertaining to the economic environment in which the customer operates. The Target Group does not obtain collateral from customers.

LETTER FROM THE BOARD

Liquidity risk

In the management of the Target Group's liquidity risk, each of the operating companies of the Target Group is responsible for its own cash management, including obtaining loans to cover expected cash demands, subject to approval by the directors of the Target Group when the borrowings exceed certain predetermined levels of authority. It is the Target Group's policy to regularly monitor its current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in short and longer term.

The following table sets forth the Target Group's remaining contractual maturity for its financial liabilities as at the end of each reporting periods, which are based on undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the reporting date) and the earliest date the Target Group can be required to pay:

	Carrying amount <i>RMB'000</i>	Total contractual undiscounted cash flows <i>RMB'000</i>	On demand or within 1 year <i>RMB'000</i>	Between 2 and 5 years <i>RMB'000</i>
As at 31 March 2012				
Trade and bills payables	58,085	58,085	58,085	–
Other payables and accruals	28,000	28,000	28,000	–
Borrowings	19,000	20,001	20,001	–
	<u>105,085</u>	<u>106,086</u>	<u>106,086</u>	<u>–</u>
As at 31 March 2013				
Trade and bills payables	140,990	140,990	140,990	–
Other payables and accruals	30,411	30,411	30,411	–
Borrowings	84,807	88,471	88,471	–
Amount due to related companies	14,500	14,500	14,500	–
	<u>270,708</u>	<u>274,372</u>	<u>274,372</u>	<u>–</u>

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	Carrying amount <i>RMB'000</i>	Total contractual undiscounted cash flows <i>RMB'000</i>	On demand or within 1 year <i>RMB'000</i>	Between 2 and 5 years <i>RMB'000</i>
As at 31 March 2014				
Trade and bills payables	60,816	60,816	60,816	–
Other payables and accruals	16,860	16,860	16,860	–
Dividend payable	94,355	94,355	94,355	–
Consideration payable for restructuring	53,500	53,500	53,500	–
Amounts due to related companies	2,950	2,950	2,950	–
	<u>228,481</u>	<u>228,481</u>	<u>228,481</u>	<u>–</u>
As at 31 December 2014				
Trade and bills payables	59,693	59,693	59,693	–
Other payables and accruals	14,030	14,030	14,030	–
Dividend payable	57,200	57,200	57,200	–
Amount due to related companies	66,014	72,858	14,650	58,208
	<u>196,937</u>	<u>203,781</u>	<u>145,573</u>	<u>58,208</u>

As at 31 December 2014, the Target Group had net current assets of approximately RMB50.82 million. Based on the information provided by the Vendors and to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Directors anticipate that the Target Group would generate sufficient cash inflows from its operating activities to meet its current liabilities as they fall due for at least twelve months from 31 December 2014. Nevertheless, the Target Group will continue to undertake various measures in order to further improve its liquidity position in short and longer term.

Interest rate risk

The Target Group's interest rate risk arises primarily from bank borrowings, including asset-backed financing and bills payables, and advance from a related company which is interest-bearing. The Target Group is exposed to cash flow interest rate risk which relates primarily to the Target Group's floating-rate borrowings, as well as fair value interest risk in relation to fixed-rate borrowings. The Target Group currently does not have an interest rate hedging policy. However, management of the Target Group closely monitors interest rate risk and will consider hedging significant interest rate exposure should the need arise.

LETTER FROM THE BOARD

It was estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would decrease the Target Group's profit for approximately RMB162,000 and RMB370,000 for the years ended 31 March 2012 and 2013 respectively, whereas there would have no impact to the Target Group's profit for the year ended 31 March 2014 and the nine months ended 31 December 2014 in response to the general increase/decrease in interest rates.

Currency risk

As the Target Group mainly operates in the PRC with most of the transactions denominated and settled in RMB, it does not have significant exposure to risk resulting from changes in foreign currency exchange rates.

KEY FINANCIAL RATIOS

The following table sets forth the Target Group's key financial ratios for the periods and as at the end of the reporting period below:

	Note	For the year ended 31 March			For the nine months ended 31 December	
		2012	2013	2014	2013	2014
Gross profit margin	1	47.09%	55.51%	60.68%	62.10%	59.82%
Net profit margin	2	27.02%	26.90%	35.55%	37.26%	35.69%
Return on equity	3	35.30%	30.14%	246.96%	N/A	N/A
Return on total assets	4	24.92%	16.81%	47.51%	N/A	N/A

	Note	As at 31 March		As at 31 December	
		2012	2013	2014	2014
Current ratio	5	2.87	1.92	0.86	1.30

Notes:

- Gross profit margin is calculated on gross profit divided by revenue for the respective year/period and multiplied by 100%.
- Net profit margin is calculated on profit for the year/period divided by revenue for the respective year/period and multiplied by 100%.
- Return on equity is calculated based on the profit for the respective year/period divided by the total equity as of the respective dates and multiplied by 100%.

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4. Return on total assets is calculated based on the profit for the respective year/period divided by the total assets of the respective dates and multiplied by 100%.
5. Current ratio is calculated based on the total current assets as of the respective dates divided by the total current liabilities as of the respective dates.

Gross profit margin

Please refer to the paragraph headed “7. Information on the Target Group – (h) Financial information and management discussion and analysis of the Target Group – Description of certain income statement items – Gross profit and gross profit margin” in this letter for the analysis of the gross profit margin.

Net profit margin

The net profit margin during the Relevant Period was generally in line with the gross profit margin. The net profit margin decreased from approximately 27.02% for the year ended 31 March 2012 to approximately 26.90% for the year ended 31 March 2013 despite the increase in gross profit margin from approximately 47.09% for the year ended 31 March 2012 to approximately 55.51% for the year ended 31 March 2013. Such decrease in net profit margin for the year ended 31 March 2013 was mainly attributable to (i) the substantial increase in safety production expenses; and (ii) increase in selling and distribution expenses. The decrease in net profit margin from approximately 37.26% for the nine months ended 31 December 2013 to approximately 35.69% for the nine months ended 31 December 2014 was generally in line with the decrease in gross profit margin for the nine months ended 31 December 2014.

Return on equity

The return on equity for the year ended 31 March 2014 of approximately 246.96% was much higher than that of other years/period during the Relevant Period mainly because (i) Shengan Chemical (Inner Mongolia) declared dividend of approximately RMB369.70 million during the year which led to decrease in total equity; (ii) the increase in net profit of approximately RMB38 million as compared to that for the year ended 31 March 2013.

Return on total assets

The return on total assets during the Relevant Period was generally in line with the return on equity. The return on total assets for the year ended 31 March 2014 of approximately 47.51% was much higher because there was declaration of dividend of approximately RMB369.70 million during the year.

LETTER FROM THE BOARD

Current ratio

The current ratio was approximately 2.87, 1.92, 0.86 and 1.30 as at 31 March 2012, 2013, 2014 and 31 December 2014 respectively. The current ratio as at 31 March 2012 was much higher because the scale of production and sales was relatively smaller with less fixed assets and less receivables and payables, and therefore the current liabilities was approximately RMB113.34 million. The current ratio as at 31 March 2014 of approximately 0.86 was particularly low because of the dividend payables of approximately RMB94.36 million, the consideration payables for restructuring of approximately RMB53.50 million and the increase in value of the fixed assets investment. The current ratio increased from approximately 0.86 as at 31 March 2014 to approximately 1.30 as at 31 December 2014 due to the increase in cash and cash equivalent as at 31 December 2014 as a result of the contribution from cash generated from operating activities for the nine months ended 31 December 2014.

CONTINGENT LIABILITIES

As confirmed by the Vendors and to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Target Group had no contingent liability as at 31 March 2012, 2013 and 2014 and 31 December 2014.

OFF-BALANCE SHEET ARRANGEMENTS

As confirmed by the Vendors and to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, save as disclosed, as at 31 March 2012, 2013 and 2014 and 31 December 2014, the Target Group had no off-balance sheet commitments and arrangements.

DIVIDENDS AND DIVIDEND POLICY

During each of the three years ended 31 March 2014 and the nine months ended 31 December 2014, the dividend declared by the Target Group was nil, approximately RMB26.82 million, RMB369.70 million and nil respectively.

The Target Company's future declarations of dividends may or may not reflect its historical declarations of dividends and will be at the absolute discretion of its directors. The declaration, payment and amount of dividends in the future will depend on the Target Group's future operations and earnings, capital requirements and surplus, general financial conditions, contractual restrictions and other factors that the directors of the Target Company consider relevant. Any declaration and payment as well as the amount of dividends will be subject to the articles of association of the Company and the BVI Business Companies Act, 2004.

As the Target Company is a holding company, its ability to declare and pay dividends will depend on receipt of sufficient funds from its subsidiaries, in particular its operating subsidiaries in China. The PRC subsidiaries of the Target Company must

LETTER FROM THE BOARD

comply with their respective articles of association and the PRC laws and regulations in declaring and paying dividends to the Target Company. Under the applicable laws in the PRC, dividends may only be paid out of distributable profits defined as after tax profits as determined under the PRC GAAP less any recovery of accumulated losses and the required allocations to statutory reserves made by the Target Company's operating subsidiaries in the PRC. In general, the Target Company will not declare dividends in a year where it does not have any distributable earnings.

DISTRIBUTABLE RESERVES

As at 31 December 2014, the Target Company had no distributable reserves available for distribution to its shareholders.

PROPERTY INTERESTS AND VALUATION OF PROPERTIES

The properties of the Target Group were revalued at approximately RMB28.86 million as at 30 April 2015 by Asset Appraisal Ltd. Details of the valuation are summarised in Appendix IV to this circular.

DISCLOSURE UNDER CHAPTER 17 OF THE GEM LISTING RULES

As confirmed by the Vendors and to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, as at the Latest Practicable Date, the Directors were not aware of any circumstances which would give rise to a disclosure obligation under Rules 17.15 to 17.21 of the GEM Listing Rules.

POST BALANCE SHEET EVENTS

On 15 March 2015, Shengan Chemical (Inner Mongolia) declared a dividend of RMB30 million in respect of the financial year ended 31 December 2014, of which RMB12 million was attributable to the non-controlling interest shareholders.

NO MATERIAL ADVERSE CHANGE

As confirmed by the Vendors and to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, as at the Latest Practicable Date, the Directors confirm that there has not been any material change in the financial or trading position of the Target Group since 31 December 2014 (being the date to which the latest consolidated financial results were prepared as set out in the financial information of the Target Group in Appendix II to this circular) and up to the Latest Practicable Date.

(i) Shareholding structure of the Target Group

Please refer to the paragraph headed "(e) History of the Target Group - Corporate development and structure - Corporate structure" in this letter for the shareholding structure of the Target Group immediately before and after Completion.

LETTER FROM THE BOARD

8. EGM

The EGM will be convened and held at Flat A, 11th Floor, Two Chinachem Plaza, 68 Connaught Road Central, Hong Kong, at 3:00 p.m. on Monday, 20 July 2015 for the purpose of considering and, if thought fit, approving the Acquisition and the transaction contemplated under the SP Agreement, the grant of Specific Mandate, the increase in the authorised share capital of the Company, the continuing connected transactions under the Transportation Framework Agreement and the related annual caps. The Vendors, Shiny Ocean and their respective associates will abstain from voting for the relevant resolutions approving the Acquisition and the transactions contemplated under the SP Agreement, the grant of the Specific Mandate, the increase in the authorised share capital of the Company, the continuing connected transactions under the Transportation Framework Agreement and the related annual caps at the EGM.

A notice convening the EGM is set out on pages EGM-1 to EGM-3 of this circular. A proxy form for use at the EGM is enclosed in this circular. Whether or not you intend to attend the EGM in person, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon and deposit it with the Company's share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

Pursuant to Rule 17.47(4) of the GEM Listing Rules, the resolutions proposed at the EGM must be taken by way of poll. An announcement on the poll results will be made by the Company after the EGM in the manner prescribed under Rule 17.47(5) of the GEM Listing Rules.

9. RECOMMENDATIONS

The Independent Board Committee comprising three independent non-executive Directors has been established (i) to advise the Independent Shareholders as to whether the terms of the Acquisition, the SP Agreement and the transactions contemplated thereunder are fair and reasonable and are in the interests of the Company and its Shareholders as a whole; (ii) to advise the Independent Shareholders as to whether the terms of the Transportation Framework Agreement and the related annual caps are fair and reasonable, whether the continuing connected transactions under the Transportation Framework Agreement are on normal commercial terms, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole; and (iii) to advise the Independent Shareholders on how to vote at the EGM, taking into account the recommendations of the IFA. The text of the letter from the Independent Board Committee to the Independent Shareholders containing its advice is set out on pages 213 to 214 of this circular.

LETTER FROM THE BOARD

The IFA, Octal Capital Limited, has been appointed (i) to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Acquisition, the SP Agreement and the transactions contemplated thereunder are fair and reasonable and are in the interests of the Company and its Shareholders as a whole; (ii) to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Transportation Framework Agreement and the related annual caps are fair and reasonable, whether the continuing connected transactions under the Transportation Framework Agreement are on normal commercial terms, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole; and (iii) to advise the Independent Shareholders on how to vote at the EGM. The text of the letter from the IFA containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 215 to 254 of this circular.

The Directors (including the independent non-executive Directors after taking into account the advice of the IFA as set out in the letter from the IFA) are of the opinion that the Acquisition, the issue of the Convertible Bonds, the transactions contemplated under the SP Agreement, the continuing connected transactions under the Transportation Framework Agreement and the related annual caps are on normal commercial terms and are fair and reasonable and in the interest of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the ordinary resolutions approving such matters at the EGM.

In addition, the Board is also of the view that the grant of the Specific Mandate and the increase in the authorised share capital of the Company are in the best interest of the Company and the Shareholders as a whole and accordingly recommend the Independent Shareholders to vote in favour of such resolutions at the EGM.

10. ADDITIONAL INFORMATION

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

Yours faithfully,
For and on behalf of the Board
Pizu Group Holdings Limited
Ding Baoshan
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of a letter of advice from the Independent Board Committee, prepared for the purpose of incorporation in this circular, setting out its recommendation to the Independent Shareholders.

Pizu Group Holdings Limited

比優集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8053)

28 June 2015

To the Independent Shareholders

Dear Sir or Madam,

(1) VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION IN RELATION TO ACQUISITION OF THE SHARES IN, AND SHAREHOLDER'S LOAN DUE BY, AMPLE OCEAN HOLDINGS LIMITED INVOLVING ISSUE OF CONVERTIBLE BONDS
(2) NON-EXEMPT CONTINUING CONNECTED TRANSACTION

We refer to the circular of the Company dated 28 June 2015 (the "Circular"), of which this letter forms part. Unless the context requires otherwise, capitalised terms used herein shall have the same meanings as those defined in the Circular.

We have been appointed by the Board as members of the Independent Board Committee to advise you on (i) the terms of the Acquisition, the SP Agreement and the transactions contemplated thereunder; and (ii) the terms of the Transportation Framework Agreement and the related annual caps. Octal Capital Limited have been appointed as the IFA to advise you and us in this regard. Details of their advice, together with the principal factors and reasons they have taken into consideration in giving such advice, are set out on pages 215 to 254 of the Circular. Your attention is also drawn to the "Letter from the Board" in the Circular and the additional information set out in the appendices thereto.

Having considered the terms of the Acquisition, the SP Agreement and the transactions contemplated thereunder, the terms of the Transportation Framework Agreement and the related annual caps, and taking into account the advice of the IFA, in particular the principal factors, reasons and recommendations as set out in their letter, we consider that the entering into of the Acquisition, SP Agreement, the Transportation Framework Agreement and the respective transactions contemplated thereunder are and will be in the ordinary and usual course of business of the Group, and the respective terms of the SP Agreement and the Transportation Framework Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned. We also

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

consider that the basis for the related annual caps in relation to the transactions contemplated under the Transportation Framework Agreement are fair and reasonable so far as the company and the Independent Shareholders are concerned.

We therefore recommend you to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Acquisition, the SP Agreement, the Transportation Framework Agreement and the related annual caps, and the transactions contemplated thereunder.

Yours faithfully
the Independent Board Committee

Ms. Zhang Lin
Independent
non-executive Director

Ms. Liu Talin
Independent
non-executive Director

Mr. Enhe Bayaer
Independent
non-executive Director

LETTER FROM IFA

The following is the full text of the letter of advice to the Independent Board Committee and the Independent Shareholders from the IFA dated 28 June 2015 for the purpose of inclusion in the circular.



801-805, 8/F, Nan Fung Tower,
88 Connaught Road Central,
Hong Kong

28 June 2015

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION AND NON-EXEMPTED CONTINUING CONNECTED TRANSACTION

INTRODUCTION

We refer to our engagement to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition, the issue of Convertible Bonds as Consideration, the proposed non-exempt continuing connected transaction between the Target Group and Shengan Transport and terms thereof, particulars of which are set out in the letter from the Board (the “Letter from the Board”) of the circular to the Shareholders dated 28 June 2015 (the “**Circular**”) and in which this letter is reproduced. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as given to them under the definitions section of the Circular.

As set out in the Letter from the Board, on 19 January 2015 (after trading hours), the Company, the Vendors and Shiny Ocean entered into the SP Agreement pursuant to which the Vendors and Shiny Ocean have conditionally agreed to sell and the Company conditionally agreed to purchase the Sale Shares and the Sale Loan at the aggregate consideration of HK\$837 million. The total consideration for the acquisition of the Sale Shares is HK\$774 million which shall be satisfied by the Company issuing to each of the Vendors or (in respect of Mr. Ma Qiang and Mr. Xiong Zeke) to Shiny Ocean and Fabulous Seeker Holdings Limited (a company incorporated in the British Virgin Islands which is wholly owned by Mr. Xiong Zeke), respectively, at their respective directions the Sale Share Bonds (proportional to the Vendors’ respective holdings in the Target Company) upon Completion. The consideration for the purchase of the Sale Loan is HK\$63 million which shall be satisfied by the Company issuing to Shiny Ocean or its nominee(s) the Sale Loan Bonds.

LETTER FROM IFA

The Vendors also comprise Mr. Ma Qiang, being the non-executive Director and the controlling Shareholder, and his family members and relatives, and Mr. Xiong Zeke and Ms. Qin Chunhong, being two of the executive Directors. As at the Latest Practicable Date, Shiny Ocean, being the seller of the Sale Loan, was interested in 888,740,477 shares, representing approximately 72.04% of the entire issued share capital of the Company and was a controlling Shareholder. As such, Shiny Ocean, Mr. Ma Qiang and his family members and relatives, Mr. Xiong Zeke and Ms. Qin Chunhong are connected person of the Company and therefore, the Acquisition and the transactions contemplated under the SP Agreement will constitute a connected transaction of the Company and is subject to the Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules. As the applicable percentage ratios in respect of the Acquisition exceed 100%, the Acquisition and transactions contemplated under the SP Agreement constitute a very substantial acquisition of the Company and is therefore subject to the Shareholders' approval requirements under Chapter 19 of the GEM Listing Rules.

As at the Latest Practicable Date, Shengan Transport is owned as to approximately 90.91% by Mr. Dong Haibin, who is the brother-in-law of Mr. Ma Qiang, being the Company's non-executive Director and controlling Shareholder, and is therefore a connected person of the Company. Accordingly, immediately upon Completion, the Target Company and its subsidiaries will become subsidiaries of the Company, and the transactions contemplated under the Transportation Framework Agreement will become continuing connected transactions of the Company under Chapter 20 of the GEM Listing Rules. Since the annual caps under the Transportation Framework Agreement ("**Shengan Transport Proposed Cap**") represent more than 5% of the relevant applicable percentage ratios under the GEM Listing Rules and are expected to exceed HK\$10 million, the transactions under the Transportation Framework Agreement ("**Shengan Transport CCT**") and the annual caps therefor are subject to reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules. A written agreement will be entered into between the Target Group and the subcontractor in accordance with Rule 20.48 of the GEM Listing Rules on or before the Completion.

We are not connected with the Directors, chief executive and substantial Shareholders of the Company, the Vendors, the Target Company or any of their respective subsidiaries or associates and do not have any shareholding, direct or indirect, in any member of the Company or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Company as at the Latest Practicable Date, and are therefore considered suitable to give independent advice to the Independent Board Committee and the Independent Shareholders. During the last two years, there was no previous engagement between us and the Company, the Target Company, the Vendors or any of their respective subsidiaries or associates. Apart from normal professional fees payable to us by the Company in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company or the directors, chief executive and substantial Shareholders of the Company, the Target Company or the Vendors or any of their respective subsidiaries or associates.

LETTER FROM IFA

BASIS OF OUR OPINION

In formulating our opinion, we have relied on the accuracy of the information and representations contained in the Circular and have assumed that all information and representations made or referred to in the Circular were true at the time they were made and continue to be true as at the Latest Practicable Date. We have also relied on our discussion with the Directors and management of the Company and the Target Group regarding the Group and the Target Group, including the information and representations contained in the Circular. We have also assumed that all statements of belief, opinion and intention made by the Directors and management of the Company in the Circular were reasonably made after due enquiry. We consider that we have reviewed sufficient information to reach an informed view, to justify our reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice. We have no reason to suspect that any material facts have been omitted or withheld from the information contained or opinions expressed in the Circular nor to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and management of the Company. We have not, however, conducted an independent in-depth investigation into the business and affairs of the Group, the Target Company, the Vendors and their respective controlling Shareholder and associates nor have we carried out any independent verification of the information supplied.

THE ACQUISITION

Principle factors and reasons considered

In arriving at our opinion regarding the terms of the SP Agreement, we have considered the following principal factors and reasons:

1. Background of and reasons for the Acquisition

(i) Review of financial performance/position of the Group

The Group is principally engaged in (i) bulk mineral trade in Hong Kong mainly on non-ferrous metals including copper cathodes, zinc and nickel; and (ii) provision of money lending services in Hong Kong. In order to focus on conducting business and providing service in relation to the mineral resources, including the related trading business, on 15 August 2014, the Group disposed its school network integration services.

LETTER FROM IFA

Set out below is a summary of the financial results of the Group for the most recent three financial years and the most recent two nine months periods as follows:-

Expressed in RMB'000	For the year			For the nine months	
	ended 31 March			ended 31 December	
	2012	2013	2014	2013	2014
	<i>(Audited)</i>	<i>(Audited)</i>	<i>(Audited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Revenue by segment					
Bulk mineral trade	–	–	596,743	490,866	1,178,372
School network integration services	56,535	31,464	8,740	7,449 ²	835 ²
Money Lending	138	917	–	–	–
Information technology services for electricity power industry	1,661 ¹	–	–	–	–
Continuing operations revenue	56,673	32,381	605,483	490,866	1,178,372
Continuing operations gross profit	3,444	4,889	888	4,193	4,206
<i>Continuing operations gross profit margin</i>	<i>6.08%</i>	<i>15.10%</i>	<i>0.15%</i>	<i>0.85%</i>	<i>0.36%</i>
Net loss for the year period	(50,453)	(23,419)	(32,660)	(7,923)	(824)

Note:

1. The information technology services for electricity power industry is classified as discontinued operations for the year ended 31 March 2012. Therefore, the revenue generated from the information technology services for electricity power industry is not included in the continuing operations revenue.
2. The school network integration services is classified as discontinued operations for the six months ended 30 September 2013 and 30 September 2014. Therefore, the revenue generated from the school network integration services is not included in the continuing operations revenue.

For the year ended 31 March 2013

During the financial year ended 31 March 2013, the Group was mainly engaged in the provision of school network integration services. The Group's revenue from the continuing operations decreased from approximately RMB56.67 million for the year ended 31 March 2012 to RMB32.38 million for the year ended 31 March 2013, representing a decrease of approximately 42.86%. The decrease in revenue from the continuing operations was mainly attributable to the tighter government requirement on contractor qualifications in terms of the school network integration services and the increasingly competitive business environment. The Group's gross profit from the continuing operations increased by 42.15% from approximately RMB3.44 million for the year ended 31 March 2012 to approximately RMB4.89 million for the year ended 31 March 2013 and the gross profit margin from the continuing operations increased from 6.08% to 15.10% during the same period mainly due to decrease of the cost of goods sold and services provided for the

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school network integration business which in turn was, as advised by the management of the Company, mainly due to the decrease in the related sales in school network integration services. The Group's net loss for the year decreased from approximately RMB50.45 million for the year ended 31 March 2012 to RMB23.42 million for the year ended 31 March 2013 due to the operating loss of RMB7.07 million from and the loss of RMB6.69 million on disposal of the discontinued segment of the information technology services for electricity power industry for the year ended 31 March 2012.

For the year ended 31 March 2014

For the financial year ended 31 March 2014, the Group established the bulk mineral trade business and it became the main source of the Group's revenue which amounted to RMB596.74 million for the year ended 31 March 2014, representing 98.56% of the total revenue. The revenue from the school network integration services business further decreased from RMB31.46 million for the year ended 31 March 2013 to RMB8.74 million for the year ended 31 March 2014 due to the increasing competition in the market. In light of commencement of the Group's bulk mineral trade business, the Group's revenue from the continuing operations remarkably increased from approximately RMB32.38 million for the year ended 31 March 2013 to RMB605.48 million for the year ended 31 March 2014, representing an increase of approximately 1769.92%. The Group's gross profit from the continuing operations decreased 81.80% from approximately RMB4.89 million for the year ended 31 March 2013 to approximately RMB0.89 million for the year ended 31 March 2014 and the gross profit margin from the continuing operations decreased from 15.10% to 0.15% during the same period, mainly due to the thin margin of the bulk mineral trading business. The Group's net loss for the year increased from approximately RMB23.42 million for the year ended 31 March 2013 to RMB32.66 million for the year ended 31 March 2014, mainly due to the newly-commenced bulk mineral trade business and impairment loss on goodwill, intangible assets and property, plant and equipment.

The Group also implemented the capitalisation of Shareholder's loans and issued convertible bonds during the year ended 31 March 2014. Pursuant to the announcement dated 8 July 2013, Shiny Ocean, the controlling Shareholder of the Company, subscribed for 50,000,000 new shares of the Company at a subscription price of HK\$0.185 per share for capitalizing HK\$9.25 million, representing 24.63% of the Shareholder's loan due by the Company to Shiny Ocean. In addition, Shiny Ocean subscribed for convertible bonds with the initial conversion price of HK\$0.185 per convertible bond issued by the Company with principal amount of HK\$28,306,000, representing the remaining amount of the said Shareholder's loan immediately after the subscription of capitalisation shares.

LETTER FROM IFA

For the nine months ended 31 December 2014

During the nine months period ended 31 December 2014, the Group's revenue continued to be mainly derived from its bulk mineral trade business. In light of the further development of bulk mineral trading business, the Group's revenue from continuing operations increased from approximately RMB490.87 million for the nine months period ended 31 December 2013 to approximately RMB1,178.37 million for the nine months period ended 31 December 2014, representing an increase of approximately 140.06%. The gross profits margin from the continuing operations for the nine months period ended 31 December 2013 and 2014 remained low, which amounted to approximately 0.85% and 0.36% respectively. The Group's net loss for the period decreased from approximately RMB7.92 million for the period ended 31 December 2013 to approximately RMB0.82 million for the period ended 31 December 2014. The decrease in net loss is mainly attributable to the gain of approximately RMB1.35 million on disposal of the Group's subsidiary and the operating loss of RMB5.64 million in the discontinued operations in school network integration services for the nine months period ended 31 December 2013.

On 15 August 2014, the Group entered into a sale and purchase contract with an Independent Third Party to dispose the Group's business segment of school network integration services in order to focus on conducting business and providing service in relation to the mineral resource. A loss on disposals of subsidiaries amounted to approximately RMB0.57 million was recognised under the discontinued operations section.

Set out below is a summary of the financial position of the Group as at 31 March 2014 and 30 September 2014 as follows:-

Expressed in RMB'000	As at	As at
	31 March	30 September
	2014	2014
	(Audited)	(Unaudited)
Total assets	108,742	13,795
Total liabilities	<u>100,534</u>	<u>951</u>
Net assets	<u>8,208</u>	<u>12,844</u>

As at 30 September 2014, the Group recorded total assets of approximately RMB13.80 million (31 March 2014: approximately RMB108.74 million), total liabilities of approximately RMB0.95 million (31 March 2014: approximately RMB100.53 million) and net assets of approximately RMB12.84 million (31 March 2014: approximately RMB8.21 million). The decrease in total assets and the total liabilities is attributable to the de-recognition of discounted bill receivables of approximately RMB 81.32 million after 31 March 2014. As at 31 March 2014, the total assets of the Group mainly comprised of trade and bill receivables of approximately RMB82.22 million and cash and cash equivalents

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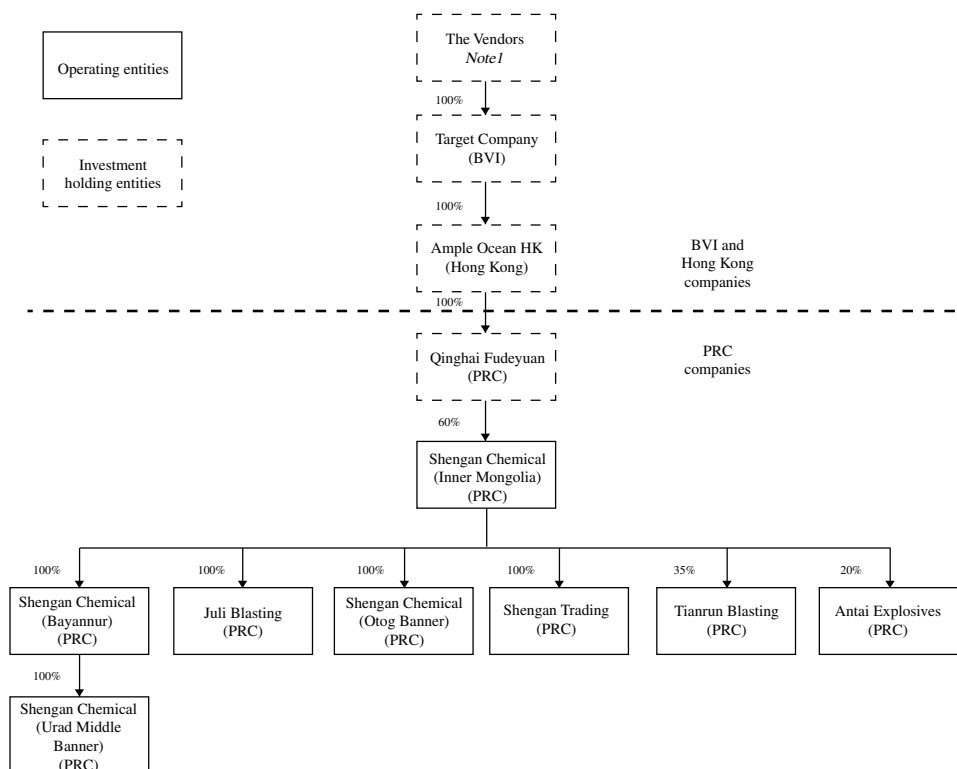
of approximately RMB14.75 million which accounted for approximately 89.17% of the total assets of the Group. As at 30 September 2014, the total assets of the Group mainly comprised of cash and cash equivalents of approximately RMB7.09 million and other receivables, prepayments and deposits of approximately RMB4.30 million which accounted for approximately 82.55% of the total liabilities of the Group. As at 31 March 2014, the total liability of the Group mainly comprised of borrowings of approximately RMB82.22 million which accounted for approximately 83.87% of the total liability of the Group. As at 30 September 2014, the total liabilities of the Group mainly comprised of derivative financial liabilities of approximately RMB0.53 million and income tax payable of approximately RMB0.31 million which accounted for approximately 88.64% of the total assets of the Group. The Group's gearing ratio (being total liabilities over net assets) is 0.07 times as at 30 September 2014 (31 March 2014: 12.25 times). The decrease in gearing ratio is due to the de-recognition of aforesaid discounted bill receivables.

(ii) Information about the Target Group

The Target Group is principally engaged in (i) the manufacturing and sale of civil explosives which are in turn sold to end-user customers or distributors; and (ii) the provision of blasting projects and related services. The explosives products are primarily divided into two categories, namely emulsion explosives and ANFO explosives, which are widely used in mine blasting, outdoor blasting, underground blasting, rock blasting and civil and infrastructure construction. The production premises of the Target Group are located at Bayannur and Ordos of Inner Mongolia area which extensive mining activities are located with great demand for civil explosives as mentioned in the section headed "Civil Explosives Market in Inner Mongolia Autonomous Region" in the Letter from the Board of the Circular.

LETTER FROM IFA

The group structure of the Target Group is set out as below:



Note:

1. The Vendors comprises 26 individuals who are the existing shareholders of the Target Company.

The Target Group is principally engaged in (i) the manufacturing and sale of explosives; and (ii) provision of blasting operation and related services. As at 31 December 2014, the Target Group had 12 mobile processing units for production of site mixed emulsion explosives and ANFO explosives. The Target Group has two production plants located at Bayannur, Inner Mongolia, the PRC and one production plant located at Ordos, Inner Mongolia with a total of 5 production lines and the total production capacity of 60,000 tonnes of civil explosives. The actual sales volume of civil explosives of the Target Group was approximately 63,305 tonnes, 70,630 tonnes, 75,447 tonnes and 52,253 tonnes respectively for the three years ended 31 March 2014 and the nine months ended 31 December 2014. In order to capture more business opportunities in Inner Mongolia arising from the expected continual growth in the demand for civil explosives in the region, the Target Group had established a new production line in Bayannur for production of emulsion explosives and shall commence operation after obtaining approval from the relevant local government authority. Subject to the approval by the relevant local government authority for the authorised production limit, it is expected that the new production line can produce about 12,000 to 24,000 tonnes of civil explosives each year.

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Customers of the Target Group are divided into two categories, namely, (i) explosive purchasers which include (a) civil explosive products resellers which in turn sell civil explosive to end-users; and (b) end-users, such as mining companies, civil and infrastructure construction companies whose operations and projects require the use of civil explosives for blasting; and (ii) customers which require blasting services or blasting-related consultation services. The revenue generated from sales of civil explosives, representing over 95% of total revenue for the three years ended 31 March 2014 and the nine months ended 31 December 2014. The Target Group has a diversified client base of around 80 customers. The demand has been on an increasing trend attributable to the growth of the economy and mining industries in the Target Company's major market, Inner Mongolia which is due to the implementation of "Developing of Western China" policy in the PRC as stated in the section headed "7. Information on the Target Group – Civil explosives market in Inner Mongolia Autonomous Region and Future prospects and demand of the civil explosives industry in Inner Mongolia Autonomous Region" of the Letter from the Board in the Circular. The Target Group subcontracted the transportation of civil explosives and blasting equipment to qualified transportation services providers. The transportation cost represented over 80% of total selling and distribution expenses for the three years ended 31 March 2014 and the nine months ended 31 December 2014.

The production materials purchased by the Target Group mainly comprised ammonium nitrate, PPAN, paraffin wax, compound wax, emulsifier, diesel fuel and perlite. Save for ammonium nitrate, PPAN, paraffin wax and diesel fuel, the production materials purchased by the Target Group during the three years ended 31 March 2014 and the nine months ended 31 December 2014 did not experience material fluctuation. All the major suppliers of the Target Group were located in the PRC whose major businesses were related to trading of fuel oil and chemicals. For the three years ended 31 March 2014 and the nine months ended 31 December 2014, the Target Group's five largest suppliers accounted for approximately 83.01%, 74.21%, 75.41% and 70.74% of the Target Group's total purchases respectively.

The comprehensive information of the Target Group, comprising of risk factors, corporate information, industry overview, laws and regulations, history, business model, directors and senior management, shareholding structure, and financial information and management discussion and analysis, is set out in the section headed "7. Information on the Target Group" in the Letter from the Board of the Circular.

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Set out below is the financial information of the Target Group for the three years ended 31 March 2014 and nine months periods ended 31 December 2014 with reference to the section headed “Appendix II - Financial Information of the Target Group” in the Circular.

Expressed in RMB'000	For the year ended 31 March			For the nine months ended 31 December	
	2012	2013	2014	2013	2014
	(Audited)	(Audited)	(Audited)	(Unaudited)	(Audited)
Revenue by segment:					
Sales of civil explosives	355,674	388,559	386,871	322,224	259,947
Provision of blasting	50	5,093	18,911	13,702	8,215
	<u>355,724</u>	<u>393,652</u>	<u>405,782</u>	<u>335,926</u>	<u>268,162</u>
Revenue	355,724	393,652	405,782	335,926	268,162
Cost of revenue	<u>188,227</u>	<u>175,151</u>	<u>159,563</u>	<u>127,304</u>	<u>107,757</u>
	167,497	218,501	246,219	208,622	160,405
Gross profits	167,497	218,501	246,219	208,622	160,405
<i>Gross profit margin</i>	47.09%	55.51%	60.68%	62.10%	59.82%
Other income and gains	466	1,586	1,365	1,283	607
Share of (loss)/profit of associates	(766)	(742)	1,614	1,859	512
Selling and distribution expenses	11,652	30,359	21,744	19,170	16,567
Administrative and other expenses	47,304	60,670	56,286	44,741	32,407
Profit before income tax	108,241	128,316	171,168	147,853	112,550
Income tax expense	<u>12,123</u>	<u>22,432</u>	<u>26,922</u>	<u>22,701</u>	<u>16,837</u>
	96,118	105,884	144,246	125,152	95,713
Profit for the year/period	96,118	105,884	144,246	125,152	95,713
<i>Net profit margin</i>	27.02%	26.90%	35.55%	37.26%	35.69%
Profit attributable to owners of the Target Company	96,118	105,884	86,000	76,518	56,942

For the year ended 31 March 2013

The Target Group’s revenue increased from approximately RMB355.72 million for the year ended 31 March 2012 to RMB393.65 million for the year ended 31 March 2013, representing an increase of approximately 10.66%. The end-users, civil explosive products resellers and blasting operation services providers accounted for 18.64%, 80.07% and 1.29% respectively of the Target Group’s total revenue for the year ended 31 March 2013. The increase in revenue was mainly attributable to (i) the increase in revenue derived from provision of blasting services and (ii) the increasing demand for civil explosives and blasting operations services resulted from the growth of the economy and mining industries in Inner Mongolia. The total sales volume of civil explosives by the Target Group increased from approximately 63,305 tonnes for the year ended 31 March 2012 to approximately 70,630 tonnes for the year ended 31 March 2013. The Target Group’s gross profit increased by 30.45% from approximately RMB167.50 million for the year ended 31 March 2012 to approximately RMB218.50 million for the year ended

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31 March 2013 and the gross profit margin increased from 47.09% to 55.51% during the same period attributable to (i) the increase in sales volumes of the civil explosives that lowered the fixed cost per unit of production; and (ii) the downward price trend of ammonium nitrate, PPAN, paraffin wax and diesel fuel. The costs of ammonium nitrate, PPAN, paraffin wax and diesel fuel are the major cost components accounted for over 60% of the cost of revenue for the three years ended 31 March 2014 and the nine months ended 31 December 2014. Given the positive performance in revenue and gross profit, the net profit increased from RMB96.12 million for the year ended 31 March 2012 to RMB105.88 million for the year ended 31 March 2013 representing a net profit margin of 26.90% for the year ended 31 March 2013.

For the year ended 31 March 2014

The Target Group's revenue increased from approximately RMB393.65 million for the year ended 31 March 2013 to RMB405.78 million for the year ended 31 March 2014, representing an increase of approximately 3.08%. The end-users, civil explosive products resellers and blasting operation services providers accounted for 60.38%, 34.96% and 4.66% respectively of the Target Group's total revenue for the year ended 31 March 2014. The increase in revenue was mainly due to (i) the increase in revenue derived from provision of blasting services and (ii) the increasing demand for civil explosives and blasting operations services resulted from the growth of the economy and mining industries in Inner Mongolia. The total sales volume of civil explosives by the Target Group increased from approximately 70,630 tonnes for the year ended 31 March 2013 to approximately 75,447 tonnes for the year ended 31 March 2014. The Target Group's gross profit increased by 12.69% from approximately RMB218.50 million for the year ended 31 March 2013 to approximately RMB246.22 million for the year ended 31 March 2014 and the gross profit margin increased from 55.51% to 60.68% during the same period attributable to (i) the increase in sales volumes of the civil explosives that lowered the fixed cost per unit of production; and (ii) the downward price trend of ammonium nitrate, PPAN, paraffin wax and diesel fuel. The costs of ammonium nitrate, PPAN, paraffin wax and diesel fuel are the major cost components accounted for over 60% of the cost of revenue for the three years ended 31 March 2014 and the nine months ended 31 December 2014. Given the positive performance in revenue and gross profit, the net profit increased from RMB105.88 million for the year ended 31 March 2013 to RMB144.25 million for the year ended 31 March 2014 representing a net profit margin of 35.55% for the year ended 31 March 2014.

For the nine months ended 31 December 2014

The decrease in the revenue from RMB335.93 million for the nine months ended 31 December 2013 to RMB268.16 million for the nine months ended 31 December 2014 was subject to the management's close monitoring on the production and sales volume of civil explosives in compliance with the authorised limited of production and sales volume granted by the PRC government authorities. Please refer to the section headed "7. Information on the Target Group – (f) Business of the Target Group – Production facilities"

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of the Letter from the Board in the Circular for details in the summary of authorised limit and actual production and sales volume of civil explosives for the three years ended 31 December 2014 and the three months ended 31 March 2015. The excessive volume of production and sales during each of the two years ended 31 March 2012 and 2013 was mainly due to the increasing in demand for civil explosives in Inner Mongolia and the increased production and sales authorised limited of the Target Group from 45,000 tonnes in 2012 to 60,000 tonnes in 2013 that could not meet the demand and actual production volume as required by the market. The Target Group has complied with the authorised limit for total production volume of civil explosives since 1 January 2014. Therefore, the total sales volume of civil explosives by the Target Group decreased from approximately 64,257 tonnes for the nine months ended 31 December 2013 to approximately 52,253 tonnes for the nine months ended 31 December 2014. As advised by the management of the Company, the end-users, civil explosive products resellers and blasting operation services providers accounted for 70.52%, 26.43% and 3.06% respectively of the Target Group's total revenue for the nine months ended 31 December 2014. Further to the decrease in the revenue, the Target Group recorded gross profit of RMB208.62 million and RMB160.41 million for nine months periods ended 31 December 2014, representing gross profit margin of 62.10% and 59.82% respectively. Whilst, the net profit decreased from RMB125.15 million for the nine months ended 31 December 2013 to RMB95.71 million for the nine months ended 31 December 2014 which is in line with the decrease in production in compliance of the authorised limited since 1 January 2014. The net profit margin remained at the level of 37.26% and 35.69% for the two nine months periods ended 31 December 2013 and 31 December 2014 respectively.

In the past, the sale prices of civil explosive products must be within the range of 15% above or below the reference prices set by NDRC. With effect from 25 December 2014, price control of civil explosives has been revoked by the NDRC and the price determination committee of the Target Group fixes the price of its products and services on a cost plus profit margin basis by taking into account various factors, including but not limited to (i) technological requirements; (ii) volume of purchase; (iii) production, transportation and insurance costs; (iv) price of raw materials; (v) scale of blasting operation of the customers; (vi) quality control requirements; (vii) market prices; and (viii) product and service type. With reference to the section headed "Risk factors - risks relating to the civil explosive industry" in the Letter from the Board in the Circular, the liberalisation of pricing of civil explosives may lead to decline in market price and intensify market competition. To further envisage the financial impact on the Target Group after cancellation of price control mechanism, we obtained and reviewed the price range of different types of civil explosives of the Target Group for the three months period ended 31 March 2015, being the first three months after the pricing control of civil explosives has been revoked, and the unaudited financial information of the Target Company for the three months periods ended 31 March 2015. Despite a general downward trend in the average price range in all types of the civil explosives were noted, the overall gross profit margin in the said period remained at a similar level with that in the nine month period ended 31 December 2014 (whereas the pricing control was still in place). We consider that the revocation of the price control mechanism in December 2014 by itself

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would not have material adverse impact on the Target Company's price determination procedures and its financial performance.

Set out below is a summary of the financial position of the Target Group as at 31 March 2014 and 31 December 2014 as follows:-

Expressed in RMB'000	As of 31 March 2014 (Audited)	As of 31 December 2014 (Audited)
Total assets	303,626	324,594
Total liabilities	<u>245,218</u>	<u>220,761</u>
Net assets	58,408	103,833
Gearing ratio	4.20	2.13

As at 31 December 2014, the Target Group recorded total assets of approximately RMB324.59 million (31 March 2014: approximately RMB303.63 million) and net assets of approximately RMB103.83 million (31 March 2014: approximately RMB58.41 million). As at 31 March 2014, the total assets of the Target Group mainly comprised of trade and bill receivables of approximately RMB128.94 million and property, plant and equipment of approximately RMB81.18 million which accounted for approximately 69.20% of the total assets of the Target Group. As at 31 December 2014, the total assets of the Target Group mainly comprised of bank balances and cash of approximately RMB62.50 million, trade and bill receivables of approximately RMB127.69 million and property, plant and equipment of approximately RMB84.70 million which accounted for approximately 84.69% of the total assets of the Target Group. As at 31 March 2014, the total liabilities of the Target Group mainly comprised of trade and bills payable of approximately RMB60.82 million, dividend payable of approximately RMB 94.36 million and consideration payable for restructuring of approximately RMB53.50 million which accounted for approximately 85.10% of the total liabilities of the Target Group. As at 31 December 2014, the total liabilities of the Target Group mainly comprised of trade and bills payable of approximately RMB59.69 million, dividend payable of approximately RMB 57.20 million and amounts due to related companies of approximately RMB66.01 million which accounted for approximately 82.85% of the total assets of the Target Group. The gearing ratio (being total liabilities over net assets) decreased from 4.2 times as at 31 March 2014 to 2.13 times as at 31 December 2014 due to the settlement of dividend payable of approximately RMB37.16 million, consideration payable for restructuring of approximately RMB53.5 million and the profit of approximately RMB95.71 million for the nine months ended 31 December 2014.

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(iii) The industry of production and sales of civil explosives and provision of blasting operations and related services in the PRC

In 2014, China's economic growth remained a steady growth as the structural transformation of the economy continued. Based on the 2014 statistical report on national economy and social development published by National Bureau of Statistics of China, the GDP in 2014 increased by 7.4% from the previous year while the capital investment of the primary industry (i.e. the sector of an economy making direct use of natural resources) increased 33.9% which mining, being one of the primary industries in the PRC, increased 0.7%. On 30 November 2011, the Ministry of Industry and Information Technology of the People's Republic of China being part of the Twelfth Five-year plan, addressed the business trend of the industry of production and sales of civil explosives and provision of blasting operations and related services in the PRC as follow:-

- industrial restructuring and urbanization which increase railway, highway and other infrastructure construction and investment in water conservancy projects. The horizontal integration is encouraged for the purposes of resource sharing and integration, and industrial optimization and upgrading.
- reposition of the market landscape of civil explosives industry which tends to facilitate the civil explosive industry growth in the Western China, and thereafter, implementing the "Developing of Western China" policy. Specifically, the Western China area includes the Inner Mongolia Autonomous Region.
- promotion of the use of safe environmental friendly explosives products and elimination of the outdated explosives products and related equipment of high pollution.
- focus on vertical integration to provide one-stop civil explosives solution, comprising of research and development, manufacturing, distribution and blasting engineering and operations services.

To further address the Twelfth Five-year plan, the Alxa League Commission of Economy and Information Technology announced "內蒙古自治區民用爆破器材行業十二五發展規劃" (Inner Mongolia Civil Explosives Industry Twelfth Five Development Plan) on 16 December 2012 and set out the major projection and targets as below:

- achieve the overall annual production output for civil explosives at 600,000 tonnes and 700,000 tonnes respectively by the end of 2015 and 2020.
- achieve the total annual revenue RMB 3.88 billion in 2015 for the local civil explosives companies, representing a compound growth rate of 15.9% per annum from 2009 to 2015.
- promotion of the use of safe and environmental friendly explosives products, equipment's and technology.

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- form 2-3 privately operated integrated civil explosives services provider through corporate restructuring and merge and acquisition and thereafter list 1-2 of those on stock exchanges.

Pursuant to the 2014 interim operating report published by “內蒙古自治區經濟和信息化委員會” (Inner Mongolia Autonomous Region Economic and Information Technology Commission) on 22 July 2014, the overall production output for civil explosives for the first half year of 2014 is 204,800 tonnes, representing a decrease of 4.26% from the same period in 2013. In the first half year of 2014, the production output of civil explosives in Inner Mongolia still ranked the top in the PRC with the corresponding market share of 10.04%. In view of deceleration of growth in economic activities, coal mining activities, and hence civil explosives manufacturing, the Inner Mongolia Autonomous Region Economic and Information Technology Commission, in the aforementioned 2014 interim operating report, suggested downstream integration for the local civil explosives manufacturers to form integrated civil explosives products and services providers with capabilities to provide blasting design, blasting operations, storage and transportation of civil explosives to facilitate the industry development and cross sales.

Given that (i) the government policies encourage the development of civil explosives industry in the Western China; (ii) promotion of industry integration in the Inner Mongolia and the continuous growth target in the civil explosives industry in the Inner Mongolia set by government authority; (iii) approximately 10.04% of market shares in civil explosives output in the Inner Mongolia is the top civil explosives market in the PRC; and (iv) the operation of the Target Group is located in Ordos and Bayannur of Inner Mongolia, we concur with the Directors that there is a favourable business trend of civil explosive industry in the Inner Mongolia.

(iv) Risk factors

The Directors have identified a number of risks relating to the Target Group and the civil explosive industry which are set out in the section headed “7. Information on the Target Group – (a) Risk factors” in the Letter from the Board in the Circular. We are of the view that Independent Shareholders should bear in mind all of those risk factors when considering the Acquisition as they may have different risk preference and are of varied risk tolerance level. In this regard, we have considered the most significant risks and set out below our views as follows:

1. *Most of the revenue and business operation of the Target Group during the Relevant Period were derived in Inner Mongolia Autonomous Region, the PRC and any adverse development therein may affect business operations and financial results of the Target Group*

Civil explosives and blasting operations business is highly confined to the geographical locations in proximity to the production plants of the Target Group and mining or construction sites of the customers. During the three years ended 31 March 2014 and the nine months ended 31 December 2014 and as to the Latest

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Practicable Date, most of the revenue and business operation of the Target Group were derived from the Inner Mongolia Autonomous Region and most of customers and suppliers of the Target Group are located in Inner Mongolia Autonomous Region, in particular, in the regions where the production plants of the Target Group are situated. In order to reduce the possible risk of concentration of revenue and business operation of the Target Group in the Inner Mongolia Autonomous Region, upon Completion, the Target Group may expand its production facilities to Tibet and/or Xinjiang Uyghur Autonomous Region in order to increase the sources of revenue. As at the Latest Practicable Date, the Target Group has no actual plan to expand its production facilities to other regions of the PRC.

Having considered that (i) the Target Group has established long term relationships with its top five customers ranging from about two to five years, and is a consistent supplier to them; (ii) the Target Group has developed long term relationships with its top five suppliers ranging from one to seven years; (iii) rapid economy development in Inner Mongolia Autonomous Region; and (iv) the Target Group may diversify its customer base to Tibet and/or Xinjiang Uyghur Autonomous Region upon Completion, we cannot foresee any reasons which may affect the business operations and financial results of the Target Group. However, Shareholders should note that any adverse economic, social and weather conditions in the regions where the business of the Target Group is uncontrollable and may adversely affect the Target Group's result of operations and financial position.

2. *Any significant increase in price of major production materials could have a significant impact on the cost of revenue of the Target Group*

Cost of raw materials is the major cost of revenue of the Target Group which accounted for approximately 87.47%, 87.83%, 74.32% and 77.43% respectively of the total cost of revenue of the Target Group during the three years ended 31 March 2014 and the nine months ended 31 December 2014. The prices and availability of ammonium nitrate and PPAN, which are the principal raw materials used for the production of civil explosives by the Target Group, could be affected by a number of factors, including market supply and demand, PRC and global economic conditions and changes of the PRC or international environmental and regulatory requirements. We are of the view that such risk factor is general to companies operated in the same industry. We also understand that the price determination committee of the Target Group fixes the price of its products and services on a cost plus profit margin basis in order to maintain a reasonable level of profitability. However, Shareholders should note that there is no assurance that the Target Group may fail to shift the increase of costs to its customers and the civil explosive industry is uncontrollable by the Target Group.

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3. *There is no assurance that the Target Group can renew all the licenses and permits required for its business operations upon the respective expiry of the current licenses and permits and obtain authorised limit for production and sales of civil explosives in such amount as required by its business need*

The business operations of the Target Group requires obtaining licenses and permits from the relevant government authorities and the volume of production and sales of each approved type of civil explosive products by the Target Group is subject to the authorised limit determined by the local government authority pursuant to the relevant rules and regulations in the PRC. We believe that such risk is uncontrollable by the Target Group and there is no assurance that the Target Group can renew all the licenses and permits required for the Target Group's business operation upon the respective expiry of the current licenses or permits nor the local authority will grant such amount of authorised limit of sales and production to the Target Group as required by the business need.

In order to reduce the possible risk of failure to renew the requisite licenses and permits, upon Completion, the Enlarged Group will appoint Jingtian & Gongcheng, a qualified PRC law firm, as its external PRC legal advisers so that the Enlarged Group can seek PRC legal advice on the applicable rules and regulations in the PRC regarding the licensing and permits requirement. In addition to the above, as advised by the PRC Legal Advisers in relation to the requisite licenses and permits renewal procedures and requirements, we understand that (a) the Target Group can satisfy all the regulatory requirements to renew all the requisite licenses and permits and has successfully renewed the requisite licenses and permits for the three years ended 31 March 2014 and the nine months period ended 31 December 2014; and (b) the PRC Legal Adviser considers assuming the Target Group continues to satisfy with the regulatory requirements, it would have no legal obstacles in renewing all the requisite licenses and permits on a continuity basis. Based on the above, we consider the Target Group has taken appropriate measures upon Completion to reduce such risk.

4. *The Target Group can be penalised as a result of the excessive production and sales volume of civil explosives by the Target Group*

For the two years ended 31 December 2012 and 2013, the actual volume of production of civil explosives by the Target Group was in excess of the authorised limit set by the relevant government authority in the PRC pursuant to the relevant rules and regulations in the PRC. As advised by the PRC Legal Advisers, under the relevant PRC laws and regulations, for any production and sales of amount and category of explosives which is in contravention of the relevant PRC laws and regulations, the Target Group's production may be ordered to ratify the default within a prescribed period of time and can be liable for a penalty from RMB100,000 to RMB500,000, failing which the Target Group's production may be ordered for suspension or its Production License may be revoked. Although the Target Group has

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obtained two confirmations from the relevant competent government authority at the provincial level in charge of regulating production and sales of civil explosives (i.e. NDSI office) that it will not take any action against the Target Group for its past failure to comply with the authorised limit for production. However, Shareholders should note that the Target Group's production may be ordered to be suspended or its licenses for operation may be revoked due to the Target Group's actual volume of production and sales of civil explosives is in excess of the authorised limit in the future. As at the Latest Practicable Date, we understand from the Company that no punishment, orders, or penalty had been received by the Target Group and according to the SP Agreement, the Vendors and Shiny Ocean have agreed to indemnify and keep the Company indemnified against any losses, costs (including the legal costs), claims, damages, liabilities, interests and expenses that the Company and/or the Target Group may suffer or incur arising from and in connection with such non-compliance incident and other non-compliances as stated in the section headed "7. Information on the Target Group – (f) Business of the Target Group – Legal compliance" in the Letter from the Board. Having considered the indemnity provided by the Vendors and Shiny Ocean, we concur the Directors' view that such non-compliance incident does not have material impacts on the Target Group and the Acquisition.

As set out in the Letter from the Board, (i) the Target Group has progressively rectified the non-compliance by complying with the authorised limit for total production and sales volume of civil explosives for each category of civil explosive products at each production facility; (ii) upon Completion, the Enlarged Group will appoint Jingtian & Gongcheng as its external PRC legal advisers to ensure that the relevant personnel of the Enlarged Group has sufficient understanding of the relevant legal requirements; (iii) the directors of the Target Group has dedicated to senior management of the Target Group the responsibility to monitor the production and sales volume of civil explosives on a monthly basis.

5. *Demand for products and services in the market is highly dependent on economy*

The demand for the products and services offered by the Target Group is highly dependent on the amount and scale of mining and infrastructure construction projects, which in turn depend on, among others, the general conditions of the PRC economy. Although there is an increasing demand for civil explosives amid the rapid economic development in Inner Mongolia Autonomous Region while the supply of civil explosives is limited as a result of the authorised limit granted by the relevant PRC government authority, however Shareholders should note that a downturn in the industries of the Target Group's customers or the overall economic conditions in the PRC could bring material impact on the Target Group's revenue and materially and adversely affect the business, results of operations, financial position and prospects of the Target Group. We believe that such risk lead to a degree of uncertainty to the operations of the Target Group and the financial impact

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to the Target Group is not easily quantifiable. Accordingly, we consider that the overall conditions of the PRC economy is general to all companies operating in the same industry, as such we will not put substantial weight on this risk factor.

We consider the above risk factors to be significant in relation to the Acquisition and the Target Group; however, Independent Shareholders should bear in mind all of those risk factors when considering the Acquisition as they may have different risk preference and are of varied risk tolerance level. Hence, other risk factors can be referred to the section headed “7. Information on the Target Group – (a) Risk factors” in the Letter from the Board in the Circular.

(v) *Reasons for the Acquisition*

The Group was principally engaged in (i) bulk mineral trade in Hong Kong; and (ii) provision of money lending services in Hong Kong. Due to the competition in the school network integration services industry, the operating results of the school network integration services segment has been deteriorating since 2013 and suffered operational losses for the two years ended 31 March 2014. In order to focus on conducting business and providing service in relation to the mineral resources, the Group disposed its school network integration services on 15 August 2014. Pursuant to the voluntary announcement of the Company dated 28 November 2014, the Company has established a wholly foreign-owned company in Qianhai, Shenzhen, namely 比優（深圳）礦業有限公司 (Pizu (Shenzhen) Mining Co., Ltd.*) (“**Pizu Mining**”).

As disclosed in the Group’s quarterly report for the nine months ended 31 December 2014, as part of the Group’s business strategy, the Group has been devoting more resources to focus on the development of the mineral products trading business, reviewing the existing operation and considering future business direction and potential acquisitions and investment opportunities, with an aim to bring substantial and sustainable returns to the Shareholders. The Directors have no present intention to change the Group’s business strategy in focusing on development of mineral products trading business or to dispose of or downsize the existing business of the Group. In addition to continue the development of the mineral products trading business and to be in line with the Group’s strategy to further develop its bulk mineral trade business, the Group set up Pizu Mining which shall engage in wholesale, import and export of non-ferrous metals and non-ferrous metal products (except for gold) and minerals and mineral products (except for alumina and bauxite) as well as ancillary business. It is also the Group’s business plan to further strengthen and expand its existing business by (i) vertically expanding the mineral products trading business by tapping into the upstream process of mining companies so as to enlarge its customer and supplier base; (ii) improving the cash flow and capital of the Group for expanding its business scale by diversifying its income stream and enhancing its financing capability; (iii) entering into long term framework agreement with the Group’s existing and future mineral product trading customers so as to form a long term strategic business relationship with them; and (iv) developing the mineral products trading business by leveraging on the favourable national policy in the PRC.

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The Directors are of the view that the Acquisition is favourable to the Company's business plan and the synergy with the existing business of the Group enables the Group's business of mineral products trading to expand vertically by tapping into the upstream process of the mining companies which, in turn, can strengthen Group's position as an integrated mining products and service provider by offering the blasting services for mining, supplying the required civil explosives, and providing the sale services in mining companies.

We have reviewed the PRC government policies which encourages production and sales of civil explosives and provision of blasting operations and related services in the PRC and in particular Western China. Given that (i) the production plants of the Target Group are located at Bayannur and Ordos of Inner Mongolia and (ii) the major customers or end-users of the Target Group's products and services include, among others, mining companies, can leverage on the Group's experience and business relationship developed in its mineral products trading business, the Acquisition represents an opportunity for the group to expand vertically by tapping into the upstream process of the mining companies.

With reference to the above section headed "(ii) Information about the Target Group" of our letter in the Circular, the revenue of the Target Group for the three years ended 31 March 2014 and nine months ended 31 December 2014 are approximately RMB355.72 million, RMB393.65 million, RMB405.78 million and RMB268.16 million respectively, with the gross profit margin of approximately 47.09%, 55.51%, 60.68% and 59.82%. The net profit of Target Group for the three years ended 31 March 2014 and nine months ended 31 December 2014 are approximately RMB96.12 million, RMB105.88 million, RMB144.25 million and RMB95.71 million respectively, representing a compound growth of 22.5% per annum for the three years ended 31 March 2014. The cash inflow generated by the Target Group from its operating activities which in aggregate amounted to approximately RMB458.81 million for the three years ended 31 March 2014 and nine months ended 31 December 2014. Please refer to the section headed "Appendix II - Financial information of the Target Group" in the Circular and the section headed "(ii) The industry of production and sales of civil explosives and provision of blasting operations and related services in the PRC" in this letter for further detailed information.

To further envisage the competitive landscape, nature of services and products and profitability in the industry in the PRC, we have performed a search for comparable companies which are listed in the PRC and Hong Kong and engaged in (i) the manufacturing and sale of civil explosives which are in turn sold to end-user customers or distributors in the PRC; and (ii) the provision of blasting projects and related services in the PRC. According to the search, it is noted that there are no companies listed on the Stock Exchange in Hong Kong with similar business nature as that of the Target Group. We further performed a search in other stock exchanges (i.e. Australia, the U.S. and Japan) and considered those not suitable for the comparison with the Target Company due to the absence of business operations in the PRC. Set out below is an exhaustive list of comparable companies that

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we identified based on the above criteria (“**Industry Comparables**”) and summary of their financial performance and position:

Company name (Stock code)	Revenue ¹ (RMB'000)	Gross profit ^{1,2} (RMB'000)	Gross profit %	Net Profit	Net profit %	ROE	ROA
				for the year ^{1,2} (RMB'000)			
	a	b	c=b/a	e	f=e/a		
Anhui Jiangnan Chemical Industry (SHE:002226)	1,792,551	847,193	47.26%	233,198	13.01%	7.70%	5.79%
Sichuan Yahua Industrial Group (SHE:002497)	1,454,868	669,831	46.04%	248,937	17.11%	10.53%	8.55%
Guangdong Hongda Blasting (SHE: 002683)	3,399,488	720,088	21.18%	229,156	6.74%	9.67%	6.00%
Guizhou Jiulian Industrial Explosive Material Development (SHE: 002037)	3,906,926	1,023,053	26.19%	267,423	6.84%	11.80%	3.44%
Hunan Nanling Industrial Explosive Materials (SHE: 002096)	1,791,169	726,957	40.59%	219,388	12.25%	10.43%	7.09%
Anhui Leimingkehua (SHA: 600985)	987,767	388,568	39.34%	103,596	10.49%	8.93%	7.12%
Shanxi Tond Chemical (SHE: 002360)	896,780	372,831	41.57%	123,905	13.82%	13.49%	10.07%
		Max	47.26%		17.11%	13.49%	10.07%
		Min	21.18%		6.74%	7.70%	3.44%
		Mean	37.45%		11.47%	10.36%	6.87%
		Median	40.59%		12.25%	10.43%	7.09%
The Target Company	405,782	246,219	60.68%	144,246	35.55%	246.96%	47.51%

Source: <http://www.sse.com.cn/>, <http://www.szse.cn/> and company website

Notes:

1. The revenue, gross profit and net profit for the year are extracted from their latest available annual reports.
2. The financial annual reports of the Industry Comparables are prepared under Generally Accepted Accounting Principles in China whilst that of the Target Company is prepared under Hong Kong Financial Reporting Standards.

The list of Industry Comparables shows gross profit margin range from approximately 21.18% to 47.26% with the mean and median of approximately 37.45% and 40.59% respectively, and net profit margin range from approximately 6.74% to 17.11% with the mean and median of approximately 11.47% and 12.25% respectively. In comparison to the Industry Comparables, the Target Group is above the range of gross profit margin and net profit margin of the Industry Comparables. The revenue of manufacturing and sales of civil explosives segment of the Target Group accounted for over 95% of its total revenue for the three years ended 31 March 2014 and the nine months ended 31 December 2014. Whilst, the Industry Comparables have other segments apart from manufacturing and sales of civil explosives. In accordance to the latest published audited annual report of the Industry Comparables, we understand that the gross profit margin of the manufacturing and sales of civil explosives business segment of the Industry Comparables ranged from 27.94% to 52.79% with an average of 43.13% as compared with the gross margin of their overall business segments ranged from 21.18% to 47.26% with an average of 37.45%. We therefore consider the manufacturing and sales of civil explosives segment has higher gross profit margin and net profit margin.

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We also applied the return on equity (“**ROE**”) (calculated by net profit over total equity) and the return on asset (“**ROA**”) (calculated by net profit over total asset) analysis to further assess the profitability of the Target Group as compared with that of the Industry Comparable. The ROE of the Industry Comparables falls into the range between 7.70% to 13.49%, which the ROE of the Target Company of 246.96% is substantially higher the range of the ROE of the Industry Comparables. The ROA of the Industry Comparables falls into the range between 3.44% to 10.07%, which the ROA of the Target Company of 47.51% is substantially higher the range of the ROA of the Industry Comparables. With reference to Appendix II “Financial information of the Target Group” in the Circular, we note that, during the year ended 31 March 2014, the subsidiaries of the Target Company, namely Shengan Chemical (Inner Mongolia) and Qinghai Fudeyuan, declared the dividend of RMB242.35 million and RMB57 million to the owners of the Target Company respectively. Therefore, the total equity of the Target Company decreased from RMB351.37 million as of 31 March 2013 to RMB58.41 million as of 31 December 2014, representing a decrease of 83.38%. Given that the distortion by the dividend declared during the year ended 31 March 2014, we consider the ROE and ROA analysis is not applicable to the Target Group.

Further, as discussed with the Company and they believe that due to the close proximity of the location of between the Target Group and its suppliers and customers and the implementation of cost control procedure, the Target Group can minimise its cost of production and maintain and maximise its profitability. Upon review of the procurement management policy and procurement plan of the Target Group, the framework sales and purchase agreements and quotations between the Target Group and their suppliers, we understand that for production materials of which the purchase price per unit is below RMB100,000, the Target Group will obtain at least one additional quotation for the same or comparable type of services and goods. For production materials of which the purchase price per unit is above RMB100,000, the Target Group will select suppliers through public tendering.

Based on the (i) gross profit and profit in each annual reports of the Industry Comparables and the financial information of the Target Group; (ii) the implementation of cost control procedures; and (iii) risk as set out in the section headed “(iv) Risk factors” in this letter, we consider the business of the Target Group, in terms of gross profit margin and net profit margin, is relatively higher than that of the Industry Comparables and we concur with the Company that the implementation of the cost control procedures can maintain and maximise the profitability of the Target Group.

As disclosed in the Letter from the Board, three existing Directors are with extensive mining industry experience in terms of either industry knowledge, operation management or financing and banking management. As Mr. Ma Qiang, the non-executive Director, is the founder and director of members of the Target Group. Mr. Xiong Zeke and Ms. Qin Chunhong are executive Directors and also directors of members of the Target Group. It is expected that the Company has sufficient expertise to effectively integrate the Target Group with the Group upon Completion. The biographies of the above directors with their respective experience in mining industry is set out in the section headed “7. Information on the Target Group – (g) Directors and senior management of the Target Group” in the Letter from the Board of the Circular.

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Taking into account the aforesaid reasons for the Acquisition, especially that (i) the Acquisition is in line with the current business strategy and current financial situation of the Group to penetrate to the civil explosives industry as a vertical integration to its bulk mineral trading business; (ii) the Acquisition is in line with the current business trend and the government policies in the PRC which are in favor of the Company's business position as the integrated mineral product and services provider; (iii) it is a good opportunity for the Group to improve its profit margin and profitability and (iv) the Group is familiar with and has extensive experience in the business of the operation of the Target Group and its business, we concur with the Directors that there is a commercial justification for the Company to enter into the SP Agreement.

2. Consideration and funding for the Acquisition

(i) Basis of the Consideration

Pursuant to the SP Agreement, the aggregate consideration for the Acquisition is HK\$837 million. The total consideration for the acquisition of the Sale Shares is HK\$774 million, which shall be satisfied by the Company issuing to each of the Vendors or their respective directions the Sale Share Bonds. The consideration for the Sale Shares was determined after arm's length negotiations between the Company and the Vendors, and was determined at the agreed historical price to earnings multiple of approximately 7.26 times based on the profit attributable to owners of the Target Company for the year ended 31 March 2014, after taking into consideration of (i) historical financial performance and future development potential of the Target Group; (ii) the average historical price to earnings multiples of comparable companies listed in the PRC; (iii) the discount between the average historical price to earnings multiple of Hang Seng Index to that of Shanghai Stock Exchange A Share Index of approximately 32.49% as of the date of the SP Agreement; (iv) further discount in the applicable price to earnings multiples as the value of listing premium; (v) the recent trading price of the Shares prior to the entering into of the SP Agreement as quoted on the Stock Exchange.

The consideration for the Sale Loan amounted to HK\$63 million was determined after arm's length negotiations between the Company and Shiny Ocean taking into account (i) HK\$63 million, the principal amount of the loan that remains outstanding under the Sale Loan; and (ii) the recent trading price of the Shares prior to the entering into of the SP Agreement as quoted on the Stock Exchange. The consideration for the Sale Loan amounted to HK\$63 million was determined on a dollar-to-dollar basis as compared with the outstanding amount of the Sale Loan of HK\$63 million.

In assessing the fairness and reasonableness of the consideration for the Sale Shares, we have attempted to perform an analysis of price-to-earnings ratio ("PER") which is an appropriate indicators in assessing the valuation based on financial performance and future development potential of the Target Group for comparison purposes. Given that the Target Company is engaged in (i) the manufacturing and sale of civil explosives which are in turn sold to end-user customers or distributors; and (ii) the provision of blasting

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projects and related services in PRC, we consider PER is one of the most widely used and accepted approaches in valuing such revenue-generating entities with recurrent income. We have performed a search for comparable companies among the companies which their shares are listed in Hong Kong and PRC and have identified 7 listed companies which are in the similar business of the Target Group (“**Comparables**”). It is noted that there are no companies listed on the Stock Exchange in Hong Kong with similar business nature as that of the Target Group. Although the trading prospects and financial positions provided by the Comparables may not be identical to that of the Target Group, we consider the Comparables have similar business characteristics and target market in respect of (i) the manufacturing and sale of civil explosives which are in turn sold to end-user customers or distributors in China; and (ii) the provision of blasting projects and related services in China. Thus, we consider the Comparables represents an exhaustive list of comparable companies. Set out below is details of the Comparables based on the above criteria:-

Company Name	Closing price on the Last Trading Day ¹ (HK\$)	Market Capitalisation as at the Last Trading Day (HK\$ million)	Latest published profit attributable to owners of the company ² (HK\$ million)	PER	Latest published net asset value attributable to owners of the company ² (HK\$ million)	PBR
		A	B	C=A/B	D	E=A/D
Anhui Jiangnan Chemical Industry (SHE:002226)	14.937	5,949	205	29.02	3,220	1.85
Sichuan Yahua Industrial Group (SHE:002497)	15.317	7,352	288	25.53	2,735	2.69
Guangdong Hongda Blasting (SHE: 002683)	32.115	7,835	210	37.35	2,538	3.09
Guizhou Jiulian Industrial Explosive Material Development (SHE: 002037)	21.773	7,128	278	25.60	2,455	2.90
Hunan Nanling Industrial Explosive Materials (SHE: 002096)	14.178	5,264	251	21.01	2,539	2.07
Anhui Leimingkehua (SHA: 600985)	20.115	3,525	124	28.42	1,347	2.62
Shanxi Tond Chemical (SHE: 002360)	9.203	3,603	157	22.97	1,176	3.06
			Max	37.35		3.09
			Min	21.01		1.85
			Mean	27.13		2.61
			Median	25.60		2.69
The Target Group		774 ³	109	7.10	17	46.24

Source: <http://www.sse.com.cn/>, <http://www.szse.cn/> and company website

Note:

- Based on the closing price and exchange rate (of HK\$1=RMB0.78997 being the RMB central parity rate publicised by the People’s Bank of China) on the Last Trading Day.
- Based on the latest financial data as published in the annual reports and interim reports of the Comparables as at the Latest Practicable Date and exchange rate (of HK\$1=RMB0.78997 being the RMB central parity rate publicised by the People’s Bank of China) on the Last Trading Day.
- Being the consideration for the Sale Shares in regard to the SP Agreement.

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In consideration of the relatively lower PER of the Target Company implied by the consideration for the Sale Shares, we applied the ratio of 30.91% between the average PER of Stock Exchange Main Board listed companies to that of the Shenzhen Stock Exchange listed A shares companies as at the Last Trading Day (“**HKEX/SHE Ratio**”) based on the information disclosed in the Stock Exchange website. As 6 out of 7 PER Comparables companies are listed in the Shenzhen Stock Exchange, we consider the discount between the average PER of the Stock Exchange Main Board listed company to that of Shenzhen Stock Exchange listed A share companies as a benchmark to adjust the PER implied by the consideration for the Sales Shares. Furthermore, pursuant to the Letter from the Board, the basis of the consideration was also made from further discount in the applicable price to earnings multiples as the value of listing premium. Non-listed companies normally are perceived with lower level of marketability. We considered it is generally not uncommon to apply an average of 20% to 30% based on academic publications to listed companies when valuing unlisted companies (“**Marketability Discount**”). Having considered that the Comparables are mostly listed on the stock exchange in the PRC and the Target Group is a non-listed company, we considered the adjustments of HKEX/SHE Ratio and Marketability Discount applied to the PER of the Target Company which to be in-line with the Hong Kong capital market and accurately assess the fairness and reasonableness of the consideration for the Sale Shares of a non-listed company is fair and reasonable. The below table sets out the adjusted PER range, mean and median of the Comparables as compared to the PER of the Target Company implied by the consideration for the Sales Shares.

	PER for A-Shares	PER adjusted by HKEX/SHE Ratio (30.91%)	PER further adjusted by Marketability Discount (25%)
Max	37.35	11.55	8.66
Min	21.01	6.49	4.87
Mean	27.13	8.39	6.29
Median	25.60	7.91	5.94
PER implied by the consideration for the Sale Shares ²			7.10

Note:

1. Based on the latest financial data as published in the annual report of the Target Company as at the Latest Practicable Date and exchange rate of HK\$1=RMB0.78997 being the RMB central parity rate publicised by the People’s Bank of China on the Last Trading Day.
2. Being the consideration for the Sale Shares of HK\$774 million divided by the audited profit attributable to the owners of the Target Company of RMB86 million (equivalent to approximately HK\$109 million)

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After we applied the ratio of 30.91% between the average PER of Stock Exchange Main Board listed companies to that of the Shenzhen Stock Exchange listed A shares companies as at the Last Trading Day and then further 25% discount adjusted to the PER of the Comparables, the PER of the Comparables falls into the range between 4.87 times to 8.66 times, which the PER of the Target Group falls within the range and slightly above the mean and median of the PER of the Comparables.

The price-to-book ratio (“**PBR**”) of the Comparables falls into the range between 1.85 times to 3.09 times, which the PBR of the Target Company of 46.24 times falls out of the range of the PBR of the Comparables. Having considered that the subsidiaries of the Target Company declared the total dividend of RMB299.35 million to the owners of the Target Company during the year ended 31 March 2014 and hence the equity attributable to owners of the Target Company decreased from RMB351.37 million as of 31 March 2013 to RMB 13.22 million as of 31 December 2014, representing a decrease of 96.24%, this resulted in the increase of PBR of the Target Company approximately 1.67 times as of 31 March 2013 to approximately 46.24 times as of 31 December 2014. PBR is a valuation method for asset-based businesses. We note that the business nature of the Target Group is an asset-based business which principally engaged in the manufacturing and sales of civil explosives and the provision of blasting projects and related services, however given that the distortion by the dividend declared during the year ended 31 March 2014; and the consideration for the Sale Shares was determined based on using historical price to earnings multiple of the profit attributable to owners of the Target Company for the year ended 31 March 2014, we consider that PER is a more relevant approach as compared to the PBR in assessing the fairness and reasonableness of the consideration of the Sale Shares.

Having considered that (i) the PER of 7.10 times implied by the consideration for Sales Shares falls within the range of PERs of the Comparables after the adjustments for (a) PERs of the Comparable from A share stock market where market valuation and PER level are higher than those of the Hong Kong capital market in general; and (b) marketability discount of the PER of the Comparable, (ii) the Target Group has been profitable; and (iii) favourable government policies towards civil explosive industry, we consider that the Consideration is acceptable so far as the Independent Shareholders are concerned.

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(ii) Mode of settlement

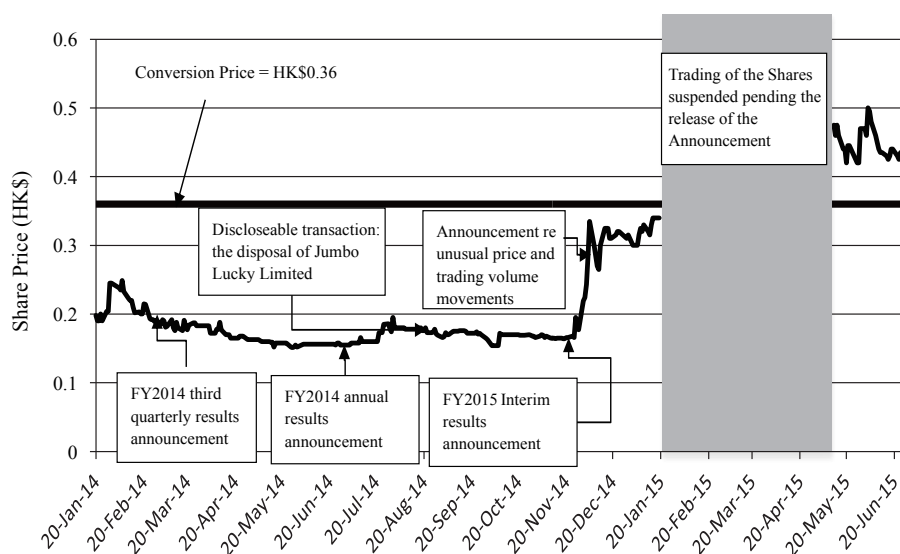
Pursuant to the SP Agreement, the Consideration will be satisfied through the issue of Convertible Bonds of HK\$837 million in aggregate, comprising the Sale Shares Bonds with a principal amount of HK\$774 million and the Sale Loan Bonds with a principal amount of HK\$63 million. The Convertible Bonds shall be converted at the Conversion Price of HK\$0.36 per Conversion Share subject to the adjustments upon the occurrence of subdivision or consolidation or reclassification of Shares, capitalisation issues, capital distribution (including distributions in cash or in specie), rights issues and grant of options, warrants or other rights on and subject to the terms of the Convertible Bonds.

The Conversion Price of HK\$0.36 per Conversion Share represents:-

- a premium of approximately 5.88% over the closing price of HK\$0.34 per Share as quoted on the Stock Exchange on the Last Trading Day;
- a premium of approximately 9.09% over the average of the closing prices of HK\$0.33 per Share as quoted on the Stock Exchange for the last five trading days immediately prior to and including the Last Trading Day;
- a premium of approximately 9.09% over the average of the closing prices of HK\$0.33 per Share as quoted on the Stock Exchange for the last ten trading days immediately prior to and including the Last Trading Day;
- a premium of approximately 16.13% over the average of the closing prices of HK\$0.31 per Share as quoted on the Stock Exchange for the last 30 trading days immediately prior to and including the Last Trading Day;
- a discount of approximately 17.24% to the closing price of HK\$0.435 per Share as quoted on the Stock Exchange on the Last Practicable Date; and
- a premium of approximately 2,471.43% over the unaudited net asset value per Share as at 31 December 2014 of approximately RMB0.011 (equivalent to approximately HK\$0.014).
- Historical share price performance

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For the purpose of comparing the Conversion Price with the market price of the Shares, we plot the closing price level of the Shares traded on the Stock Exchange from 17 January 2014 to 19 January 2015 (being the Last Trading Day) (the “**Pre-announcement Period**”) and further up to the Latest Practicable Date (the “**Review Period**”) as follows:



Source: Infocast and website of the Stock Exchange

The Conversion Price had been above the closing prices of the Shares in the entire Pre-announcement Period, and the closing prices of the Shares ranged from the lowest of HK\$0.151 per Share on 27 May 2014 to the highest of HK\$0.34 per Share on 15 January 2015, 16 January 2015 and 19 January 2015. We noticed that the closing prices of the Shares surged significantly since early December 2014, from HK\$0.219 per share on 1 December 2015 and reached the peak at HK\$0.34 on the Last Trading Day. During the Pre-announcement Period, the Conversion Price represents (i) a premium of approximately 138.41% over the lowest closing price of HK\$0.151; (ii) a premium of approximately 5.88% over the highest closing price of HK\$0.34; and (iii) a premium of approximately 87.50% over the 12-month average closing price of HK\$0.192.

Trading in Shares was suspended since 20 January 2015 pending for the release of the Announcement. Following the publication of the Announcement, the closing price of the Shares increased to HK\$0.475 per Share on 12 May 2015. The closing prices of the Shares during the period from 12 May 2015, being the first trading day after the Announcement was published to the Latest Practicable Date (the “**Post-announcement Period**”) ranged from the lowest of HK\$0.42 per Share to the highest of HK\$0.50 per Share. The Conversion Price represents a discount of approximately 14.29% to the lowest closing price of the Shares and a discount of approximately 28.0% to the highest closing price of the Shares during the Post Announcement Period. Since there was no further material announcement issued

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by the Company during the Post-Announcement Period, we are of the view that the recent significant surge in Share price during the Post- Announcement Period was not supported by any improvement in the financial performance of the Group and the said surge of the Share price may reflect the positive market sentiment and perception towards the Acquisition as mentioned in the Announcement and the future prospect of the Company and therefore, the Share price during such period may not serve a fair and meaningful indicator for assessing the Conversion Price.

Having regard to the Conversion Price represents (i) a premium over the highest closing price during the Pre-announcement Period and on the Last Trading Day; (ii) a premium over the average of the closing prices per Share as quoted on the Stock Exchange for the last five, ten, 30 trading days immediately prior to and including the Last Trading day; (iii) a premium of approximately 87.50% over the 12-month average closing price of HK\$0.192 during the Pre-announcement Period; and (iv) all the historical prices of the Shares during the Pre-announcement Period were below the Conversion Price, we consider the Conversion Price is favorable so far as the Independent Shareholders are concerned.

- Analysis of comparable transactions with the issuance of convertible bonds

In order to further assess the fairness and reasonableness of the Conversion Price, we have conducted a research on the issues of convertible bonds/notes in relation to acquisitions of listed companies in the Stock Exchange as part of the consideration during the Review Period (“**CB Comparables**”). The purpose of this analysis is to compare the conversion price, maturity, interest rate and redemption right with those of the CB Comparables in the recent stock market environment. Although the business, operation and prospects of the Company are not the same as the CB Comparables and we have not conducted any in-depth investigation into the business and operation of the CB Comparables, we consider the CB comparable appropriate which should be considered as a whole rather than in isolation. The list set out as below is an exhaustive list of those fair and representative comparables for comparison purpose:

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Date of announcement	Company (stockcode)	Conversion price (HK\$)	Maturity (years)	Interest (p.a.)	Premium over/ (discount) on the closing price of the shares as at the Last Trading Day/ the date of the underlying convertible bond agreement (%)	Premium over/ (discount) on the closing price of the shares for last 5 consecutive trading days up to the Last Trading Day/ the date of the underlying convertible bond agreement (%)	Premium over/ (discount) on the closing price of the shares for last 10 consecutive trading days up to the Last Trading Day/ date of underlying convertible bond agreement (%)	Premium over/ (discount) on the NAV per share (%) ¹
24/1/2014	China Environmental Energy (986)	3.84	1	8.00%	(3.27%)	(0.10%)	(15.86%)	N/A
30/1/2014	Sunway International Holdings (58)	0.3	3.5	0.00%	1.69%	18.39%	15.83%	(33.18%)
18/3/2014	United Gene High-Tech Group (399)	3.5	7	3.50%	73.61%	68.24%	70.53%	273.13%
2/4/2014	China Household Holdings (692)	0.9	3	3.00%	0.00%	(4.30%)	(4.36%)	13.83%
4/4/2014	Sheen Tai Holdings Group (1335)	1.658	3	3.00%	(14.09%)	0.00%	(1.13%)	45.71%
11/4/2014	Infinity Chemical Holdings (640)	0.8	2	0.00%	(5.88%)	(0.99%)	1.65%	67.88%
5/5/2014	China Print Power Group (6828)	2.36	3	0.00%	(12.92%)	(14.18%)	(15.11%)	154.43%
25/5/2014	CMMB Vision Holdings (471)	0.15	6	0.00%	15.40%	16.60%	17.50%	(39.83%)
26/5/2014	Asian Capital Resources (8025)	0.45	2	0.00%	0.00%	2.27%	6.38%	46680%
5/6/2014	China Investments Holdings (132)	0.76	5	2.00%	18.75%	22.19%	20.06%	52.61%
13/6/2014	North Asia Strategic Holdings (8080)	0.25	3	0.00%	0.00%	(1.20%)	0.40%	52.61%
13/6/2014	National United Resources Holdings (254)	0.2	5	0.00%	(6.54%)	(8.59%)	(8.68%)	300.00%
23/6/2014	China Grand Pharmaceutical (512)	1.35	5	3.00%	(9.40%)	(12.90%)	(6.10%)	202.06%
24/6/2014	China Environmental Investment (260)	0.2	2	1.00%	25.00%	29.87%	31.58%	(19.26%)
29/7/2014	China Kingston Mining (1380)	0.27	5	0.00%	(8.47%)	(4.93%)	(1.42%)	57.00%
5/8/2014	Beijingwest Industries International (2339)	0.39	5	0.00%	(11.36%)	(9.72%)	(7.14%)	N/A
3/10/2014	China Aluminum Cans Holdings (6898)	1.08	5	0.00%	2.00%	2.00%	0.00%	45.39%
7/10/2014	Blue Sky Power Holdings (6828)	3.79	3	0.00%	(7.82%)	(5.01%)	0.00%	501.59%
20/10/2014	ZMFT Automobile Glass Services (8135)	1.112	3	1.00%	(20.00%)	(10.61%)	(5.28%)	137.71%
20/11/2014	Greater China Holdings (431)	1.2	5	0.00%	(33.70%)	(30.20%)	(28.70%)	228.70%
21/11/2014	Green International Holdings (2700)	0.5	3	2.00%	(32.00%)	(24.40%)	(13.40%)	107.88%
9/12/2014	Merdeka Mobile Group (8163)	0.32	3	0.00%	30.61%	30.72%	27.54%	847.66%
11/12/2014	Quali-Smart Holdings (1348)	4.09	2	0.00%	(18.00%)	(13.60%)	(14.50%)	316.40%
22/12/2014	National Arts Entertainment and Culture Group (8228)	0.18	3	9.00%	18.42%	13.92%	13.21%	(51.52%)
30/12/2014	Digital Domain Holdings (547)	0.16	1.5	0.00%	(3.61%)	7.82%	13.96%	487.53%
10/3/2015	Madex International (231)	0.2	5	0.00%	(9.91%)	(9.50%)	(9.09%)	117.39%
11/3/2015	Larry Jewelry International (8351)	0.15	3	7.00%	(82.35%)	(81.57%)	(82.31%)	45.15%
1/4/2015	China Precious Metal Resources (1194)	0.76	0.5	0.00%	26.67%	23.38%	35.71%	(40.63%)
15/4/2015	Greater China Holdings (431)	3.25	3	0.00%	(20.15%)	(21.31%)	8.96%	983.33%
15/4/2015	Alibaba Health Information Technology (241)	5.808	5	2.00%	(14.30%)	(4.60%)	(1.90%)	2664.34%
17/4/2015	SMI Culture Group Holdings Limited (2366)	0.60	3	0.00%	1.69%	(1.96%)	5.91%	40.52%
20/4/2015	CIAM Group (378)	1.7	3	8.00%	16.44%	14.40%	14.02%	22.19%
27/4/2015	Karrie International Holdings (1050)	0.465	3	1.00%	19.23%	19.54%	20.78%	(3.13%)
27/4/2015	ABC Communications (30)	0.1875	2	2.00%	(25.00%)	0.48%	9.97%	(3.18%)
30/4/2015	Chinese Food and Beverage Group (8272)	0.29	3.6	0.00%	(43.14%)	(42.91%)	(43.25%)	N/A
7/5/2015	Universe International Holdings (1046)	0.75	2	5.00%	7.14%	(5.06%)	(3.72%)	-47.18%
13/5/2015	E Lighting Group (8222)	0.7	3	1.00%	5.40%	5.40%	(7.16%)	363.58%
7/6/2015	Carnival Group International Holdings (996)	1.55	3	0.00%	7.64%	(2.88%)	(0.13%)	365.19%
	Max		7	9.00%	73.61%	68.24%	70.53%	46680%
	Min		1	0.00%	(82.35%)	(81.57%)	(82.31%)	(51.52%)
	Mean		3	1.67%	(2.95%)	(0.93%)	1.18%	1569.60%
	Median		3	0.00%	(3.44%)	(1.58%)	(0.06%)	67.88%
	The Convertible Bonds	0.36	3	0.00%	5.88%	9.09%	9.09%	2,471.43%

Source: Website of the Stock Exchange

Note 1: Based on the latest financial data as published in the annual reports and interim reports of the CB Comparables as at the Latest Practicable Date.

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Maturity and interest rate

We note that the maturity term of the Convertible Bonds of three years is same as the mean and the median of those of the CB Comparables. We consider the maturity term is in line with the stock market environment during the Review Period. We also note that the Convertible Bonds do not carry interest which is at the low end of the range of interest rate for the CB Comparables from 0.00% to 10.00% per annum. We consider the issue of Convertible Bonds allows the Group to obtain funding with a minimal finance cost.

Conversion price

As illustrated from the table above, we note that (i) the premium of the Conversion Price over the closing price of the Shares on the Last Trading Day/the date of the convertible bond agreement is above the mean and median of those of the CB Comparables; (ii) the premium of the Conversion Price over the average closing price of the Shares for the last five consecutive trading days up to the Last Trading Day/the date of the convertible bond agreement is above the mean and median of those of the CB Comparables; (iii) the premium of the Conversion Price of the Convertible Bonds over the average closing price of the Shares for the last ten consecutive trading days up to the Last Trading Day/the date of the convertible bond agreement is above the mean and median of those of the CB Comparables; (iv) the premium of the Conversion Price over the net asset value per share is above the mean and median of those of the CB Comparables; and (v) the Convertible Bond is interest-free.

Based on the above, we consider the Conversion Price is acceptable and is in the interest of the Company and the Independent Shareholders as a whole.

3. Financial effects of the Acquisition

Upon Completion, the Target Group will become the subsidiaries of the Group. The financial results and assets and liabilities of the Target Group will be consolidated on acquisition basis into the consolidated financial statements of the Group thereafter. The following summarises the financial impact of the Acquisition on the Target Group as if the Acquisition had been completed on (i) 30 September 2014 in respect of the unaudited pro forma consolidated statement of financial position of the Enlarged Group, and (ii) 31 March 2014 for the unaudited pro forma consolidated statement of comprehensive income statement and the unaudited pro forma consolidated cash flow statement of the Enlarged Group. Please refer to the sections headed “Appendix I - Financial Information of the Group”, “Appendix II - Financial information of the Target Group” and “Appendix III - Unaudited pro forma financial information of the Enlarged Group” in the Circular.

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(i) Earnings

According to the unaudited pro forma statement of comprehensive income statement of the Enlarged Group, for the year end 31 March 2014, the revenue will increase from approximately RMB605.48 million to RMB1,011.27 million and the loss attributable to the owners of the Target Company for the year will be reduced from approximately RMB32.66 million to approximately RMB8.97 million. Taking into the consideration of the total estimated transaction costs of approximately RMB6.5 million, we consider the immediate improvement on the earning will outweigh the current one-off transaction expenses.

(ii) Net asset value

As set out in the unaudited pro forma consolidated statement of financial position of the Enlarged Group, assuming the Acquisition had taken place on 30 September 2014, it is expected that net asset will decrease from approximately RMB12.84 million to net liabilities of approximately RMB294.41 million mainly due to the recognition of liability component of Convertible Bonds for the Acquisition.

(iii) Gearing and working capital

As at 30 September 2014, the Group's gearing ratio (being total liabilities over net assets) was approximately 0.07 times. According to the pro forma financial information in Appendix III of the Circular, the net asset will decrease from approximately RMB12.84 million to the net liabilities of approximately RMB294.41 million assuming the Acquisition had taken place on 30 September 2014.

As at 30 September 2014, the Group had cash and cash equivalents of approximately RMB7.09 million. Assuming the Acquisition taken place on 30 September 2014, the Consideration will be satisfied by the issuance of the Consideration Bonds as shown in the pro forma financial statement of financial position of the Enlarged Group as set out in Appendix III of the Circular. Together with the Target Group's cash and equivalents, the cash and cash equivalent of the Enlarged Group, after deducting the estimated transaction costs of the Acquisition to be settled at the time of Completion of approximately RMB5.50 million, will increase to approximately HK\$64.09 million upon Completion.

Although the net asset will decrease from approximately RMB12.84 million to the net liabilities of approximately RMB294.41 million due to the recognition of the liability component of Convertible Bonds for the Acquisition, pursuant to the Letter from the Board, it is the present intention of the Company to finance the redemption of the Convertible Bonds at maturity (to the extent that the conversion rights under the Convertible Bonds is not exercised) by the internal resources of the Enlarged Group. Taking into account (i) the pro forma aggregate cash balances of the Enlarged Group which amounted to approximately RMB64.09 million as of 30 September 2014; and (ii) the cash inflow generated by the Target Group from its operating activities which amounted to approximately RMB458.81

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million in aggregate for the three years ended 31 March 2014 and nine months ended 31 December 2014, the Directors consider that the Group will have sufficient internal resources to finance the redemption of the Convertible Bonds at maturity.

Given that the Acquisition will have an overall positive financial effect on profitability of the Group, we consider the negative impact on the financial position of the Group in terms of net liabilities position upon Completion is acceptable.

Independent Shareholders should be noted that the above-mentioned figures and analyses are for illustrative purpose only and do not purport to represent how the financial position of the Enlarged Group will be upon Completion.

4. Dilution effect on the shareholding rights of the Independent Shareholders

It should be noted that as a result of the Acquisition and the issue of the Convertible Bonds, the shareholdings of existing Independent Shareholders will be diluted from approximately 27.96% to 9.69% and the 19 Bondholders, being the Vendors of the SP Agreements and the independent third parties to the Group, will hold 17.64% of the total shareholdings assuming, (i) the full conversion of the Convertible Bonds; (ii) that the Company will not in breach of the minimum public float requirement under the GEM Listing Rules; and (iii) that the Bondholders and parties acting in concert with it will not trigger a mandatory general offer under the Takeovers Codes. Please refer to the section headed “(f) Shareholding structure of the Company” in the Letter from the Board of the Circular for further details. The shareholdings of the public shareholders will change from 27.96% to 27.33% and Shiny Ocean (and Mr. Ma Qiang) will remain as the major Shareholder of the Enlarged Group and there will be continuity in this respect. The dilution effect in itself is not favorable to the existing Independent Shareholders. Nevertheless, it is important to note the positive effect of the Acquisition to the Enlarged Group’s future business development and financial performance as discussed in the section headed “Reasons for the Acquisition” in this letter. The Group has incurred consecutive losses since 2010. For the financial year ended 31 March 2014, the Group’s net loss for the year increased from approximately RMB23.42 million for the year ended 31 March 2013 to RMB32.66 million for the year ended 31 March 2014. In comparison, as shown in the unaudited pro forma financial information of the Enlarged Group as set out in Appendix III of the Circular, the pro forma net profit of the Enlarged Group for the year ended 31 December 2014 will be approximately RMB49.27 million. Taking into account that the reasons and benefits of the Acquisition and the terms of the Convertible Bonds are reasonable, we consider that the aforementioned level of dilution to the shareholding interests of the Independent Shareholders in the event that the Convertible Shares are issued is acceptable.

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Recommendation

We consider that the merits of the Acquisition should hinge on the business fundamentals and ongoing business development of the Target Group. Having considered the above principal factors, in particular, the financial effects on the Enlarged Group, we consider that the demerits associated with the Acquisition could be in position to out-weigh the potential benefits to be brought about by the Acquisition. Taking into account that:

- the Acquisition is in line with the current business strategy and financial situation of the Group to penetrate to the civil explosives industry as a vertical integration to its bulk mineral trading business with favourable government policies of civil explosive industry;
- the Target Group was profitable during the three years ended 31 March 2014 and the nine months ended 31 December 2014 as compared to the continuous operating loss was recorded by the Group for the past three financial years;
- the PER of 7.10 times implied by the consideration for Sales Shares falls within the range of PERs of the Comparables after the adjustments for (a) PERs of the Comparable from A share stock market where market valuation and PER level are higher than those of the Hong Kong capital market in general; and (b) marketability discount, of the PER of the Comparables;
- the terms of the Convertible Bonds are within range of the CB Comparables; and
- an improvement on the Group's earnings and cash and cash equivalents upon Completion;

notwithstanding (i) the uncontrollable risks (i.e. economic, social and weather conditions) as mentioned in the section headed "(iv) Risk factors" in this letter, the Target Group has taken measures or will take appropriate measures upon Completion to reduce the risks in relation to the Target Group and the civil explosive industry which can be mitigated; (ii) the non-compliance matters as in the Letter from the Board; and (iii) the net liability position of the Enlarged Group as a result of the recognition of the liability component of the Convertible Bonds, we are of the opinion that the entering into of the SP Agreement is in the ordinary and usual course of business of the Group and the terms of the SP Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and the Acquisition is in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to, and we recommend Independent Shareholders to, vote in favour of the ordinary resolutions to approve the SP Agreement at the EGM.

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PROPOSED CONNECTED TRANSACTION AFTER COMPLETION

It is noted that two indirectly owned subsidiaries of the Target Company together with a branch company, namely Shengan Chemical (Bayannur), Shengan Chemical (Urad Middle Banner) and Shengan Chemical (Otog Banner) has entered into the Transportation Framework Agreement with Shengan Transport. The Transportation Framework Agreement refers to the provision of transportation services of civil explosives, blasting equipment and other production materials by Shengan Transport to Shengan Chemical (Bayannur), Shengan Chemical (Urad Middle Banner) and Shengan Chemical (Otog Banner) of the term of three years commencing from 22 June 2015.

Shengan Transport, being the services provider under the Transportation Framework Agreement, was owned as to approximately 90.91% equity interest by Mr. Dong Haibin, who is the brother-in-law of Mr. Ma Qiang, being the non-executive Director and controlling Shareholder. Therefore, upon Completion, Shengan Transport becomes a connected person of the Company and the entering into the Transportation Framework Agreement constitutes continuing connected transactions of the Company under Chapter 20 of the GEM Listing Rules. As all applicable percentage ratios in respect of annual caps under the Transportation Framework Agreement are more than 5% and are expected to exceed HK\$10 million. As such, the transactions contemplated under the Transportation Framework Agreement and the Shengan Transport Proposed Cap are subject to the reporting, announcement, annual review and the Independent Shareholders' approval requirement under Chapter 20 of the GEM Listing Rules.

Principal factors and reasons considered

In arriving at our opinion regarding the terms of the Transportation Framework Agreement, we have considered the following principal factors and reasons:

1. Background of and reasons for entering into the Transportation Framework Agreement

The Target Group is principally engaged in (i) the manufacturing and sale of civil explosives which are in turn sold to end-user customers or distributors; and (ii) the provision of blasting projects and related services. Under the relevant rules and regulations of the PRC, transportation of civil explosives must be made by authorised vehicles and personnel with requisite permits and qualifications. Where customers of the Target Group do not collect the explosive products manufactured by the Target Group from its warehouse or (in case of provision of blasting operation and related services) where customers need explosives and blasting equipment to be delivered to their blasting site, the Target Group will need to procure transportation services from qualified transportation service providers so as to minimise the operation risks of the Target Group during transportation of civil explosives and blasting equipment.

Shengan Transport is a company established on 12 June 2012 under the laws of the PRC with limited liabilities. Shengan Transport has the requisite permits and qualifications as required by relevant rules and regulations in the PRC in regard to explosives and related equipment transportation. Shengan Transport has been providing such transportation services to the Target Group for more than three years.

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As stated in the Letter from the Board, the aggregate services fees for the provision of transportation services by Shengan Transport to Target Group for each of the three years ended 31 March 2015 was nil approximately RMB9.86 million and RMB16.08 million respectively. As advised by the management of the Company, there was a significant increase in the amount of transportation services fees paid to Shengan Transport during the year ended 31 March 2015 as compared to that during the year ended 31 March 2014, because (a) the amount of transportation services fees paid during the year ended 31 March 2014 represented the services fees for approximately eight months of services only after the reengagement of Shengan Transport by the Target Group; and (b) Shengan Transport has purchased more transportation vehicles and expanded its business, and thereby has improved its capacity and capability in providing transportation services to the Target Group during the year ended 31 March 2015. As discussed with the Directors, the entering into the Transportation Framework Agreement will minimise the operating risks of the Target Group during the transportation of civil explosives and blasting equipment and the management of the Target Group is familiar with the transportation operation of Shengan Transport.

A 3-year Transportation Framework Agreement dated 22 June 2015 was entered into between Shengan Transport and the three members of the Target Group, namely Shengan Chemical (Bayannur), Shengan Chemical (Urad Middle Banner) and Shengan Chemical (Otog Banner).

2. Terms of the Transportation Framework Agreement

Pursuant to the Transportation Framework Agreement dated 22 June 2015 and entered between Shengan Chemical (Otog Banner), Shengan Chemical (Bayannur) and Shengan Chemical (Urad Middle Banner) and Shengan Transport, Shengan Transport agreed to provide transportation services to Shengan Chemical (Otog Banner), Shengan Chemical (Bayannur) and Shengan Chemical (Urad Middle Banner), being three members of the Target Group, in respect of the transportation of civil explosives, blasting equipment and other production materials to such location as designated by the Target Group under terms and conditions of the Transportation. For other terms (such as the time of service, types and weight of the goods to be transported, and the services fees), those are subject to be further agreed by Shengan transport and the above three members of the Target Group by entering into separate service contracts from time to time.

Pursuant to the Transportation Framework Agreement, the separate services contract for other services terms (such as the time of service, types and weight of the goods to be transported, and the services fees) will be entered into under the major conditions set out below:

- (i) it shall be on normal commercial terms or better;
- (ii) the services fees for each service shall be from time to time agreed by the parties after arm's length negotiation with reference to the prevailing market price for comparable services, the types of goods to be transported, weight, transportation distance and time to be involved, fuel price and such other special circumstances;

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- (iii) the unit services fee per tonne and per kilometer offered to the Target Group shall not be less favorable than that offered by Shengan Transport to its independent third party customers for transportation of comparable products and distance;
- (iv) the Target Group can obtain terms for transportation of comparable products and distance from independent transportation service providers which are more favorable than those offered by Shengan Transport, the Target Group may request Shengan Transport to offer its transportation services on terms no less favorable than that available from the independent transportation service provider or may obtain transportation service from such independent transportation service provider; and
- (v) Shengan Transport shall agree to ensure that the vehicles and personnel involved shall comply with the applicable safety transportation requirement under laws and regulations and shall be responsible for any incident occurred during the course of transportation of the good.

In addition, an internal control procedure policy for the pricing of the transportation services provided by Shengan Transport will be established for the purpose of the Transportation Framework Agreement in order to ensure (i) the Target Group shall obtain fee quotation from at least one qualified independent transportation service provider for provision of services; (ii) director or management of the Group or the Target Group who have conflict of interests may not be involved in matters relating to the transactions, including but not limited to the negotiations with Shengan Transport on the service fees and other terms of each separate service contract, the decision on whether to engage the third independent transportation service provider for the services or to request Shengan Transport to offer such services on comparable or better terms; and (iii) subject to Completion taking place, the independent non-executive Directors, in addition to their annual review of the continuing connected transactions under the Transportation Framework Agreement under the GEM Listing Rules, shall from time to time review the methods and procedures involved in the selection and engagement of transportation service providers (including Shengan Transport) for the transportation services and, if thought fit, to advise the Board on adopting such additional measures to ensure that the continuing connected transactions to be concluded under the Transportation Framework Agreement will be on normal commercial terms and on terms no less favourable to the Target Group than terms available from independent third party service providers.

As advised by the Company, the Target Group will obtain quotations from independent transportation service providers for the same or comparable type of services and routes provided by Shengan Transport. We have obtained and reviewed, two pre-agreement quotations, 15 pricing agreements and two supplemental agreements between the Target Group and its transportation service providers for the three years ended 31 March 2014 and the nine months ended 31 December 2014. As advised by the management of the Company, the above are all the pre-agreement quotations and agreements in relation to the transportation service providers of the Target Group for the three years ended 31 March 2014 and the nine months ended 31 December 2014. We noted that the price given by Shengan Transport for each route is close to the price given by independent transportation service providers. We also discussed with the management

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of the Company and understand that apart from the price for each route, the Target Group will also consider the capacity in terms of the number of civil explosives transportation vehicles, the availability at the time of delivery and reliability of services of the transportation service providers of the Target Group. We have reviewed all the transportation service providers of the Target Group as at 31 December 2014 and noted that Shengan Transport, in terms of the number of civil explosives transportation vehicles, ranked the second amongst all the transportation service providers of the Target Group for the delivery of civil explosives, blasting equipment and other production materials and ranked first amongst all the transportation service providers of the Target Group for the delivery of civil explosives and blasting equipment as at 31 December 2014. In view of the above, we consider that the Company has taken appropriate corporate governance measures in carrying out the Shengan Transport CCT, thereby safeguarding the interests of the Shareholders thereunder and the price and other terms given by Shengan Transport for each route will be on terms no less favourable to the Target Group than terms given by independent transportation service providers.

The Independent Shareholders should note that the Transportation Framework Agreement, each of the three members of the Target Group and Shengan Transport may terminate the Transport Framework Agreement by serving a prior termination notice of not less than 30 days on the other parties thereof. In addition, there is no restriction under the Transportation Framework Agreement that restricts the Target Group from obtaining the requisite transportation services from other third party transportation service providers. We considered such arrangements will allow the Target Company to be more flexible in choosing its transportation service providers.

Based on the forgoing and having regard to the transactions contemplated under the Transportation Framework Agreement between Shengan Transport and the Target Group that (i) have been in existence for more than three years; (ii) are carried out in the ordinary course of business of the Target Group; (iii) provide the flexibility in choosing its transportation service providers; and (iv) appropriate measures have taken to govern the Company in carrying out the Shengan Transport CCT, we concur with the executive Directors that the entering into of the Transportation Framework Agreement is in the ordinary and usual course of business of the Group after the Completion and in the interests of the Company and the Shareholders as a whole.

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THE SHENGAN TRANSPORT PROPOSED CAP

Based on information provided by the Company, we summarise in the following table of the Shengan Transport Proposed Cap for the three years ending 31 March 2018:

	For the financial year ending 31 March		
	2016	2017	2018
	RMB'million	RMB'million	RMB'million
Explosives Transportation Services	18.0	19.8	21.8

In determining the Shengan Transport Proposed Cap, the Board has based their estimates on the actual services fees payable by the Target Group during the year ended 31 March 2015, the estimated inflation rate and increase in cost of transportation services of an aggregate of 10% per year, the prevailing service fees charged by Shengan Transport, and the prevailing authorised production limit of the Target Group's civil explosives.

Based on the information from the management, transportation cost payable to Shengan Transport for the year ended 31 March 2015 amounted to approximately RMB16.08 million. As discussed with the Company, subject the authorised production limit by the relevant government authority in the PRC, the Target Group will maintain at its total production capacity of civil explosives at 60,000 tonnes per year. We noted that preliminary transportation service fee rates are in general approximately 10% higher than the prevailing rates. Taking into consideration of the actual transportation service fee payable to Shengan Transport for the year ended 31 March 2015, we therefore consider the Shengan Transport Proposed Cap of RMB18.0 million for the year ending 31 March 2016 is fair and reasonable. In respect of the Shengan Transport Proposed Cap of RMB19.8 million and RMB21.8 million for the two years ending 31 March 2018, we take into account of (i) the latest projected inflation rate of 1.8% in the PRC as reference from PricewaterhouseCoppers; (ii) the oil prices are expected to increase by approximately 7.55% to US\$57/bbl in 2016 as compare to US\$53/bbl in 2015 as reference from the World Bank Quarterly Report – Commodity Markets Outlook, January 2015; (iii) increase of labour cost in the PRC as a result of the inflation rate; and (iii) the production capacity of civil explosives will maintain at 60,000 tonnes per year, we consider that the Shengan Transport Proposed Cap for the two years ended 31 March 2018 is fair and reasonable.

On the above basis, we are of the opinion that the terms of the continuing connected transaction contemplated under the Transportation Framework Agreement are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

Measures to ensure compliance with the GEM Listing Rules

Pursuant to Chapter 20 of the GEM Listing Rules, the independent non-executive Directors are required to review the Shengan Transport CCT annually and confirm in the Company's annual report that they have entered into (i) in the ordinary and usual course of business of the Group;

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(ii) on normal commercial terms; (iii) in accordance with the relevant agreement governing Shengan Transport CCT on terms that are fair and reasonable and in the interest of the Company and the Shareholders as a whole; in compliance with the GEM Listings Rules, the independent non-executive Directors, upon Completion, in addition to their annual review of the Shengan Transport CCT, shall from time to time review the methods and procedures involved in selection and engagement of transportation services providers to ensure the transactions contemplated under the Transportation Framework Agreement are on normal commercial terms. In addition, Directors or management of the Enlarged Group who have conflict of interests may not be involved in matters relating to the Shengan Transport CCT. In view of the above, we consider that there exist appropriate procedures and arrangements to ensure that the Shengan Transport CCT will be conducted on terms in compliance with the provisions of the GEM Listing Rules

Recommendations

After taking into account the above principal factors and reasons, we consider that the terms of the continuing connected transaction contemplated under the proposed Transportation Framework Agreement are on normal commercial terms and are fair and reasonable so far as the Company and the Independent Shareholders are concerned and the basis of the Shengan Transport Proposed Cap is fair and reasonable so far as the Company and Independent Shareholders are concerned, and in the interests of the Company and Shareholders as a whole. Accordingly, we recommend the Independent Shareholders and the Independent Board Committee to advise the Independent Shareholders to vote in favor of the resolution to approve the Transportation Framework Agreement.

Yours faithfully,

For and on behalf of

Octal Capital Limited

Alan Fung

Wong Wai Leung

Managing Director

Director

Note: Mr. Alan Fung has been a responsible officer of Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities since 2003. Mr. Fung has more than 20 years of experience in corporate finance and investment banking and has participated in and completed various advisory transactions of listed companies in Hong Kong in respect of the Takeovers Code. Mr. Wong Wai Leung has been a responsible officer of Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities since 2008. Mr. Wong has more than 15 years of experience in corporate finance and investment banking and has participated in and completed various advisory transactions of listed companies in Hong Kong in respect of the Takeovers Code.

A. FINANCIAL INFORMATION OF THE GROUP

The annual reports of the Company for the years ended 31 March 2012, 31 March 2013 and 31 March 2014 incorporate the audited financial information of the Group together with notes to the financial information for the relevant years. The third quarterly report of the Company for the nine months ended 31 December 2014 incorporates the published unaudited consolidated financial information of the Group. The annual reports and quarterly report of the Company are available on the respective website of the Stock Exchange and the Company as follows:

- (a) in respect of the annual report of the Company for the year end 31 March 2012 (pages 24 to 114):

<http://www.hkexnews.hk/listedco/listconews/GEM/2012/0629/GLN20120629098.pdf>

<http://www.pizugroup.com/files/wb3x9Eee.pdf>

- (b) in respect of the annual report of the Company for the year end 31 March 2013 (pages 24 to 106):

<http://www.hkexnews.hk/listedco/listconews/GEM/2013/0624/GLN20130624067.pdf>

<http://www.pizugroup.com/files/eiwaF-E.pdf>

- (c) in respect of the annual report of the Company for the year end 31 March 2014 (pages 21 to 100):

<http://www.hkexnews.hk/listedco/listconews/GEM/2014/0625/GLN20140625053.pdf>

<http://www.pizugroup.com/files/4r111e8053.pdf>

- (d) in respect of the third quarterly report of the Company for the nine months ended 31 December 2014 (pages 2 to 10):

<http://www.hkexnews.hk/listedco/listconews/GEM/2015/0206/GLN20150206017.pdf>

<http://www.pizugroup.com/files/y0a3xe8053-Q3%20report.pdf>

B. MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP

Set out below is the management discussion and analysis of the Group for the three years ended 31 March 2012, 2013 and 2014 and the nine months period ended 31 December 2014:

For the year ended 31 March 2012*Business review*

As at 31 March 2012, the network integration services business was the main source of the Group's revenue. For the school network integration services business, due to tighter government requirements, the increase of quality demanded for projects and sourcing costs by customers, elimination of the inter-company cost of information technology services in the electricity power industry, the operating cost of the business had increased and hence the business segment had recorded a decrease of profit from previous year. The Group had also retreated from the electric power technology business by the disposal of Beijing Power Along Technology Co., Ltd. due to fierce competition and declining operating environment. The electric power technology business continued to record a loss but with the completion of the disposal at the end of June, the electric power technology business had ceased to affect the Group since July 2011. In view of developing businesses in the financial sector, the Group had also made a loan for investment purposes during the year to generate satisfactory return on the resources of the Group.

Turnover

Turnover of the continuing operations during the year ended 31 March 2012 was approximately RMB56.67 million, representing an increase of approximately 40.28% from approximately RMB40.40 million during the year ended 31 March 2011. The increase was attributable to (i) the increase in turnover from school network integration services from approximately RMB38.86 million for the year ended 31 March 2011 to approximately RMB56.54 million for the year ended 31 March 2012; and (ii) turnover of approximately RMB0.14 million from money lending business.

Cost of goods sold and services provided

The cost of goods sold and services provided of the continuing operations for the year ended 31 March 2012 was approximately RMB53.23 million, representing an increase of approximately 1.79 times as compared to that for the year ended 31 March 2011. The increase was mainly attributable to the increase in the related cost of materials and workforce as a result of tighter government requirement and more stringent requirement of quality of projects as demanded by customers of the Group.

Other income and gain

The other income and gain for the year ended 31 March 2012 mainly consisted of net foreign exchange gain of approximately RMB0.18 million.

Administrative and other operating expenses

For the year ended 31 March 2012, the Group's administrative and other operating expenses of continuing operation was approximately RMB32.13 million, representing an increase of approximately 9.70% as compared with that for the year ended 31 March 2011. The increase was mainly due to the written off of bad debts of approximately RMB5.43 million and written off of obsolete inventory of approximately RMB3.02 million.

Loss per Share

The loss per Share for the year ended 31 March 2012 was approximately RMB0.10 per Share, representing an decrease of approximately 75.66% as compared to that for the year ended 31 March 2011.

Capital structure

The capital of the Company during the year ended 31 March 2012 comprised only ordinary shares with convertible notes with a principal amount of approximately RMB47.24 million. Please refer to note 32 to the financial statements of the Company for the year ended 31 March 2012 as set out in the Company's annual report for the year ended 31 March 2012 for further details.

Significant investment

As at 31 March 2012, the Group did not have any significant investment.

Material acquisitions and disposal of subsidiaries

In June 2011, the Group completed the disposal of Beijing Power Along Technology Co., Ltd. which was principally engaged in making research, development and provision of integrated information systems for power grid companies in the PRC. There was no material acquisition and disposal of subsidiaries in 2011.

Gearing ratio

The Group's gearing ratio (being non-current liabilities over total equity) was 1.31 times as at 31 March 2012 (2011: 10.00 times). The decrease in gearing ratio was mainly due to the conversion into ordinary share resulting in decrease in the carrying amount of liability component of the convertible bonds by approximately RMB48.47 million and early redemption of convertible bonds resulting in decrease in the carrying amount of liability component of the convertible bonds by approximately RMB11.14 million, re-organisation and open offer made during the year.

Liquidity and financial resources

As at 31 March 2012, the shareholders' funds of the Group amounted to approximately RMB37.20 million; current assets amounted to approximately RMB51.51 million, of which approximately RMB28.22 million were cash and cash equivalents, approximately RMB10.99 million were trade and other receivables and approximately RMB12.15 million were loan receivable. The Group's current liabilities amounted to approximately RMB14.63 million.

Charge of assets

The Group did not have any charge on its assets as at 31 March 2012 (2011: nil).

Capital commitment

As at 31 March 2012, the Group's capital commitment in respect of property, plant and equipment contracted but not provided for was nil (2011: nil).

Foreign exchange exposure and hedging policy

Since most of the income and expenses as well as assets and liabilities of the Group during the year ended 31 March 2012 were denominated in Renminbi, the Directors considered that the Group had no material foreign exchange exposures and no hedging policy had been taken.

Contingent liabilities

As at 31 March 2012, the Group did not have any material contingent liabilities (2011: nil).

Dividend

The Board did not recommend any payment of final dividend for the year ended 31 March 2012 (2011: nil).

Human resources

As at 31 March 2012, the Group had 40 full time employees in the PRC and Hong Kong. Staff remuneration packages were determined by reference to prevailing market rates. Staff benefits included mandatory provident fund, personal insurance and discretionary bonus which were based on their performance and contribution to the Group.

For the year ended 31 March 2013***Business review***

During the year ended 31 March 2013, the network integration services business was the main source of the Group's revenue. For the school network integration services business, due to tighter government requirements, its revenue decreased compared with that of the previous year.

Turnover

The Group recorded revenue of approximately RMB32.38 million for the year ended 31 March 2013, representing a decrease of approximately 42.86% in comparison with that for the year ended 31 March 2012. The decrease in turnover was mainly attributable to decrease in revenue from school network integration services from approximately RMB56.54 million for the year ended 31 March 2012 to approximately RMB31.46 million for the year ended 31 March 2013.

Cost of goods sold and services provided

The cost of goods sold and services provided for the year ended 31 March 2013 was approximately RMB27.49 million, representing a decrease of approximately 48.35% as compared to that of the previous year. The decrease was mainly attributable to the decrease in the related sales.

Other income and gain

The other income and gain for the year ended 31 March 2013 mainly consisted of recovery of trade receivables previously written off which was amounted to approximately RMB0.34 million.

Administrative and other operating expenses

For the year ended 31 March 2013, the Group's administrative and other operating expenses was approximately RMB14.34 million, representing a decrease of approximately 55.37% as compared with that for the year ended 31 March 2012. The decrease was mainly attributable to the Group's tighter control of trade receivables and inventories which led to substantial decrease in bad debt and obsolete inventory.

Loss per Share

The loss per Share for the year ended 31 March 2013 was approximately RMB0.025 per Share, representing a decrease of approximately 75.25% as compared to that for the year ended 31 March 2012.

Capital structure

The capital of the Company during the year ended 31 March 2013 comprised only ordinary shares with loan from a shareholder amounted to approximately RMB30.4 million. Please refer to note 33 to the financial statements of the Company for the year ended 31 March 2013 as set out in the Company's annual report for the year ended 31 March 2013 for further details.

Significant investments

As at 31 March 2013, the Group did not have any significant investments (2012: nil).

Material acquisitions and disposals of subsidiaries

There has been no material acquisition and disposal of subsidiaries for the year ended 31 March 2013. In June 2011, the Group completed the disposal of Beijing Power Along Technology Co., Ltd. which was principally engaged in making research, development and provision of integrated information systems for power grid companies in the PRC.

Gearing ratio

The Group's gearing ratio (being net debt over total equity) was 173% as at 31 March 2013 (2012: 51%). The increase in gearing ratio was mainly due to the substantially decrease in total equity.

Liquidity and financial resources

As at 31 March 2013, the shareholders' funds of the Group amounted to approximately RMB8.24 million. Current assets amounted to approximately RMB24.41 million, of which approximately RMB16.14 million were cash and cash equivalents, approximately RMB8.27 million were trade and other receivables. The Group's current liabilities amounted to approximately RMB11.67 million.

Charge of assets

The Group did not have any charge on its assets as at 31 March 2013 (2012: nil), except for the loan advanced from Shiny Ocean, which was interest bearing at 5% per annum, repayable on 1 April 2014 and was secured by 40% of the issued share capital of a subsidiary of the Company, Dragon Era Investments Limited.

Capital commitment

As at 31 March 2013, the Group's capital commitment in respect of property, plant and equipment contracted but not provided for was nil (2012: nil).

Foreign exchange exposure and hedging policy

Since most of the income and expenses as well as assets and liabilities of the Group during the year ended 31 March 2013 were denominated in Renminbi, the Directors considered that the Group had no material foreign exchange exposures and no hedging policy had been taken.

Contingent liabilities

As at 31 March 2013, the Group did not have any material contingent liabilities (2012: nil).

Dividend

The Board did not recommend any payment of final dividend for the year ended 31 March 2013 (2012: nil).

Human resources

As at 31 March 2013, the Group had 34 full time employees in the PRC and Hong Kong. Staff remuneration packages were determined by reference to prevailing market rates. Staff benefits included mandatory provident fund, personal insurance and discretionary bonus which were based on their performance and contribution to the Group.

For the year ended 31 March 2014***Business review***

During the year ended 31 March 2014, bulk commodity trade business was the main source of the Group's revenue, and this business segment was booming to be mature. The revenue from school network integration services business decreased significantly, attributable to the increasingly keen competition in the market as the business environment in the industry was changing. During the year, the Group also implemented the capitalisation of shareholders' loans and the issuance of convertible bonds. The Directors considered that the capitalisation would allow shareholders' loans to be repaid partly without prejudicing to the Company's working capital and would reduce the Group's debt levels, thereby strengthening the Group's financial position and expanding the Company's capital base. As at 31 March 2014, the conversion rights attached to the convertible bonds were exercised in full.

Revenue

The Group recorded turnover of approximately RMB605.48 million for the year ended 31 March 2014, representing an increase of approximately 17.69 times in comparison with that for the year ended 31 March 2013. The increase was mainly attributable to the Group's development of its bulk commodity trade business during the year which contributed revenue of approximately RMB596.74 million which was slightly offset by the decrease in revenue from school network integration services from approximately RMB31.46 million for the year ended 31 March 2013 to approximately RMB8.74 million for the year ended 31 March 2014.

Cost of goods sold and services provided

The cost of goods sold and services provided of the continuing operations for the year ended 31 March 2014 was approximately 604.60 million, representing an increase of approximately 20.99 times as compared to that for the previous year. The main reason for the increase was that the Group's major turnover during the year derived from bulk commodity trade business which had low gross margin.

Loss per Share

The loss per Share for the year ended 31 March 2014 was approximately RMB0.031 per Share, representing an increase of approximately 24.00% as compared to that for the year ended 31 March 2013.

Capital structure

The capital of the Company during the year ended 31 March 2014 comprised only ordinary shares. Please refer to note 32 to the financial statements of the Company for the year ended 31 March 2014 as set out in the Company's annual report for the year ended 31 March 2014 for further details.

Significant investments

As at 31 March 2014, the Group did not have any significant investments (2013: nil).

Material acquisitions and disposals of subsidiaries

There has been no material acquisition and disposal of subsidiaries for the year ended 31 March 2014.

Gearing ratio

Gearing ratio (being net debt over total equity) was not applicable to the Group as at 31 March 2014 (2013: 173%). The Group's objective of managing capital was to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce cost of capital.

Liquidity and financial resources

As at 31 March 2014, the shareholders' funds of the Group amounted to approximately RMB8.21 million. Current assets amounted to approximately RMB108.22 million, of which approximately RMB14.75 million were cash and cash equivalents, approximately RMB91.30 million were trade and bill receivables, other receivables, prepayments and deposits. The Group's current liabilities amounted to approximately RMB100.53 million.

Charge of assets

As at 31 March 2014, save for the bill receivables of approximately RMB81,322,000 (2013: Nil) used for securing the bill facilities, none of the Group's assets were charged or subject to any encumbrance.

Capital commitment

As at 31 March 2014, the Group did not have any capital commitment in respect of property, plant and equipment contracted but not provided (2013: nil).

Foreign exchange exposure and hedging policy

Since most of the income and expenses as well as assets and liabilities of the Group during the year ended 31 March 2014 were denominated in Renminbi, the Directors considered that the Group had no material foreign exchange exposures and no hedging policy had been taken.

Contingent liabilities

As at 31 March 2014, the Group did not have any material contingent liabilities (2013: nil).

Dividend

The Board did not recommend any payment of final dividend for the year ended 31 March 2014 (2013: nil).

Human resources

As at 31 March 2014, the Group had nine full time employees in the PRC and Hong Kong. Staff remuneration packages were determined by reference to prevailing market rates. Staff benefits included mandatory provident fund, personal insurance and discretionary bonus which were based on their performance and contribution to the Group.

For the nine months ended 31 December 2014*Business review*

For the nine months ended 31 December 2014, the primary income source of the Group came from the trading business of mineral products. The Group's operation on the business has been getting more sophisticated with time and has been bringing in sustainable revenue for the Group. Meanwhile, there were changes in the business environment for the business of school network integration, in particular, market competition has become more intense, contributing to the continuous decline of income from this business area. In order to focus resources on businesses with better return, the Group sold the business to an independent third party in August 2014. During this period, the Group has also carried out corporate restructuring by re-organizing the subsidiaries under the Group and disposed of some dormant companies, so as to streamline the corporate structure of the Group and save expenses that were unnecessary.

Turnover

The turnover of the Group from continuing operations for the nine months ended 31 December 2014 was increased by 1.4 times as compared with the same period in 2013. The increase was mainly attributable to the Group's development of its bulk commodity trade business, with low gross profit margin due to the characteristics of the business. In the meantime, revenue of the Group's information technology business in the education sector declined due to the fierce competition within the industry, the Group disposed of such segment on 15 August 2014.

Administrative expenses

The administrative expenses for the nine months ended 31 December 2014 was decreased for approximately 71.53% as compared with the same period in 2013. The main reason is that the Group has no need to amortise the intangible assets of RMB3,570,000 again in current period.

Liquidity and financial resources

As at 31 December 2014, the shareholders' funds of the Group amounted to approximately RMB13.61 million. Current assets amounted to approximately RMB14.24 million of which approximately RMB7.63 million were cash and bank balance and approximately RMB5.28 million were prepayment and deposit and others receivables. The Group's current liabilities amounted to approximately RMB0.66 million.

Capital structure

The capital of the Company during the nine months ended 31 December 2014 comprised only ordinary shares. Please refer to note 9 to the financial statements of the Company for the nine months ended 31 December 2014 as set out in the Company's third quarterly report for the nine months ended 31 December 2014 for further details.

Significant investment

As at 31 December 2014, the Group did not have any significant investments.

Gearing ratio

Gearing ratio (being net debt over total equity) was not applicable to the Group as at 31 December 2014.

Charge of assets

The Group did not have any charge on its assets as at 31 December 2014.

Capital commitment

As at 31 December 2014, the Group did not have any material capital commitments.

Foreign exchange exposure and hedging policy

The Directors considered that the Group had no material foreign exchange exposures and no hedging policy had been taken.

Contingent liabilities

As at 31 December 2014, the Group did not have any material contingent liabilities.

Human resources

As at 31 December 2014, the Group had four full time employees in the PRC and Hong Kong. Staff remuneration packages were determined by reference to prevailing market rates. Staff benefits included mandatory provident fund, personal insurance and discretionary bonus which were based on their performance and contribution to the Group.

C. NO 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 March 2014, being the date to which the latest published audited consolidated financial statements of the Group were made up.

D. INDEBTEDNESS OF THE ENLARGED GROUP

At the close of business on 30 April 2015, being the latest practicable date for the purpose of preparing this indebtedness statement prior to the publication of this circular, the Enlarged Group was indebted to related company as follows:

	RMB'000
Amount due to Shiny Ocean (<i>note</i>)	<u>52,049</u>

Note:

The amount due was unsecured, interest bearing at 6% per annum and due for repayment by 22 July 2017.

Save as aforesaid and apart from the intra-group liabilities and normal trade payables, the Enlarged Group did not have, at the close of business on 30 April 2015, any other outstanding borrowings, mortgages, charges, debentures, loan capital or overdraft, debt securities or other similar indebtedness, finance leases or hire-purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities.

For the purpose of the above indebtedness statement, foreign currency amounts have been translated into Renminbi at the exchange rates prevailing at the close of business on 30 April 2015.

To the best knowledge of the Directors, having made all reasonable enquiries, there has been no material change in indebtedness or contingent liabilities of the Enlarged Group since 30 April 2015 and up to the Latest Practicable Date.

E. WORKING CAPITAL SUFFICIENCY OF THE ENLARGED GROUP

The Directors, after due and careful enquiry, are of the opinion that taking into account the financial resources of the Enlarged Group and its internally generated funds, and in the absence of unforeseen circumstances, the Enlarged Group has available sufficient working capital for its present requirements for the next 12 months from the date of this circular.

The following is the text of a report prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountants, BDO Limited, Certified Public Accountants, Hong Kong. Terms defined herein apply to this report only.



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28 June 2015

The Board of Directors
Pizu Group Holdings Limited

Dear Sirs

We set out below our report on the financial information of Ample Ocean Holdings Limited (the “Target Company”) and its subsidiaries (collectively referred to as the “Target Group”) which comprises the consolidated statements of financial position of the Target Group as at 31 March 2012, 2013 and 2014 and 31 December 2014, and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Target Group for each of the years ended 31 March 2012, 2013 and 2014 and the nine months ended 31 December 2014 (the “Relevant Periods”) and a summary of significant accounting policies and other explanatory notes (the “Financial Information”), together with the comparative financial information of the Target Group including the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the nine months ended 31 December 2013 (the “Comparative Financial Information”), for inclusion in the circular (the “Circular”) dated 28 June 2015 issued by Pizu Group Holdings Limited (the “Company”) in connection with its proposed acquisition of the entire equity interest in the Target Company.

The Target Company was incorporated as a limited company in the British Virgin Islands on 1 November 2013. The principal activity of the Target Company is investment holding. Pursuant to a restructuring as set out in Note 2(ii) of Section II below which was completed on 25 August 2014, the Target Company has become the holding company of the subsidiaries now comprising the Target Group. Apart from the restructuring as mentioned above, the Target Company has not carried out any business or operation since its incorporation.

The particulars of the Target Company's subsidiaries as at the date of this report are as follows:

Name of subsidiary	Place and date of incorporation/ establishment and form of legal entity	Issued and fully paid share capital/ registered capital	Proportion of effective equity interest held by the Target Company	Principal activities	Relevant financial periods	Auditor
<i>Held directly</i>						
Ample Ocean Group Limited ("Ample Ocean HK")	Hong Kong/19 November 2013/ limited liability company	HK\$1,000,000	100%	Investment holding	N/A	N/A
<i>Held indirectly</i>						
青海福德園工貿有限公司(Qinghai Fudeyuan Trading Limited) ("Qinghai Fudeyuan") (note 2)	The People's Republic of China (the "PRC")/19 April 2013/ limited liability company	RMB10,000,000	100%	Investment holding	31 December 2013 31 December 2014	利安達會計師事務所 巴彥淖爾市興益聯合會計師事務所
內蒙古盛安化工有限責任公司 (Inner Mongolia Shengan Chemical Limited) ("Shengan Chemical (Inner Mongolia)") (note 2)	The PRC/18 July 2007/limited liability company	RMB88,030,000	60%	Investment holding and sourcing of production materials for group companies	31 December 2011 and 2012 31 December 2013 and 2014	烏拉特邊城會計師事務所 巴彥淖爾市興益聯合會計師事務所
巴彥淖爾盛安化工有限責任公司 (Bayannur Shengan Chemical Limited) ("Shengan Chemical (Bayannur)") (note 2)	The PRC/30 March 2006/limited liability company	RMB20,000,000	60%	Manufacturing and sale of civil explosives	31 December 2011, 2012 and 2013 31 December 2014	烏拉特邊城會計師事務所 巴彥淖爾市興益聯合會計師事務所
巴彥淖爾市聚力爆破服務有限責任公司 (Bayannur Juli Blasting Services Limited) ("Juli Blasting") (note 2)	The PRC/11 July 2008/limited liability company	RMB25,000,000	60%	Provision of blasting operation and related services	31 December 2011 and 2012 31 December 2013 and 2014	烏拉特邊城會計師事務所 巴彥淖爾市興益聯合會計師事務所
烏拉特後旗恒泰科技發展有限責任公司 (Urad Rear Banner Hengtai Technology Development Co., Ltd.) ("Hengtai Technology") (note 2)	The PRC/24 November 2010/ limited liability company	RMB500,000	Nil (note 1)	Inactive	31 December 2011, 2012 and 2013 (note 1)	巴彥淖爾市興益聯合會計師事務所
鄂托克旗盛安九二九化工有限責任公司 (Otog Banner Shengan 929 Chemical Limited) ("Shengan Chemical (Otog Banner)") (note 2)	The PRC/21 August 2002/limited liability company	RMB30,000,000	60%	Manufacturing and sale of civil explosives	31 December 2011, 2012 and 2013 31 December 2014	鄂爾多斯市晨光聯合會計師事務所 巴彥淖爾市興益聯合會計師事務所
內蒙古盛安保安有限責任公司 (Inner Mongolia Shengan Security Limited) ("Shengan Security") (note 2)	The PRC/10 July 2013/limited liability company	RMB1,000,000	Nil (note 1)	Provision of security services	31 December 2013 (note 1)	巴彥淖爾市興益聯合會計師事務所
內蒙古烏拉特中旗盛安工貿有限責任公司 (Inner Mongolia Urad Middle Banner Shengan Trading Limited) ("Shengan Trading") (note 2)	The PRC/27 March 2012/limited liability company	RMB10,000,000	60%	Inactive	31 December 2012, 2013 and 2014	巴彥淖爾市興益聯合會計師事務所

Notes:

1. These entities were disposed of during the nine months ended 31 December 2014.
2. The English names are for identification purposes only. The official names of these entities are in Chinese.

The Target Company's financial year end date is 31 March. Except for Ample Ocean HK which has a financial year end date of 31 March, all subsidiaries have a financial year end date of 31 December.

No audited financial statements have been prepared for the Target Company as it was incorporated in jurisdiction where there is no statutory audit requirement. No audited financial statements have been prepared for Ample Ocean HK since its incorporation.

The statutory financial statements of the subsidiaries established in the PRC were prepared in accordance with relevant accounting principles and financial regulations applicable to the PRC enterprises.

For the purpose of this report, the directors of the Target Company have prepared the financial statements of the Target Company and its subsidiaries for the Relevant Periods (the "Underlying Financial Statements") in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The Financial Information has been prepared by the directors of the Target Company based on the Underlying Financial Statements with no adjustment made thereon.

Directors' responsibility

The directors of the Target Company are responsible for the preparation and true and fair presentation of the Financial Information in accordance with HKFRSs, the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"), and for such internal control as the directors of the Target Company determine is necessary to enable the preparation of the Financial Information that is free from material misstatement, whether due to fraud or error.

The directors of the Target Company are also responsible for the preparation and presentation of the Comparative Financial Information in accordance with the same basis adopted in respect of the Financial Information.

Reporting accountants' responsibility

Our responsibility is to form an opinion on the Financial Information based on our procedures and to report our opinion to you.

For the purpose of this report, we have carried out audit procedures in respect of the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA and have examined the Financial Information of the Target Group, and carried out appropriate procedures as we considered necessary in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by the HKICPA.

For the purpose of this report, we have also reviewed the Comparative Financial Information 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. Our responsibility is to express a conclusion on the Comparative Financial Information based on our review. A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures to the Comparative Financial Information. 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 on the Comparative Financial Information.

Opinion in respect of the Financial Information

In our opinion, for the purpose of this report, the Financial Information gives a true and fair view of the state of affairs of the Target Group as at 31 March 2012, 2013 and 2014 and 31 December 2014 and of the results and cash flows of the Target Group for the Relevant Periods in accordance with HKFRSs.

Review conclusion in respect of the Comparative Financial Information

Based on our review, nothing has come to our attention that causes us to believe that the Comparative Financial Information, for the purpose of this report, is not prepared, in all material respects, in accordance with the same basis adopted in respect of the Financial Information.

I. FINANCIAL INFORMATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Notes	Year ended 31 March			Nine months ended 31 December	
		2012 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000	2014 RMB'000
Revenue	7	355,724	393,652	405,782	335,926	268,162
Cost of revenue		(188,227)	(175,151)	(159,563)	(127,304)	(107,757)
Gross profit		167,497	218,501	246,219	208,622	160,405
Other income and gains	8	466	1,586	1,365	1,283	607
Share of (loss)/profit of associates		(766)	(742)	1,614	1,859	512
Selling and distribution expenses		(11,652)	(30,359)	(21,744)	(19,170)	(16,567)
Administrative expenses		(41,442)	(55,076)	(53,772)	(42,453)	(31,337)
Other operating expenses		(5,076)	(1,519)	(152)	(140)	(260)
Finance costs	11	(786)	(4,075)	(2,362)	(2,148)	(810)
Profit before income tax	9	108,241	128,316	171,168	147,853	112,550
Income tax expense	12	(12,123)	(22,432)	(26,922)	(22,701)	(16,837)
Profit for the year/period		96,118	105,884	144,246	125,152	95,713
Other comprehensive income						
<i>Items that may be reclassified subsequently to profit or loss:</i>						
– Exchange differences arising on translation of foreign operations		–	–	–	–	(701)
Total comprehensive income for the year/period		96,118	105,884	144,246	125,152	95,012
Profit attributable to:						
Owners of the Target Company		96,118	105,884	86,000	76,518	56,942
Non-controlling interest		–	–	58,246	48,634	38,771
		96,118	105,884	144,246	125,152	95,713
Total comprehensive income attributable to:						
Owners of the Target Company		96,118	105,884	86,000	76,518	56,241
Non-controlling interest		–	–	58,246	48,634	38,771
		96,118	105,884	144,246	125,152	95,012
Earnings per share	13					
Basic and diluted		RMB1,922	RMB2,118	RMB1,720	RMB1,530	RMB1,139

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		As at 31 March		As at 31 December	
	Notes	2012	2013	2014	2014
		RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets					
Property, plant and equipment	14	45,842	76,992	81,179	84,692
Prepaid lease payments for land	16	6,911	6,708	6,509	6,330
Prepayment for purchase of property, plant and equipment	21	4,825	8,522	2,350	9,145
Intangible assets	15	202	179	245	221
Interests in associates	18	2,605	1,863	3,477	3,989
		<u>60,385</u>	<u>94,264</u>	<u>93,760</u>	<u>104,377</u>
Current assets					
Inventories	19	11,252	17,538	12,983	17,454
Trade and bills receivables	20	70,072	181,785	128,935	127,693
Other receivables, prepayments and deposits	21	51,090	9,230	22,641	9,247
Prepaid lease payments for land	16	203	203	203	203
Amount due from a director	26	–	4,689	–	–
Amounts due from shareholders	26	840	–	3,355	390
Amounts due from associates	26	266	735	2,817	2,696
Amounts due from related companies	27	162,992	274,480	10,600	31
Pledged deposits	22	–	30,000	–	–
Bank balances and cash	22	28,541	16,973	28,332	62,503
		<u>325,256</u>	<u>535,633</u>	<u>209,866</u>	<u>220,217</u>
Current liabilities					
Trade and bills payables	23	58,085	140,990	60,816	59,693
Other payables and accruals	24	33,935	35,505	25,544	29,430
Dividend payable	36	–	–	94,355	57,200
Consideration payable for restructuring	36	–	–	53,500	–
Borrowings	25	19,000	84,807	–	–
Amounts due to related companies	27	–	14,500	2,950	14,650
Income tax payable		2,317	2,730	8,053	8,424
		<u>113,337</u>	<u>278,532</u>	<u>245,218</u>	<u>169,397</u>
Net current assets/(liabilities)		<u>211,919</u>	<u>257,101</u>	<u>(35,352)</u>	<u>50,820</u>
Total assets less current liabilities		<u>272,304</u>	<u>351,365</u>	<u>58,408</u>	<u>155,197</u>
Non-current liabilities					
Amount due to a related company	27	–	–	–	51,364
Net assets		<u>272,304</u>	<u>351,365</u>	<u>58,408</u>	<u>103,833</u>
Equity					
Share capital	28	88,030	88,030	10,000	306
Reserves	29	184,274	263,335	(3,431)	12,917
Equity attributable to owners of the Target Company		272,304	351,365	6,569	13,223
Non-controlling interest	32	–	–	51,839	90,610
Total equity		<u>272,304</u>	<u>351,365</u>	<u>58,408</u>	<u>103,833</u>

STATEMENTS OF FINANCIAL POSITION

	<i>Notes</i>	As at 31 March 2014 RMB'000	As at 31 December 2014 RMB'000
Non-current assets			
Investment in a subsidiary	17	786	786
Current assets			
Amounts due from shareholders	26	313	313
Amount due from a subsidiary	26	–	49,747
		313	50,060
Current liabilities			
Amount due to a subsidiary	26	802	–
Other payables		–	25
		802	25
Net current (liabilities)/assets		(489)	50,035
Total assets less current liabilities		297	50,821
Non-current liabilities			
Amount due to a related company	27	–	51,364
Net assets/(liabilities)		297	(543)
Equity			
Share capital	28	306	306
Reserves	29	(9)	(849)
Total equity/(Capital deficiency)		297	(543)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Equity attributable to owners of the Target Company								
	Share capital	Translation reserve*	Restructuring reserve*	Statutory reserve*	Other reserve*	Retained profits/ losses)*	Total	Non-controlling interest	Total equity
	RMB'000 (Note 28)	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (Note 32)	RMB'000
At 1 April 2011	85,227	-	-	18,943	7,622	61,591	173,383	-	173,383
Profit for the year	-	-	-	-	-	96,118	96,118	-	96,118
Other comprehensive income for the year	-	-	-	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	-	96,118	96,118	-	96,118
Transfer to statutory reserve	-	-	-	2,586	-	(2,586)	-	-	-
Transfer to other reserve	-	-	-	-	5,131	(5,131)	-	-	-
Transaction with owners									
Capital contribution (Note 2)	2,803	-	-	-	-	-	2,803	-	2,803
At 31 March 2012 and 1 April 2012	88,030	-	-	21,529	12,753	149,992	272,304	-	272,304
Profit for the year	-	-	-	-	-	105,884	105,884	-	105,884
Other comprehensive income for the year	-	-	-	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	-	105,884	105,884	-	105,884
Transfer to statutory reserve	-	-	-	11,295	-	(11,295)	-	-	-
Transfer out of other reserve	-	-	-	-	(9,386)	9,386	-	-	-
Transaction with owners									
Dividend declared (Note 30)	-	-	-	-	-	(26,823)	(26,823)	-	(26,823)
At 31 March 2013 and 1 April 2013	88,030	-	-	32,824	3,367	227,144	351,365	-	351,365
Profit for the year	-	-	-	-	-	86,000	86,000	58,246	144,246
Other comprehensive income for the year	-	-	-	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	-	86,000	86,000	58,246	144,246
Transfer out of statutory reserve	-	-	-	(4,261)	-	4,261	-	-	-
Transfer out of other reserve	-	-	-	-	(1,388)	1,388	-	-	-
Transactions with owners									
Dividend declared (Note 30)	-	-	-	-	-	(299,348)	(299,348)	(70,355)	(369,703)
Insertion of new holding company on top of existing parent (Note 2(i))	10,000	-	-	-	-	-	10,000	-	10,000
Reduction in capital upon restructuring (Note 2(i))	(88,030)	-	88,030	-	-	-	-	-	-
Distribution in substance to shareholders (Note 2(i))	-	-	-	-	-	(127,500)	(127,500)	-	(127,500)
Recognition of non-controlling interest upon restructuring (Note 2(ii))	-	-	(8,803)	(3,282)	(337)	(15,038)	(27,460)	27,460	-
Disposal of partial interest in a subsidiary (Note 31(i))	-	-	-	-	-	16,388	16,388	43,612	60,000
Acquisition of additional interest in a subsidiary (Note 31(ii))	-	-	-	-	-	(2,876)	(2,876)	(7,124)	(10,000)
Total transactions with owners	(78,030)	-	79,227	(3,282)	(337)	(428,374)	(430,796)	(6,407)	(437,203)
At 31 March 2014	10,000	-	79,227	25,281	1,642	(109,581)	6,569	51,839	58,408

	Equity attributable to owners of the Target Company								
	Share capital RMB'000 (Note 28)	Translation reserve* RMB'000	Restructuring reserve* RMB'000	Statutory reserve* RMB'000	Other reserve* RMB'000	Retained profits/ (Accumulated losses)* RMB'000	Total RMB'000	Non-controlling interest RMB'000 (Note 32)	Total equity RMB'000
At 1 April 2014	10,000	-	79,227	25,281	1,642	(109,581)	6,569	51,839	58,408
Profit for the period	-	-	-	-	-	56,942	56,942	38,771	95,713
Other comprehensive income for the period	-	-	-	-	-	-	-	-	-
Exchange differences arising on translation of foreign operations	-	(701)	-	-	-	-	(701)	-	(701)
Total comprehensive income for the period	-	(701)	-	-	-	56,942	56,241	38,771	95,012
Transfer to other reserve	-	-	-	-	1,194	(1,194)	-	-	-
Transactions with owners									
Insertion of additional holding companies on top of existing parent (Note 2(ii))	306	2	-	-	-	(24)	284	-	284
Reduction in capital upon restructuring (Note 2(ii))	(10,000)	-	10,000	-	-	-	-	-	-
Distribution in substance to shareholders (Note 2(ii))	-	-	-	-	-	(49,871)	(49,871)	-	(49,871)
Total transactions with owners	(9,694)	2	10,000	-	-	(49,895)	(49,587)	-	(49,587)
At 31 December 2014	306	(699)	89,227	25,281	2,836	(103,728)	13,223	90,610	103,833
Period ended 31 December 2013 (unaudited)									
At 1 April 2013	88,030	-	-	32,824	3,367	227,144	351,365	-	351,365
Profit for the period	-	-	-	-	-	76,518	76,518	48,634	125,152
Other comprehensive income for the period	-	-	-	-	-	-	-	-	-
Total comprehensive income for the period	-	-	-	-	-	76,518	76,518	48,634	125,152
Transfer to other reserve	-	-	-	-	378	(378)	-	-	-
Transactions with owners									
Dividend declared (Note 30)	-	-	-	-	-	(242,348)	(242,348)	(70,355)	(312,703)
Insertion of new holding company on top of existing parent (Note 2(i))	10,000	-	-	-	-	-	10,000	-	10,000
Reduction in capital upon restructuring (Note 2(i))	(88,030)	-	88,030	-	-	-	-	-	-
Distribution in substance to shareholders (Note 2(i))	-	-	-	-	-	(127,500)	(127,500)	-	(127,500)
Recognition of non-controlling interest upon restructuring (Note 2(i))	-	-	(8,803)	(3,282)	(337)	(15,038)	(27,460)	27,460	-
Disposal of partial interest in a subsidiary (Note 31(i))	-	-	-	-	-	16,388	16,388	43,612	60,000
Total transactions with owners	(78,030)	-	79,227	(3,282)	(337)	(368,498)	(370,920)	717	(370,203)
At 31 December 2013	10,000	-	79,227	29,542	3,408	(65,214)	56,963	49,351	106,314

* The total of these balances as at the end of the reporting period represents "Reserves" in the consolidated statements of financial position.

Translation reserve

This reserve comprises all foreign exchange differences arising from the translation of the financial statements of certain group entities. This reserve is dealt with in accordance with the accounting policy in Note 4(q) of Section II.

Restructuring reserve

Restructuring reserve arises from the restructuring as detailed in Note 2.

Statutory reserve

In accordance with the relevant laws and regulations of the PRC, each subsidiary established in the PRC is required to provide for PRC statutory reserve, by way of transferring 10% of the profit after income tax to a statutory reserve until such reserve reaches 50% of the registered capital of the respective PRC subsidiary. Subject to certain restrictions set out in the Company Law of the PRC, part of the statutory reserve may be converted to increase paid-up capital/issued capital of the relevant PRC subsidiaries, provided that the remaining balance after capitalisation is not less than 25% of the registered capital.

Other reserve

In accordance with the relevant laws and regulations of the PRC, entities engaged in explosives related businesses are required to provide for safety fund at certain percentage of revenue generated by the entities. This fund can be utilised for safety measures related to the production of the entities.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 March			Nine months ended 31 December	
	2012	2013	2014	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(unaudited)</i>	
Operating activities					
Profit before income tax	108,241	128,316	171,168	147,853	112,550
Adjustments for:					
Depreciation of property, plant and equipment	5,407	6,618	9,749	5,981	10,222
Amortisation of prepaid lease payments for land	203	203	199	170	179
Amortisation of intangible assets	7	23	32	24	24
Finance costs	786	4,075	2,362	2,148	810
Interest income	(92)	(58)	(351)	(334)	(115)
Share of results of associates	766	742	(1,614)	(1,859)	(512)
Gain on disposal of property, plant and equipment	—	(80)	(31)	(31)	(184)
Operating profit before working capital changes	115,318	139,839	181,514	153,952	122,974
Decrease/(Increase) in inventories	2,761	(6,286)	4,555	(3,195)	(4,474)
(Increase)/Decrease in trade and bills receivables	(40,874)	(111,713)	52,850	10,945	1,110
(Increase)/Decrease in other receivables, prepayments and deposits	(9,192)	41,860	(13,411)	(4,190)	13,329
Decrease/(Increase) in amounts due from associates	541	(469)	(2,082)	(1,369)	121
(Increase)/Decrease in amounts due from directors and shareholders	(419)	(3,849)	1,334	4,689	2,965
Increase/(Decrease) in trade and bills payables	34,858	82,905	(80,174)	(57,937)	(1,111)
Increase/(Decrease) in other payables and accruals	9,283	1,570	(9,961)	(16,936)	3,725
Cash generated from operations	112,276	143,857	134,625	85,959	138,639
Income tax paid – PRC tax	(10,507)	(22,019)	(21,599)	(14,888)	(16,461)
Net cash generated from operating activities	101,769	121,838	113,026	71,071	122,178

	Year ended 31 March			Nine months ended 31 December	
	2012	2013	2014	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(unaudited)</i>	
Investing activities					
Interest income	92	58	351	334	115
Purchases of property, plant and equipment	(9,263)	(41,562)	(7,992)	(8,479)	(22,215)
Purchase of intangible assets	(209)	–	(98)	(98)	–
Proceeds from disposal of property, plant and equipment	192	177	259	210	1,728
Net inflow of cash and cash equivalents in respect of the disposal of interests in subsidiaries (<i>Note 31(iii)</i>)	–	–	–	–	485
(Increase)/Decrease in amounts due from related companies (<i>Note 36</i>)	(92,783)	(135,629)	8,767	(6,633)	10,569
(Increase)/Decrease in pledged deposits	–	(30,000)	30,000	30,000	–
Net cash (used in)/generated from investing activities	<u>(101,971)</u>	<u>(206,956)</u>	<u>31,287</u>	<u>15,334</u>	<u>(9,318)</u>
Financing activities					
Capital contribution by non-controlling interest shareholder (<i>Note 2</i>)	2,803	–	–	–	–
Insertion of new holding companies on top of existing parent (<i>Note 2</i>)	–	–	10,000	10,000	284
Consideration paid for the restructuring (<i>Note 36</i>)	–	–	(74,000)	(60,000)	(103,371)
Disposal of partial interest in a subsidiary (<i>Note 31(i)</i>)	–	–	60,000	60,000	–
Acquisition of additional interest in a subsidiary (<i>Note 31(ii)</i>)	–	–	(10,000)	–	–
Dividend paid to shareholders (<i>Note 36</i>)	–	(2,682)	(20,235)	(4,235)	(37,155)
(Decrease)/Increase in amounts due to related companies	(1,000)	14,500	(11,550)	(7,550)	61,550
Interest paid on borrowings	(786)	(4,075)	(2,362)	(2,148)	–
Proceeds from borrowings	19,000	84,807	–	–	–
Repayment of borrowings	–	(19,000)	(84,807)	(54,807)	–
Net cash generated from/ (used in) financing activities	<u>20,017</u>	<u>73,550</u>	<u>(132,954)</u>	<u>(58,740)</u>	<u>(78,692)</u>
Net increase/(decrease) in cash and cash equivalents	19,815	(11,568)	11,359	27,665	34,168

	Year ended 31 March			Nine months ended	
	2012	2013	2014	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(unaudited)</i>	
Net increase/(decrease) in cash and cash equivalents	19,815	(11,568)	11,359	27,665	34,168
Cash and cash equivalents at beginning of year/period	8,726	28,541	16,973	16,973	28,332
Effect of exchange rate changes on cash and cash equivalents	—	—	—	—	3
Cash and cash equivalents at end of year/period	<u>28,541</u>	<u>16,973</u>	<u>28,332</u>	<u>44,638</u>	<u>62,503</u>
Analysis of cash and cash equivalents:					
Bank balances and cash	<u>28,541</u>	<u>16,973</u>	<u>28,332</u>	<u>44,638</u>	<u>62,503</u>

II. NOTES TO THE FINANCIAL INFORMATION

1. GENERAL INFORMATION

The Target Company was incorporated in the British Virgin Islands as a limited liability company on 1 November 2013. The address of the Target Company's registered office is 263 Main Street, Road Town, Tortola, British Virgin Islands.

The Target Group is principally engaged in manufacturing and sale of civil explosives and provision of blasting operations and related services. The Target Company is an investment holding company. Particulars of the Target Company's subsidiaries have been set out in Note 2 below. The Target Company has not carried out any business since the date of incorporation save for the restructuring as detailed in Note 2(ii) below.

2. RESTRUCTURING DURING THE RELEVANT PERIODS

During the Relevant Periods, the Target Group has undergone the following restructuring:

- (i) On 2 May 2013, Qinghai Fudeyuan acquired 90% equity interest in Shengan Chemical (Inner Mongolia), which is the holding company of other PRC subsidiaries now comprising the Target Group, at a cash consideration of RMB127,500,000. Qinghai Fudeyuan was set up by 青海博洋科貿集團有限公司 ("Qinghai Boyang") on 19 April 2013 with paid-up capital of RMB10,000,000. Prior to the transaction, Qinghai Boyang was the parent of Shengan Chemical (Inner Mongolia). Qinghai Boyang remained as the parent of the new group formed and the transaction was effectively insertion of new intermediate holding company on top of Shengan Chemical (Inner Mongolia) which did not result in any change of economic substance. Before the acquisition, the Financial Information incorporated the consolidated financial statements of Shengan Chemical (Inner Mongolia) and its subsidiaries. Upon the acquisition, the Financial Information incorporated the consolidated financial statements of Qinghai Fudeyuan which were a continuation of those of Shengan Chemical (Inner Mongolia). The 10% non-controlling interest in Shengan Chemical (Inner Mongolia) was reflected in the Financial Information upon the acquisition. The cash consideration is in substance a distribution to the shareholders of Qinghai Boyang and has been recorded in equity.
- (ii) On 25 August 2014, Qinghai Boyang disposed of its entire equity interest in Qinghai Fudeyuan to Ample Ocean HK, which is a wholly owned subsidiary of the Target Company, in return for a cash consideration of HK\$63,000,000 (equivalent to RMB49,871,000). As a result of this transaction, the Target Company has become the holding company of the companies now comprising the Target Group.

Prior to this transaction, Qinghai Boyang was the parent of Target Group. After the transaction, the Target Company is the parent and Qinghai Fudeyuan has become an intermediate holding company of the Target Group. Both Qinghai Boyang and the Target Company were held by the same group of natural persons. Accordingly, the transaction was effectively insertion of new holding company on top of Qinghai Fudeyuan which did not result in any change of economic substance as far as the Target Group is concerned. Accordingly, the Target Group resulting from the restructuring is regarded as a continuing entity. The consolidated financial statements of the Target Company are a continuation of those of Qinghai Fudeyuan. The cash consideration is in substance a distribution to the shareholders of Qinghai Boyang, which are also the shareholders of the Target Company, and has been recorded in equity.

Particulars of the Target Company's PRC subsidiaries during the Relevant Periods are as follows:

Name of subsidiary	Paid up capital (note (a))	Proportion of effective equity interest held indirectly by the holding company of the Target Group				Principal activities
		As at 31 March		As at 31 December		
		2012	2013	2014	2014	
Qinghai Fudeyuan	RMB10,000,000	N/A	N/A	100%	100%	Investment holding
Shengan Chemical (Inner Mongolia)	RMB88,030,000	100%	100%	60%	60%	Investment holding and sourcing of production materials for group companies
Shengan Chemical (Bayannur)	RMB20,000,000	100%	100%	60%	60%	Manufacturing and sale of civil explosives
Juli Blasting	RMB25,000,000	100%	100%	60%	60%	Provision of blasting operation and related services
Heng Tai Technology	RMB500,000	100%	100%	60%	-	Inactive (note (b))
Shengan Chemical (Otog Banner)	RMB30,000,000	100%	100%	60%	60%	Manufacturing and sale of civil explosives
Shengan Security	RMB1,000,000	N/A	N/A	60%	-	Provision of security services (note (b))
Shengan Trading	RMB10,000,000	100%	100%	60%	60%	Inactive

Notes:

- (a) On 25 May 2011, a shareholder paid up its unpaid capital of Shengan Chemical (Inner Mongolia) amounting to RMB2,803,000. The paid up capital of Shengan Chemical (Inner Mongolia) was thereby increased from RMB85,227,000 to RMB88,030,000. Apart from this, there was no change in the paid up capital of these subsidiaries during the Relevant Periods.
- (b) These two subsidiaries were disposed of (Note 31(iii)) during the nine months ended 31 December 2014.

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

For the purpose of preparing and presenting the Financial Information for the Relevant Periods, the Target Group has consistently applied all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations (collectively referred to as the "HKFRSs") issued by the HKICPA which are relevant to the Target Group and become effective during the Relevant Periods.

At the date of this report, the following new standards, amendments to standards and interpretations, potentially relevant to the Target Group's Financial Information, have been issued by the HKICPA, which are not yet effective and have not been early adopted by the Target Group in preparing this Financial Information:

Amendments to HKAS 1	Disclosure Initiative ³
Amendments to HKAS 16 and HKAS 38	Classification of Acceptable Methods of Depreciation and Amortisation ³
Amendments to HKAS 27	Equity Method in Separate Financial Statements ³
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an investor and its Associate or Joint Venture ³
HKFRS 9 (2014)	Financial Instruments ⁵
HKFRS 15	Revenue from Contracts with Customers ⁴
HKFRSs (Amendments)	Annual Improvements 2010-2012 Cycle ²
HKFRSs (Amendments)	Annual Improvements 2011-2013 Cycle ¹
HKFRSs (Amendments)	Annual Improvements 2012-2014 Cycle ³

¹ Effective for annual periods beginning on or after 1 July 2014

² Effective for annual periods beginning, or transactions occurring, on or after 1 July 2014

³ Effective for annual periods beginning on or after 1 January 2016

⁴ Effective for annual periods beginning on or after 1 January 2017

⁵ Effective for annual periods beginning on or after 1 January 2018

The directors of the Target Company anticipate that all of the pronouncements will be adopted in the Target Group's accounting policy for the first period beginning after the effective date of the pronouncement. The directors of the Target Company are currently assessing the possible impact of the new or revised standards on the Target Group's results and financial position in the first year of application. Those new and revised HKFRSs that is expected to have a significant effect on the Target Group's financial statements are set out below.

Amendments to HKAS 1 – Disclosure Initiative

The amendments are designed to further encourage companies to apply professional judgement in determining what information to disclose in their financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. Furthermore, the amendments clarify that companies should use professional judgement in determining where and in what order information is presented in the financial disclosures.

HKFRS 9 (2014) - Financial Instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets. Debt instruments that are held within a business model whose objective is to hold assets in order to collect contractual cash flows (the business model test) and that have contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (the contractual cash flow characteristics test) are generally measured at amortised cost. Debt instruments that meet the contractual cash flow characteristics test are measured at fair value through other comprehensive income ("FVTOCI") if the objective of the entity's business model is both to hold and collect the contractual cash flows and to sell the financial assets. Entities may make an irrevocable election at initial recognition to measure equity instruments that are not held for trading at FVTOCI. All other debt and equity instruments are measured at fair value through profit or loss ("FVTPL").

HKFRS 9 includes a new expected loss impairment model for all financial assets not measured at FVTPL replacing the incurred loss model in HKAS 39 and new general hedge accounting requirements to allow entities to better reflect their risk management activities in financial statements.

HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities designated at FVTPL, where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

HKFRS 15 - Revenue from Contracts with Customers

The new standard establishes a single revenue recognition framework. The core principle of the framework is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. HKFRS 15 supersedes existing revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and related interpretations.

HKFRS 15 requires the application of a 5 steps approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to each performance obligation
- Step 5: Recognise revenue when each performance obligation is satisfied

HKFRS 15 includes specific guidance on particular revenue related topics that may change the current approach taken under HKFRS. The standard also significantly enhances the qualitative and quantitative disclosures related to revenue.

4. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The Financial Information has been prepared in accordance with HKFRSs and the disclosure requirements of the Hong Kong Companies Ordinance which is relevant for the respective period over the Relevant Periods. In addition, the Financial Information includes applicable disclosures required by the GEM Listing Rules.

It should be noted that accounting estimates and assumptions are used in the preparation of these Financial Information. Although these estimates are based on management's best knowledge and judgment of current events and actions, actual results may ultimately differ from those estimates. The areas involving higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Financial Information are disclosed in Note 5.

(b) Basis of measurement

The Financial Information has been prepared under the historical cost convention.

(c) **Functional and presentation currency**

The functional currency of the Target Company is Hong Kong dollars (“HK\$”). Due to the functional currency of the Target Company’s major subsidiaries established in the PRC is Renminbi (“RMB”), the Financial Information is presented in RMB.

(d) **Basis of consolidation**

The Financial Information incorporates the financial statements of the Target Company and its subsidiaries for the Relevant Periods. Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the Financial Information. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

Restructuring occurred during the Relevant Periods is accounted for as explained in Note 2 above.

Acquisition of subsidiaries or businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Target Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Target Group’s previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Target Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interests that represent present ownership interests in the subsidiary either at fair value or at the proportionate share of the acquiree’s identifiable net assets. All other non-controlling interests are measured at fair value unless another measurement basis is required by HKFRSs. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case the costs are deducted from equity.

The results of subsidiaries acquired or disposed of are included in the statements of comprehensive income from the dates of acquisition or up to the dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Target Group.

Any contingent consideration to be transferred by the acquirer is recognised at acquisition-date fair value. Subsequent adjustments to consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

Changes in the Target Group’s interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Target Group’s interest and the non-controlling interest are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Target 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 interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

Subsequent to acquisition, the carrying amount of non-controlling interests that represent present ownership interests in the subsidiary is the amount of those interests at initial recognition plus such non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to such non-controlling interests even if this results in those non-controlling interests having a deficit balance.

(e) Subsidiaries

A subsidiary is an investee over which the Target Company is able to exercise control. The Target Company controls an investee if all three of the following elements are present: power over the investee; exposure, or rights, to variable returns from the investee; and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

In the Target Company's statements of financial position, investments in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Target Company on the basis of dividend received and receivable.

(f) Associates

An associate is an entity over which the Target Group has significant influence and that is neither a subsidiary nor a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not control or joint control over those policies.

Associates are accounted for using the equity method whereby they are initially recognised at cost and thereafter, their carrying amount are adjusted for the Target Group's share of the post-acquisition change in the associates' net assets except that losses in excess of the Target Group's interest in the associate are not recognised unless there is an obligation to make good those losses.

Profits and losses arising on transactions between the Target Group and its associates are recognised only to the extent of unrelated investors' interests in the associate. The investor's share in the associate's profits and losses resulting from these transactions is eliminated against the carrying value of the associate.

Any premium paid for an associate above the fair value of the Target Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the associate and the entire carrying amount of the investment is subject to impairment test, by comparing the carrying amount with its recoverable amount, which is higher of value in use and fair value less costs to sell.

(g) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Target Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised as an expense in profit or loss during the financial period in which they are incurred.

Property, plant and equipment are depreciated so as to write off their cost net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The useful lives are as follows:

Buildings	20 years
Plant and machinery	10 years
Furniture and fixtures	3 - 5 years
Motor vehicles	4 years

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

Construction in progress is stated at cost less impairment losses. Cost comprises direct costs of construction as well as borrowing costs capitalised during the periods of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to the appropriate class of property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided for in respect of construction in progress until it is completed and ready for its intended use.

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up shall be included in profit or loss when the compensation becomes receivable.

(h) Intangible assets

Intangible assets acquired separately are initially recognised at cost. The cost of intangible assets acquired in a business combination is fair value at the date of acquisition. Subsequently, intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses.

Amortisation is provided on a straight-line basis over their useful lives as follows :

Acquired computer software	3 years
Patents	10 years

The amortisation expense is recognised in profit or loss and included in administrative expenses.

If the recoverable amount of an intangible asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount.

(i) Payments for leasehold land held for own use under operating leases

Payments for leasehold land held for own use under operating leases represent up-front payments to acquire long-term interests in lessee-occupied properties. These payments are stated at cost and are amortised over the period of the lease on a straight-line basis as an expense.

(j) Operating leases (as lessee)

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred. Lease incentives received are recognised as an integrated part of the total rental expense, over the term of lease.

(k) Financial instruments**(i) Financial assets**

The Target Group classifies its financial assets at initial recognition, depending on the purpose for which the asset was acquired. Regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

The Target Group has one category of financial assets, being loans and receivables.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), and also incorporate other types of contractual monetary asset. Loans and receivables are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. Subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any identified impairment losses, except where the effect of discounting would be immaterial, in which case, the loans and receivables are stated at cost less impairment losses.

(ii) Impairment loss on financial assets

The Target Group assesses, at the end of each reporting period, whether there is any objective evidence that financial asset is impaired. Financial asset is impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- granting concession to a debtor because of debtor's financial difficulty;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and
- significant changes in the technological, financial market, economic or legal environment that have an adverse effect on the debtor.

An impairment loss on loans and receivables is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The carrying amount of financial asset is reduced through the use of an allowance account. When any part of financial asset is determined as uncollectible, it is written off against the allowance account for the relevant financial asset.

Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction 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.

(iii) Financial liabilities

The Target Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. All of the Target Group's financial liabilities are financial liabilities at amortised costs which are initially measured at fair value, net of directly attributable costs incurred.

Financial liabilities at amortised cost, including trade and bills payables, other payables and accruals, dividend payable, consideration payable for restructuring, borrowings, amounts due to a subsidiary and related parties, are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

(iv) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the Relevant Periods. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(v) Equity instruments

Equity instruments issued by the Target Company are recorded at the proceeds received, net of direct issue costs.

(vi) Derecognition

The Target Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

(m) Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value.

Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs to completion and estimated costs necessary to make the sales.

(n) Revenue and other income recognition

Revenue from sales of goods is recognised on transfer of risks and rewards of ownership, which is at the time of delivery and the title is passed to customer.

Revenue from the provision of services are recognised when the services are rendered.

Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.

(o) Government grants

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

Government grants whose primary condition is that the Target Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets. Other government grants are recognised as income over the periods necessary to match them with the costs for which they intended to compensate, on a systematic basis.

Government grants that are receivables 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.

(p) Income taxes

Income taxes comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates expected to apply in the period when the liability is settled or the asset is realised based on tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax liabilities are recognised for taxable temporary differences arising on 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.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income or when they relate to items recognised directly in equity in which case the taxes are also recognised directly in equity.

(q) Foreign currency

Transactions entered into by group entities in currencies other than the currency of the primary economic environment in which they operate (the “functional currency”) are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on 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.

For the purpose of presenting the consolidated financial statements/financial statements, income and expense items of foreign operations are translated into the presentation currency of the Target Group (i.e. RMB) at the average exchange rates for the financial year, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of foreign operations are translated at the rate ruling at the end of reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as translation reserve (attributed to non-controlling interests as appropriate). Exchange differences recognised in profit or loss of group entities’ separate financial statements on the translation of long-term monetary items forming part of the Target Group’s net investment in the foreign operation concerned are reclassified to other comprehensive income and accumulated in equity as translation reserve.

On disposal of a foreign operation, the cumulative exchange differences recognised in the translation reserve relating to that operation up to the date of disposal are reclassified to profit or loss as part of the profit or loss on disposal.

(r) **Employee benefits**

(i) *Short-term employee benefit*

Short-term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Short-term employee benefits are recognised in the year when the employees render the related service.

(ii) *Defined contribution retirement plan*

Contributions to defined contribution retirement plans are recognised as an expense in profit or loss when the services are rendered by the employees.

Pursuant to the relevant laws and regulations of the PRC, the Target Company's subsidiaries in the PRC have joined defined contributions for the employees, such as basic pension scheme, housing fund, basic medical insurance, unemployment insurance, injury insurance and maternity insurance. The Target Group makes contributions to the above mentioned schemes at the applicable rates based on the amounts stipulated by the government organisation. The contributions are charged to the income statement on an accrual basis.

(iii) *Termination benefits*

Termination benefits are recognised on the earlier of when the Target Group can no longer withdraw the offer of those benefits and when the Target Group recognises restructuring costs involving the payment of termination benefits. .

(s) **Impairment of other assets**

At the end of each reporting period, the Target Group reviews the carrying amounts of the following assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- intangible assets;
- interests in leasehold land held for own use under operating leases; and
- investments in subsidiaries.

If the recoverable amount (i.e. the greater of the fair value less costs to sell and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent 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 credited to profit or loss in the period in which it arises.

(t) Borrowing costs

Borrowing costs attributable directly to the acquisition, construction or production of qualifying assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(u) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Target Group has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(v) Related parties

- (a) 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 key management personnel of the Target Group or the Target Company's parent.
- (b) An entity is related to the Target Group if any of the following conditions apply:
 - (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 the employees of the Target Group or an entity related to the Target Group.

- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).

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:

- (i) that person's children and spouse or domestic partner;
- (ii) children of that person's spouse or domestic partner; and
- (iii) dependents of that person or that person's spouse or domestic partner.

(w) Dividends

Dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as liabilities.

(x) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Target Group's chief operating decision maker, i.e. the board of directors, for the purposes of allocating resources to, and assessing the performance of, the Target Group's various business operation and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment.

Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATES UNCERTAINTY

In the application of the Target Group's accounting policies, the directors of the Target Company are required to make judgments, estimates and assumptions about the carrying amounts of assets 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.

In addition to information disclosed elsewhere in this Financial Information, other key sources of estimation uncertainty that have a significant risk of resulting a material adjustment to the carrying amounts of assets and liabilities within next financial year are as follows:

(i) Useful lives of property, plant and equipment

The Target Group's management determines the estimated useful lives, and related depreciation charges for its property, plant and equipment. The estimates are based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charges where useful lives are less than previously estimated lives. It will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable lives and therefore affect the depreciation charges in future periods.

(ii) Provision for obsolete inventories

The management of the Target Group estimates the net realisable value of inventories based primarily on the latest market prices and current market conditions. The management of the Target Group carries out inventory review at the end of each reporting period and makes allowance on obsolete and slow moving items to write off or write down inventories to their net realisable values.

(iii) Impairment of loans and receivables

Recoverability of loans and receivables are reviewed by management based on the aging characteristics of the loans or receivables, and the current creditworthiness and past collection history of customers or debtors. Judgment is required in assessing the ultimate realisation of these loans and receivables, and the financial conditions of these customers or debtors may undergo adverse changes since the last management evaluation. If the financial conditions of the customers or debtors were to deteriorate, resulting in an impairment as to their ability to make payments, additional provision may be required in future accounting periods.

6. SEGMENT REPORTING

(a) Reportable segments

The Target Group's operating activities are attributable to a single operating segment focusing on manufacturing and sale of explosives and provision of blasting operations during the Relevant Periods. This operating segment has been identified on the basis of internal management reports prepared in accordance with accounting policies which conform to the HKFRSs. The board of directors reviews the Target Group's revenue analysis by services and products in order to assess performance and allocate resources. The board of directors reviews the results of the Target Group as a whole to make decisions. Accordingly, other than entity wide information, no analysis of this single operating segment is presented.

(b) Geographical information

Since all of the Target Group's revenue was generated in the PRC and all of the Target Group's non-current assets were located in the PRC, no geographical segment information is presented.

(c) Information about major customers

Revenue from major customers, each of them accounted for 10% or more of the Target Group's revenue during the Relevant Periods, are set out below:

	Year ended 31 March			Nine months ended 31 December	
	2012	2013	2014	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Customer I	149,779	163,076	104,200	90,716	53,912
Customer II	N/A	N/A	92,369	66,364	71,825
Customer III	93,179	83,709	N/A	N/A	N/A

As at 31 March 2012, 2013 and 2014 and 31 December 2014, 80%, 25%, 57% and 12% of the Target Group's trade receivables, respectively, were due from the abovementioned major customers.

7. REVENUE

Revenue, which is also the Target Group's turnover, represents the net invoiced value of goods sold net of value-added tax, and services rendered, during the Relevant Periods.

	Year ended 31 March			Nine months ended 31 December	
	2012	2013	2014	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Sale of explosives	355,674	388,559	386,871	322,224	259,947
Provision of blasting operations	50	5,093	18,911	13,702	8,215
	<u>355,724</u>	<u>393,652</u>	<u>405,782</u>	<u>335,926</u>	<u>268,162</u>

8. OTHER INCOME AND GAINS

	Year ended 31 March			Nine months ended 31 December	
	2012	2013	2014	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Government grants (note)	360	1,440	280	280	-
Interest income	92	58	351	334	115
Gain on disposal of property, plant and equipment	-	80	31	31	184
Sundry income	14	8	703	638	308
	<u>466</u>	<u>1,586</u>	<u>1,365</u>	<u>1,283</u>	<u>607</u>

Note:

For the year ended 31 March 2012, 2013 and 2014, the Target Group received grants from the local government in the PRC for supporting the business development of the Target Group. There was no condition attached to the grants and the Target Group recognised the grants as income upon receipt.

9. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging:

	Year ended 31 March			Nine months ended 31 December	
	2012	2013	2014	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(unaudited)</i>	
Cost of inventories sold	185,348	169,084	141,500	120,343	102,119
Depreciation of property, plant and equipment	5,407	6,618	9,749	5,981	10,222
Auditor's remuneration	577	108	552	–	8
Amortisation of intangible assets	7	23	32	24	24
Amortisation of prepaid lease payments for land	203	203	199	170	179
Lease payment under operating leases	25	95	79	22	118
Research and development costs	12,858	13,952	15,287	14,215	11,105
Employee benefits expense (including directors' emoluments):					
– Wages, salaries and benefits	14,900	20,072	23,667	19,356	16,239
– Retirement benefit costs	1,469	2,397	3,197	2,515	2,815
	16,369	22,469	26,864	21,871	19,054

10. DIRECTORS' EMOLUMENTS AND HIGHEST PAID INDIVIDUALS

(a) Directors' emoluments

No emoluments were paid or payable to the Target Company's directors during the Relevant Periods.

There was no arrangement under which a director waived or agreed to waive any remuneration during the Relevant Periods.

(b) Five highest paid individuals

Of the five individuals with the highest emoluments in the Target Group during the Relevant periods, none of them is a director of the Target Company.

The emoluments payable to the five highest paid non-director individuals during the Relevant Periods are as follows:

	Year ended 31 March			Nine months ended 31 December	
	2012	2013	2014	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(unaudited)</i>	
Wages and salaries	1,256	1,480	1,560	856	968
Contributions to retirement benefits scheme	25	34	28	21	32
	<u>1,281</u>	<u>1,514</u>	<u>1,588</u>	<u>877</u>	<u>1,000</u>

The emoluments of each of the above highest paid individuals during the Relevant Periods were all within the emolument band of nil to HK\$1,000,000.

(c) During the Relevant Periods, no emoluments were paid by the Target Group to the directors or the five highest paid individual as an inducement to join or upon joining the Target Group or as compensation for loss of office.

(d) **Senior management's emoluments**

Emoluments paid or payable to members of senior management who are not directors were within the following band:

	Year ended 31 March			Nine months ended 31 December	
	2012	2013	2014	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(unaudited)</i>	
Nil to HK\$1,000,000	<u>2</u>	<u>2</u>	<u>3</u>	<u>3</u>	<u>3</u>

11. FINANCE COSTS

	Year ended 31 March			Nine months ended 31 December	
	2012	2013	2014	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(unaudited)</i>	
Interest on bank and other borrowings wholly repayable within five years	341	1,642	2,362	2,148	810
Discounting charge for bills receivables	-	1,767	-	-	-
Bank charges	445	666	-	-	-
	<u>786</u>	<u>4,075</u>	<u>2,362</u>	<u>2,148</u>	<u>810</u>

12. INCOME TAX EXPENSE

The amount of income tax expense in the consolidated statements of comprehensive income represents:

	Year ended 31 March			Nine months ended 31 December	
	2012	2013	2014	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(unaudited)</i>	
Current tax – Enterprise income tax (“EIT”) – charge for the year/period	12,123	22,432	26,922	22,701	16,837
Income tax expense	<u>12,123</u>	<u>22,432</u>	<u>26,922</u>	<u>22,701</u>	<u>16,837</u>

No Hong Kong profits tax has been provided as the Target Group has no assessable profits arising in Hong Kong during the Relevant Periods.

EIT arising from the PRC for the Relevant Periods was calculated at 25% of the estimated assessable profits, except that two subsidiaries which have obtained the New and Hi-tech Enterprise recognition are entitled to enjoy preferential EIT rate. One of these subsidiaries is entitled to full exemption from tax for a period of 5 years up to 31 December 2011 followed by preferential tax rate of 15% for a period of 3 years from 1 January 2012. The other subsidiary is entitled to preferential tax rate of 15% for a period of 3 years from 1 January 2012.

The income tax expense for the Relevant Periods can be reconciled to the profit before income tax per the consolidated statements of comprehensive income as follows:

	Year ended 31 March			Nine months ended 31 December	
	2012	2013	2014	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(unaudited)</i>	
Profit before income tax	<u>108,241</u>	<u>128,316</u>	<u>171,168</u>	<u>147,853</u>	<u>112,550</u>
Tax on profit before income tax, calculated at the rates applicable to profit in the jurisdictions concerned	8,924	18,084	24,714	21,595	16,896
Tax effect of expenses not deductible for tax purposes	2,109	1,595	1,611	441	492
Tax effect of share of results of associates	191	186	(404)	(465)	(128)
Tax effect of utilisation of tax losses unrecognised in prior years	–	–	–	–	(557)
Tax effect of tax losses unrecognised	949	1,129	1,054	977	304
Others	(50)	1,438	(53)	153	(170)
Income tax expense	<u>12,123</u>	<u>22,432</u>	<u>26,922</u>	<u>22,701</u>	<u>16,837</u>

As at 31 March 2012, 2013 and 2014 and 31 December 2014, the Target Group had unused tax losses of RMB5,657,000, RMB10,173,000, RMB14,389,000 and RMB13,377,000, respectively, available for offset against future profits. No deferred tax asset has been recognised in respect of such tax losses due to unpredictability of future profits streams. The unused tax losses will be available within five years for offsetting against future taxable profits of the companies in which the losses arose.

13. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to owners of the Target Company for the Relevant Periods as follow, and on the basis of 50,000 shares of the Target Company in issue on the assumption that the restructuring as detailed in Note 2(ii) has been effective on 1 April 2011.

	Year ended 31 March			Nine months ended 31 December	
	2012	2013	2014	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Profit for the year/period attributable to owners of the Target Company for the purpose of calculating basic earnings per share	96,118	105,884	86,000	76,518	56,942

Diluted earnings per share is the same as basic earnings per share as there were no potential dilutive shares during the Relevant Periods.

14. PROPERTY, PLANT AND EQUIPMENT

The Target Group

	Buildings RMB'000	Plant and machinery RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:						
At 1 April 2011	31,805	23,581	907	4,925	120	61,338
Additions	3,091	2,190	193	908	662	7,044
Transfer	123	-	-	-	(123)	-
Disposals	-	-	-	(239)	-	(239)
At 31 March 2012 and 1 April 2012	35,019	25,771	1,100	5,594	659	68,143
Additions	20,428	14,433	485	1,765	754	37,865
Transfer	1,413	-	-	-	(1,413)	-
Disposals	-	-	(12)	(206)	-	(218)
At 31 March 2013 and 1 April 2013	56,860	40,204	1,573	7,153	-	105,790
Additions	2,664	8,811	1,257	1,369	63	14,164
Transfer	63	-	-	-	(63)	-
Disposals	(437)	-	(5)	(719)	-	(1,161)
At 31 March 2014 and 1 April 2014	59,150	49,015	2,825	7,803	-	118,793
Additions	2,845	2,246	678	522	9,129	15,420
Transfer	247	-	-	-	(247)	-
Disposal of subsidiary	-	-	(155)	-	-	(155)
Disposals	(267)	(1,494)	(128)	(432)	-	(2,321)
At 31 December 2014	<u>61,975</u>	<u>49,767</u>	<u>3,220</u>	<u>7,893</u>	<u>8,882</u>	<u>131,737</u>
Accumulated depreciation:						
At 1 April 2011	7,501	7,681	399	1,360	-	16,941
Charge for the year	1,702	2,347	180	1,178	-	5,407
Eliminated on disposal	-	-	-	(47)	-	(47)
At 31 March 2012 and 1 April 2012	9,203	10,028	579	2,491	-	22,301
Charge for the year	1,828	3,138	223	1,429	-	6,618
Eliminated on disposal	-	-	(11)	(110)	-	(121)
At 31 March 2013 and 1 April 2013	11,031	13,166	791	3,810	-	28,798
Charge for the year	2,759	4,861	586	1,543	-	9,749
Eliminated on disposal	(242)	-	(5)	(686)	-	(933)
At 31 March 2014 and 1 April 2014	13,548	18,027	1,372	4,667	-	37,614
Charge for the period	4,432	4,242	438	1,110	-	10,222
Eliminated on disposal of subsidiary	-	-	(14)	-	-	(14)
Eliminated on disposal	(76)	(201)	(77)	(423)	-	(777)
At 31 December 2014	<u>17,904</u>	<u>22,068</u>	<u>1,719</u>	<u>5,354</u>	<u>-</u>	<u>47,045</u>
Net carrying amount:						
At 31 March 2012	<u>25,816</u>	<u>15,743</u>	<u>521</u>	<u>3,103</u>	<u>659</u>	<u>45,842</u>
At 31 March 2013	<u>45,829</u>	<u>27,038</u>	<u>782</u>	<u>3,343</u>	<u>-</u>	<u>76,992</u>
At 31 March 2014	<u>45,602</u>	<u>30,988</u>	<u>1,453</u>	<u>3,136</u>	<u>-</u>	<u>81,179</u>
At 31 December 2014	<u>44,071</u>	<u>27,699</u>	<u>1,501</u>	<u>2,539</u>	<u>8,882</u>	<u>84,692</u>

The Target Group's buildings are situated in the PRC on the leasehold lands mentioned in Note 16.

15. INTANGIBLE ASSETS

The Target Group

	Computer software <i>RMB'000</i>	Patents <i>RMB'000</i>	Total <i>RMB'000</i>
Cost:			
At 1 April 2011	–	–	–
Addition	9	200	209
	<u> </u>	<u> </u>	<u> </u>
At 31 March 2012, 31 March 2013 and 1 April 2013	9	200	209
Addition	–	98	98
	<u> </u>	<u> </u>	<u> </u>
At 31 March 2014 and 31 December 2014	<u> </u> <u> </u>	<u> </u> <u> </u>	<u> </u> <u> </u>
Accumulated amortisation:			
At 1 April 2011	–	–	–
Charge for the year	–	7	7
	<u> </u>	<u> </u>	<u> </u>
At 31 March 2012 and 1 April 2012	–	7	7
Charge for the year	3	20	23
	<u> </u>	<u> </u>	<u> </u>
At 31 March 2013 and 1 April 2013	3	27	30
Charge for the year	3	29	32
	<u> </u>	<u> </u>	<u> </u>
At 31 March 2014 and 1 April 2014	6	56	62
Charge for the period	2	22	24
	<u> </u>	<u> </u>	<u> </u>
At 31 December 2014	<u> </u> <u> </u>	<u> </u> <u> </u>	<u> </u> <u> </u>
Net carrying amount:			
At 31 March 2012	<u> </u> <u> </u>	<u> </u> <u> </u>	<u> </u> <u> </u>
At 31 March 2013	<u> </u> <u> </u>	<u> </u> <u> </u>	<u> </u> <u> </u>
At 31 March 2014	<u> </u> <u> </u>	<u> </u> <u> </u>	<u> </u> <u> </u>
At 31 December 2014	<u> </u> <u> </u>	<u> </u> <u> </u>	<u> </u> <u> </u>

16. PREPAID LEASE PAYMENTS FOR LAND

The Target Group

	Year ended 31 March			Nine months ended
	2012	2013	2014	31 December
	RMB'000	RMB'000	RMB'000	2014
Carrying amount at beginning of year/period	7,317	7,114	6,911	6,712
Charged to profit or loss during the year/period (Note 9)	(203)	(203)	(199)	(179)
Carrying amount at end of year/period	7,114	6,911	6,712	6,533
Less: Amounts classified as current assets	(203)	(203)	(203)	(203)
Amounts classified as non-current assets	<u>6,911</u>	<u>6,708</u>	<u>6,509</u>	<u>6,330</u>

The prepaid lease payments for land represent the Target Group's interests in certain leasehold lands in the PRC which are held under medium-term lease.

17. INVESTMENT IN A SUBSIDIARY

The Target Company

	As at 31 March		As at	
	2012	2013	2014	31 December
	RMB'000	RMB'000	RMB'000	2014
Investment in Ample Ocean HK, at cost	<u>-</u>	<u>-</u>	<u>786</u>	<u>786</u>

18. INTERESTS IN ASSOCIATES

The Target Group

	As at 31 March		As at	
	2012	2013	2014	31 December
	RMB'000	RMB'000	RMB'000	2014
Share of net assets	<u>2,605</u>	<u>1,863</u>	<u>3,477</u>	<u>3,989</u>

Details of the associates are as follows:

Name of associate	Form of business structure	Place of establishment and operation	Principal activities	Percentage of ownership interests/voting rights/profit share held by the Target Group			
				As at 31 March		As at 31 December	
				2012	2013	2014	2014
烏海市天潤 爆破服務有限 責任公司 ("Tianrun Blasting")	Limited liability company	PRC	Provision of blasting operation and related services	35%	35%	35%	35%
巴彥淖爾市 安泰民爆器材 有限責任公司 ("Antai Explosives")	Limited liability company	PRC	Trading of explosives	20%	20%	20%	20%

The summarised financial information in respect of the Target Group's associates which are considered by the directors as immaterial are set out below:

	Year ended 31 March			Nine months ended 31 December	
	2012	2013	2014	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
(Loss)/Profit from continuing operations	(2,196)	(2,277)	4,263	5,000	1,230
Profit from discontinued operations	—	—	—	—	—
Other comprehensive income	—	—	—	—	—
Total comprehensive income	(2,196)	(2,277)	4,263	5,000	1,230

19. INVENTORIES

The Target Group

	As at 31 March			As at 31 December
	2012	2013	2014	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials	9,522	12,460	9,855	17,265
Finished goods	1,730	5,078	3,128	189
	11,252	17,538	12,983	17,454

As at 31 March 2012, 2013 and 2014 and 31 December 2014, inventories were stated at cost.

20. TRADE AND BILLS RECEIVABLES

The Target Group

	As at 31 March		As at 31 December	
	2012	2013	2014	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	35,396	23,051	69,287	47,719
Bills receivables	34,676	158,734	59,648	79,974
	<u>70,072</u>	<u>181,785</u>	<u>128,935</u>	<u>127,693</u>

As at 31 March 2012, 2013 and 2014 and 31 December 2014, the Target Group discounted and endorsed certain of its bills receivables with full recourse to financial institutions and creditors. In the event of default by the debtors, the Group is obliged to pay the financial institutions and creditors the amount in default. The Target Group is therefore exposed to the risks of credit losses and late payment in respect of its discounted and endorsed bills receivables.

The discounting and endorsement transactions do not meet the requirements in HKAS 39 for de-recognition of financial assets as the Target Group retains substantially all of the risks and rewards of ownership of the discounted and endorsed bills receivables. As at 31 March 2012, 2013 and 2014 and 31 December 2014, bills receivables of RMB23,350,000, RMB138,784,000, RMB46,193,000, and RMB46,748,000 respectively continued to be recognised in the Target Group's financial statements although they have been legally transferred to the financial institutions and creditors. The proceeds of the discounting and endorsement transactions were included in borrowings as asset-backed financing (Note 25), trade payables (Note 23), other payables (Note 24), other receivables (Note 21) and current accounts of relevant related entities (Note 27) until the related bills receivables are collected or the Group settles any losses suffered by the financial institutions and creditors. As at 31 March 2012, 2013 and 2014 and 31 December 2014, the asset-backed financing liabilities amounted to nil, RMB37,807,000, nil, and nil respectively. As at 31 March 2012, 2013 and 2014 and 31 December 2014, bills receivables endorsed to trade creditors amounted to RMB22,300,000, RMB66,643,000, RMB37,593,000, and RMB41,528,000 respectively. As at 31 March 2012, 2013 and 2014 and 31 December 2014, bills receivables endorsed to other creditors amounted to RMB1,050,000, RMB2,334,000, RMB3,200,000, and RMB1,920,000 respectively. As at 31 March 2012, 2013 and 2014 and 31 December 2014, bills receivables endorsed to other debtors amounted to nil, nil, nil, and RMB3,100,000 respectively. As at 31 March 2012, 2013 and 2014 and 31 December 2014, bills receivables endorsed to related companies amounted to nil, RMB32,000,000, RMB5,400,000, and RMB200,000 respectively.

As the bills receivables have been legally transferred to the financial institutions and creditors, the Target Group does not have the authority to determine the disposition of the bill receivables.

As at the end of each of the reporting periods, bills receivables are aged within 1 year.

The ageing analysis of trade receivables as of the end of each reporting periods, based on invoice dates, is as follows:

	As at 31 March		As at 31 December	
	2012	2013	2014	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 month	35,095	19,537	31,394	3,629
More than 1 month but less than 3 months	–	3,181	20,839	27,037
More than 3 months but less than 1 year	81	333	17,054	14,275
Over 1 year	220	–	–	2,778
	<u>35,396</u>	<u>23,051</u>	<u>69,287</u>	<u>47,719</u>

In general, trade receivables are due on presentation.

The ageing analysis of trade receivables that are not considered to be impaired is as follows:

	As at 31 March		As at 31 December	
	2012	2013	2014	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 month past due	35,095	19,537	31,394	3,629
More than 1 month but less than 3 months past due	–	3,181	20,839	27,037
More than 3 months but less than 1 year past due	81	333	17,054	14,275
More than 1 year past due	220	–	–	2,778
	<u>35,396</u>	<u>23,051</u>	<u>69,287</u>	<u>47,719</u>

The Target Group recognised impairment loss based on the accounting policy stated in Note 4(k) (ii). During the Relevant Periods, no impairment loss was recognised.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Target Group. Based on past experience, the directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

21. OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

The Target Group

	As at 31 March		As at 31 December	
	2012	2013	2014	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Other receivables and deposits	44,811	6,105	6,226	6,749
Prepayments	11,104	11,647	18,765	11,643
	55,915	17,752	24,991	18,392
Less: non-current portion				
Deposits for purchase of property, plant and equipment	(4,825)	(8,522)	(2,350)	(9,145)
Current portion	<u>51,090</u>	<u>9,230</u>	<u>22,641</u>	<u>9,247</u>

As at 31 March 2012, 2013 and 2014 and 31 December 2014, amount of bills receivables endorsed to suppliers for prepayments amounted to nil, nil, nil, and RMB3,100,000 respectively. Since the endorsement do not meet the de-recognition requirements in HKAS 39 for the bills receivable, the corresponding amounts are continued to be included in bills receivables (Note 20).

22. BANK BALANCES AND CASH (INCLUDING PLEDGED DEPOSITS)

The Target Group

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits were arranged for varying periods of one day to three months depending on the immediate cash requirements of the Target Group, and earn interest at the respective short-term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks.

Bank balances and cash including pledged deposits were denominated in the following currencies:

	As at 31 March		As at 31 December	
	2012	2013	2014	2014
	RMB'000	RMB'000	RMB'000	RMB'000
RMB	28,541	46,973	28,332	62,495
HK\$	-	-	-	8
	<u>28,541</u>	<u>46,973</u>	<u>28,332</u>	<u>62,503</u>

RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Target Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

23. TRADE AND BILLS PAYABLES**The Target Group**

The ageing analysis of trade and bills payables, based on the invoice date, as of the end of the reporting periods is as follows:

	As at 31 March		As at 31 December	
	2012	2013	2014	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payable				
Within 1 month	54,500	74,276	53,028	11,210
More than 1 month but less than 3 months	2,778	5,088	5,907	23,926
Over 3 months	807	1,626	1,881	24,557
	58,085	80,990	60,816	59,693
Bills payable	–	60,000	–	–
	<u>58,085</u>	<u>140,990</u>	<u>60,816</u>	<u>59,693</u>

As at 31 March 2013, bills payables of RMB60,000,000 were secured by the pledged bank deposits of RMB30,000,000, and by guarantee provided by certain shareholders and a related company.

As at 31 March 2012, 2013 and 2014 and 31 December 2014, included in trade payables of RMB22,300,000, RMB66,643,000, RMB37,593,000, and RMB41,528,000 respectively represented the amount of bills receivables endorsed to trade creditors for settlement which do not meet the de-recognition requirements in HKAS 39. The corresponding financial assets are included in bills receivables (Note 20).

As at 31 March 2012, 2013 and 2014 and 31 December 2014, included in trade payables of nil, nil, RMB592,000, and RMB42,928,000 respectively represented balances due to a related party arising from provision of freight services.

24. OTHER PAYABLES AND ACCRUALS**The Target Group**

As at 31 March 2012, 2013 and 2014 and 31 December 2014, included in other payables of RMB1,050,000, RMB2,334,000, RMB3,200,000, and RMB1,920,000 respectively represented the amount of bills receivables endorsed to other creditors for settlement which do not meet the de-recognition requirements in HKAS 39. The corresponding financial assets are included in bills receivables (Note 20).

As at 31 March 2012, 2013 and 2014 and 31 December 2014, included in other payables and accruals of nil, nil, nil, and RMB351,000 respectively represented balances due to a related party arising from provision of security services.

25. BORROWINGS

The Target Group

	As at 31 March		As at 31 December	
	2012	2013	2014	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Bank loans, secured (notes (a) and (b))	19,000	47,000	-	-
Asset-backed financing (note (c))	-	37,807	-	-
	<u>19,000</u>	<u>84,807</u>	<u>-</u>	<u>-</u>

Notes:

- (a) All bank loans are repayable within one year. As at 31 March 2012, the Target Group's bank loans were secured by certain properties of a related party. As at 31 March 2013, the Target Group's bank loans were secured by the properties of a related party, and personal guarantee of certain shareholders and a related company.
- (b) The average effective interest rates of the Target Group's borrowings is 7.25% per annum for the year ended 31 March 2012 and range from 4.67% to 7.8% per annum for the year ended 31 March 2013.
- (c) This represents the financing obtained in invoice discounting transactions which do not meet the de-recognition requirements in HKAS 39. The corresponding financial assets are included in bill receivables (Note 20).

26. AMOUNTS DUE FROM/TO A DIRECTOR/ SHAREHOLDERS/ ASSOCIATES/ A SUBSIDIARY

Details of the amount due from a director disclosed pursuant to the Hong Kong Companies Ordinance are as follows:

Name of the director:	Mr. Ma Qiang
Terms of the advances:	
- Duration and repayment terms	On demand
- Interest rate	Nil
- Security	Nil
Balance of the advances, net:	RMB'000
- at 31 March 2012	-
- at 31 March 2013	4,689
- at 31 March 2014	-
- at 31 December 2014	-
Maximum balance outstanding :	
- during year ended 31 March 2012	-
- during year ended 31 March 2013	4,689
- during year ended 31 March 2014	4,689
- during nine months ended 31 December 2014	-

The amounts due from shareholders, which represented advances to them, and the amounts due from associates, which arose from entering into trading transactions with them as detailed in Note 34(a), are unsecured, interest-free and repayable on demand.

The amount due from/to a subsidiary is unsecured, interest-free and repayable on demand.

27. AMOUNTS DUE FROM/TO RELATED COMPANIES

Details of the amounts due from related companies are as follows:

Name of related company:	北京博洋 福德圓投資 有限公司	北京盛世 華軒投資 有限公司	烏拉特后旗 盛安房地產 開發有限公司 ("Shengan Real Estate")	烏海市 榮實業有限 責任公司	巴市金泰 化工有限 責任公司	呼倫貝爾盛 世礦業投資 有限公司	內蒙古 吳正投資諮詢 有限公司
Relationship	note (i)	note (i)	note (i)	note (i)	note (i)	note (ii)	note (ii)
Types of transactions giving rise to the balance:	Advance	Advance	Advance	Advance	Advance	Advance	Advance
Terms of the balances:							
- Duration and repayment terms	On demand	On demand	On demand	On demand	On demand	On demand	On demand
- Interest rate	Nil	Nil	Nil	Nil	Nil	Nil	Nil
- Security	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Outstanding balance, net:	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
- at 31 March 2012	97,104	26,949	-	10,196	17,393	11,000	350
- at 31 March 2013	88,963	76,126	15,500	6,679	65,432	21,000	780
- at 31 March 2014	-	-	-	-	-	10,600	-
- at 31 December 2014	-	-	-	-	31	-	-
Maximum balance outstanding :							
- during year ended 31 March 2012	97,104	26,949	4,000	72,000	17,462	11,000	350
- during year ended 31 March 2013	88,963	76,126	15,500	10,196	75,508	21,000	780
- during year ended 31 March 2014	88,963	78,626	15,500	6,679	65,618	26,000	780
- during nine months ended 31 December 2014	-	-	-	-	181	-	-

Notes:

- (i) These companies are related to the Target Group as they are under the control or significant influence of the director, Mr. Ma Qiang.
- (ii) These companies are related to the Target Group as they are under the control of a close family member of the director, Mr. Ma Qiang.

The amounts due to related companies represented advances from entities which are under the control of the director, Mr. Ma Qiang. With the exception of an amount due classified as a non-current liability, the amounts due are unsecured, interest-free and repayable on demand.

The amount due to a related company classified as a non-current liability as at 31 December 2014 is unsecured, repayable on 22 July 2017 and interest bearing at the rate of 6% per annum.

As at 31 March 2012, 2013 and 2014 and 31 December 2014, bills receivables of nil, RMB32,000,000, RMB5,400,000, and RMB200,000 respectively were endorsed to certain related companies for settlement which do not meet the de-recognition requirements in HKAS 39. The corresponding financial assets are included in bills receivables (Note 20).

28. SHARE CAPITAL

The Target Company was incorporated on 1 November 2013 with an authorised share capital of US\$50,000 divided into 50,000 ordinary shares of US\$1 each. Upon incorporation, 50,000 shares were allotted and issued as fully paid at par to the subscribers.

The share capital in the consolidated statements of financial position as at 31 March 2012 and 2013 represented the paid-up share capital of Shengan Chemical (Inner Mongolia).

The restructuring as mentioned in Note 2(i) was completed on 2 May 2013. Accordingly, the share capital as at 31 March 2014 represented the share capital of Qinghai Fudeyuan.

Upon the completion of the restructuring as mentioned in Note 2(ii) on 25 August 2014, the Target Company has become the holding company of the subsidiaries now comprising the Target Group. Since then, the share capital represents the share capital of the Target Company.

29. RESERVES**The Target Group**

The amount of the Target Group's reserves and movements during the Relevant Periods are presented in the consolidated statements of changes in equity on pages 8 to 9 of the Financial Information.

The Target Company

	Translation reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
Balance at 1 April 2013	–	–	–
Profit for the year	–	–	–
Other comprehensive income for the year:			
Exchange differences arising on translation for presentation purpose	(9)	–	(9)
Balance at 31 March 2014 and 1 April 2014	(9)	–	(9)
Loss for the period	–	(834)	(834)
Other comprehensive income for the period:			
Exchange differences arising on translation for presentation purpose	(6)	–	(6)
Balance at 31 December 2014	<u>(15)</u>	<u>(834)</u>	<u>(849)</u>

30. DIVIDENDS

Dividend for the year ended 31 March 2013 represents the dividend declared by Shengan Chemical (Inner Mongolia) of RMB26,823,000 in respect of the financial year ended 31 December 2010.

Dividends for the year ended 31 March 2014 represent (i) the dividend declared by Shengan Chemical (Inner Mongolia) of RMB242,348,000 in respect of the financial year ended 31 December 2012, (ii) the dividend declared by Shengan Chemical (Inner Mongolia) in respect of the financial year end 31 December 2013 attributable to the non-controlling interest shareholders of RMB70,355,000, and (iii) the dividend declared by Qinghai Fudeyuan of RMB57,000,000 in respect of the financial year ended 31 December 2013.

The dividend rates and the number of shares ranking for dividends are not presented as such information is not meaningful for the purpose of this report.

31. ACQUISITION/ DISPOSAL OF SUBSIDIARIES

During the year ended 31 March 2014, the following transactions occurred:

- (i) On 2 May 2013, Qinghai Fudeyuan disposed of 35% of the registered and paid-up capital of Shengan Chemical (Inner Mongolia) to a third party for a cash consideration of RMB60,000,000. The Target Group's equity interest in Shengan Chemical (Inner Mongolia) has been reduced from 90% to 55%.

RMB'000

Consideration receivable for the non-controlling interest	60,000
Carrying value of non-controlling interest disposed of	<u>(43,612)</u>
 Excess of consideration over the carrying value of non-controlling interest disposed of	 <u><u>16,388</u></u>

The change in shareholding has not resulted in a loss of control on Shengan Chemical (Inner Mongolia) by the Target Group and accordingly, the excess of consideration receivable from the third party over the carrying value of the non-controlling interest disposed of is recognised in equity within retained profits.

- (ii) On 10 January 2014, the Target Group acquired from a non-controlling shareholder 5% of the registered and paid-up capital of Shengan Chemical (Inner Mongolia) at a cash consideration of RMB10,000,000. The non-controlling shareholder is owned by close family member of a director of the Target Company, Mr. Ma Qiang. The Target Group's equity interest in Shengan Chemical (Inner Mongolia) has been increased from 55% to 60%.

RMB'000

Carrying value of non-controlling interest acquired	7,124
Consideration payable for the non-controlling interest	<u>(10,000)</u>
 Consideration payable in excess of the carrying value of non-controlling interest acquired	 <u><u>(2,876)</u></u>

The excess of considerable payable over the carrying value of the non-controlling interest acquired is recognised in equity within retained profits.

During the nine months ended 31 December 2014, the following transactions occurred:

- (iii) On 20 November 2014 and 3 December 2014 respectively, the Target Group entered into sale and purchase agreements to dispose of the entire equity interests in two subsidiaries, Shengan Security and Hengtai Technology, to a related party, Shengan Real Estate, at the considerations of RMB1,099,000 and RMB482,000 respectively. The transactions were completed on 25 November 2014 and 4 December 2014 respectively.

The net assets of Shengan Security and Hengtai Technology at the date of disposal were as follow:

	<i>RMB'000</i>
Property, plant and equipment	141
Inventories	3
Trade receivables	132
Other receivables, prepayments and deposits	65
Bank balances and cash	1,096
Amount due from a fellow subsidiary	338
Trade payables	(12)
Other payables and accruals	(177)
Income tax payable	(5)
	<u> </u>
Net assets disposed of	1,581
Considerations satisfied by cash	<u>(1,581)</u>
	<u> </u>
Gain on disposal of subsidiaries	<u> </u> -

The analysis of the inflow of cash and cash equivalents in respect of the disposal is as follows:

	<i>RMB'000</i>
Cash received	1,581
Cash and cash equivalents disposed of	<u>(1,096)</u>
	<u> </u>
Net cash inflow on disposal	<u> </u> 485

32. NON-CONTROLLING INTEREST (“NCI”)

The Target Group did not have NCI at 31 March 2012 and 2013.

Shengan Chemical (Inner Mongolia), a partially owned subsidiary of the Target Company, has material NCI at 31 March 2014 and 31 December 2014.

Following the acquisition of 90% equity interests in Shengan Chemical (Inner Mongolia) by Qinghai Fudeyuan on 2 May 2013 (Note 2(i)), consolidated financial statements have been prepared by Qinghai Fudeyuan and accordingly, the 10% NCI in Shengan Chemical (Inner Mongolia) has been reflected in the Financial Information.

The Target Group disposed of 35% equity interest in Shengan Chemical (Inner Mongolia) on 2 May 2013 and subsequently acquired 5% equity interest in Shengan Chemical (Inner Mongolia) on 10 January 2014 with details set out in Note 31. As a result of these transactions, NCI representing the NCI in Shengan Chemical (Inner Mongolia) has increased to 40% as at 31 March 2014 and 31 December 2014.

Summarised financial information in relation to the NCI of Shengan Chemical (Inner Mongolia), before intra-group eliminations, is presented below:

	As at 31 March 2014	As at 31 December 2014
	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets	93,760	104,377
Current assets	197,816	219,822
Current liabilities	(161,979)	(97,673)
Non-current liabilities	—	—
Net assets	<u>129,597</u>	<u>226,526</u>
Accumulated NCI	<u>51,839</u>	<u>90,610</u>
	Year ended 31 March 2014	Nine months ended 31 December 2014
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	<u>404,794</u>	<u>268,162</u>
Profit for the year/period	<u>149,878</u>	<u>96,928</u>
Total comprehensive income	<u>149,878</u>	<u>96,928</u>
Profit allocated to NCI	<u>58,246</u>	<u>38,771</u>
Dividend paid to NCI	<u>16,000</u>	<u>37,155</u>
Net cash inflows from operating activities	<u>128,166</u>	<u>119,605</u>
Net cash inflows/(outflows) from investing activities	<u>49,746</u>	<u>(24,068)</u>
Net cash outflows from financing activities	<u>(168,728)</u>	<u>(59,273)</u>

33. OPERATING LEASE COMMITMENTS

The Target Group as lessee

The Target Group leased certain of its office premises and leasehold lands under operating lease arrangements, with leases negotiated for terms ranging from 1 to 2 years.

At the end of each of the Relevant Periods, the Target Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 31 March		As at 31 December	
	2012	2013	2014	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	7	29	14	18
In the second to fifth years, inclusive	–	6	–	–
	<u>7</u>	<u>35</u>	<u>14</u>	<u>18</u>

The Target Company

The Target Company did not have any significant operating lease commitments as at each reporting date.

34. RELATED PARTY DISCLOSURES

- (a) In addition to the transactions detailed elsewhere in the Financial Information, the Target Group entered into the following transactions with related parties:

Name of related party	Related party relationship	Type of transaction	Transaction amount				
			Year ended 31 March			Nine months ended 31 December	
			2012	2013	2014	2013	2014
			RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
巴彥卓爾金泰化工有限責任公司	Entity under common control by a director, Mr. Ma Qiang	Purchases from the related party	262	598	1,189	562	551
Shengan Security (Note (i))	Entity under common control by a director, Mr. Ma Qiang	Security services provided by the related party	–	–	–	–	13
Tianrun Blasting and Antai Explosives	Associates	Sales to the related parties	24,706	19,162	13,123	12,846	3,743
董海濱 / 巴彥卓爾盛安運輸有限責任公司 (90% owned by 董海濱)	Close family member/ Entity owned by a close family member of Mr. Ma Qiang	Freight services provided by the related party	7,120	–	9,863	5,627	12,347

Notes:

- (i) Shengan Security was disposal of by the Target Group on 25 November 2014 (Note 31(iii)) and it continues to provide security services to the Target Group.
- (ii) The terms of the balances arising from the above transactions outstanding at the end of the reporting periods are set out in Notes 23, 24 and 26.

- (b) Members of key management personnel of the Target Group during the Relevant Periods comprised only directors whose remuneration are set out in Note 10.

35. CAPITAL COMMITMENTS

The Target Group

The following is the details of capital expenditure contracted for but not provided in the Financial Information.

	As at 31 March		As at 31 December	
	2012	2013	2014	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Commitment for the acquisition of property, plant and equipment	4,860	29	624	8,020

The Target Company

The Target Company did not have any significant capital commitments as at each reporting date.

36. NOTES TO THE STATEMENTS OF CASH FLOWS

- (a) During the year ended 31 March 2013, Shengan Chemical (Inner Mongolia) declared dividend in respect of the financial year ended 31 December 2010 of RMB26,823,000 as set out in Note 30, out of which RMB24,141,000 was settled through offsetting current accounts of shareholders and the remaining balance of RMB2,682,000 was settled in cash.
- (b) During the year ended 31 March 2014, Shengan Chemical (Inner Mongolia) declared dividends of RMB312,703,000 as set out in Note 30, out of which RMB255,113,000 has been settled through offsetting current accounts of shareholders, RMB20,235,000 was settled in cash during the year ended 31 March 2014 and RMB37,355,000 was not settled as at 31 March 2014. Such outstanding dividend was partially settled by cash payment of RMB37,155,000 during the nine months ended 31 December 2014 and the remaining outstanding dividend amounted to RMB200,000 as at 31 December 2014.
- (c) During the year ended 31 March 2014, Qinghai Fudeyuan declared dividend of RMB57,000,000 as set out in Note 30. The amount has not yet been settled as at 31 March 2014 and 31 December 2014.
- (d) Qinghai Fudeyuan acquired 90% equity interest in Shengan Chemical (Inner Mongolia) at the cash consideration of RMB127,500,000 as set out in Note 2(i). Among the consideration, RMB74,000,000 of the consideration was settled during the year ended 31 March 2014 and the remaining balance of RMB53,500,000 was settled during the nine months ended 31 December 2014.
- (e) Ample Ocean HK acquired the entire equity interest in Qinghai Fudeyuan at the cash consideration of RMB49,871,000 as set out in Note 2(ii). Such consideration was settled during the nine months ended 31 December 2014.

37. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

The carrying amounts of the Target Group's financial assets and financial liabilities as recognised at 31 March 2012, 2013 and 2014 and 31 December 2014 may be categorised as follows:

	As at 31 March		As at 31 December	
	2012	2013	2014	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets				
Loans and receivables (including bank balances and cash)	307,522	514,839	180,265	200,062
Financial liabilities				
Financial liabilities at amortised cost	105,085	270,708	228,481	196,937

(a) **Financial instruments not measured at fair value**

Financial instruments not measured at fair value include trade and bills receivables, other receivables and deposits, bank balances and cash, trade and bills payables, other payables and accruals, borrowings and amounts due from/to related companies and directors. Due to their short term nature, the carrying values of these financial instruments approximate their fair values.

(b) **Financial instruments measured at fair value**

As at 31 March 2012, 2013 and 2014 and 31 December 2014, the Target Group did not have any financial instruments measured at fair value and accordingly, no analysis on fair value hierarchy is presented.

38. FINANCIAL RISK MANAGEMENT

The main risks arising from the Target Group's financial instruments in the normal course of Group's business are credit risk, liquidity risk, interest rate risk and currency risk. These risks are managed according to the Target Group's financial management policies and practices described below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(a) **Credit risk**

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Target Group. The Target Group has adopted a policy of merely dealing with creditworthy counterparties, as a mean of mitigating the risk of financial loss from defaults.

The Target Group also has concentration of credit risk by customers as approximately 94%, 95%, 77% and 36% of total trade and bills receivables and other receivables was due from the Target Group's five largest customers as at 31 March 2012, 2013 and 2014 and 31 December 2014 respectively.

In order to minimise credit risk in respect of trade receivables, other receivables and amounts due from related parties, the management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. Credit evaluations of its customers' financial position and condition are performed on each and every major customer periodically. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. The Target Group does not obtain collateral from customers.

The credit risk on bank balances and cash is low as these balances are placed with reputable financial institutions.

(b) Liquidity risk

Liquidity risk relates to the risk that the Target Group will not be able to meet its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Target Group is exposed to liquidity risk in respect of settlement of trade payables and other payables, including amounts due to related parties, and its financing obligations, and also in respect of its cash flow management. Each entity within the Target Group is responsible for its own cash management, including the raising of loans to address its financing need and approval by the directors is required when borrowings exceed the predetermined levels of authority. The Target Group's policy is to regularly monitor its current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The following table details the Target Group's remaining contractual maturity for its financial liabilities as at the end of each of the reporting periods, which are based on undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the reporting date) and the earliest date the Target Group can be required to pay.

	Total contractual undiscounted	On demand		
	Carrying amount	cash flows	or within 1 year	Between 2 and 5 years
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<u>As at 31 March 2012</u>				
Trade and bills payables	58,085	58,085	58,085	–
Other payables and accruals	28,000	28,000	28,000	–
Borrowings	19,000	20,001	20,001	–
	<u>105,085</u>	<u>106,086</u>	<u>106,086</u>	<u>–</u>
<u>As at 31 March 2013</u>				
Trade and bills payables	140,990	140,990	140,990	–
Other payables and accruals	30,411	30,411	30,411	–
Borrowings	84,807	88,471	88,471	–
Amounts due to related companies	14,500	14,500	14,500	–
	<u>270,708</u>	<u>274,372</u>	<u>274,372</u>	<u>–</u>

	Carrying amount <i>RMB'000</i>	Total contractual undiscounted		Between 2 and 5 years <i>RMB'000</i>
		cash flows <i>RMB'000</i>	On demand or within 1 year <i>RMB'000</i>	
<u>As at 31 March 2014</u>				
Trade and bills payables	60,816	60,816	60,816	-
Other payables and accruals	16,860	16,860	16,860	-
Dividend payable	94,355	94,355	94,355	-
Consideration payable for restructuring	53,500	53,500	53,500	-
Amounts due to related companies	2,950	2,950	2,950	-
	<u>228,481</u>	<u>228,481</u>	<u>228,481</u>	<u>-</u>
<u>As at 31 December 2014</u>				
Trade and bills payables	59,693	59,693	59,693	-
Other payables and accruals	14,030	14,030	14,030	-
Dividend payable	57,200	57,200	57,200	-
Amount due to related companies	66,014	72,858	14,650	58,208
	<u>196,937</u>	<u>203,781</u>	<u>145,573</u>	<u>58,208</u>

(c) Interest rate risk

The Target Group's interest rate risk arises primarily from bank borrowings, including asset-backed financing (Note 25), and advance from a related company which is interest-bearing. The Target Group is exposed to cash flow interest rate risk which relates primarily to the Target Group's floating-rate borrowings, as well as fair value interest risk in relation to fixed-rate borrowings. Management closely monitors interest rate risk and will consider hedging significant interest rate exposure should the need arise.

The following table details the interest rate profile of the Target Group's interest-bearing borrowings at the end of each reporting period.

	2012		Year ended 31 March 2013		2014		Nine months ended 31 December 2014	
	Effective interest rate		Effective interest rate		Effective interest rate		Effective interest rate	
	(%)	RMB'000	(%)	RMB'000	(%)	RMB'000	(%)	RMB'000
Fixed rate borrowings:								
Asset-backed financing	-	-	4.67%	37,807	-	-	-	-
Amount due to a related company	-	-	-	-	-	-	6%	51,364
				37,807				51,364
Floating rate borrowings:								
Bank loans	7.25%	19,000	7.2% - 7.8%	47,000	-	-	-	-
Total borrowings		<u>19,000</u>		<u>84,807</u>		<u>-</u>		<u>51,364</u>
Net fixed rate borrowings as a percentage of total borrowings		<u>0%</u>		<u>44.6%</u>		<u>N/A</u>		<u>100%</u>

In respect of the floating rate borrowings, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would decrease/increase the Target Group's net profit for the years ended 31 March 2012 and 2013 and the Target Group's retained profits as at 31 March 2012 and 2013 by approximately RMB162,000 and RMB370,000 respectively.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of each reporting period and had been applied to the exposure to interest rate risk for floating rate borrowings in existence at the reporting date. The 100 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual reporting date. The analysis is performed on the same basis over the Relevant Periods.

(d) Currency risk

The Target Group mainly operates in the PRC with most of the transactions denominated and settled in RMB and thereby it does not have significant exposure to risk resulting from changes in foreign currency exchange rates.

39. CAPITAL MANAGEMENT

The Target Group's objective when managing capital is to safeguard the Target Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders.

The Target Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders' returns that might be possible with higher levels of debts (including bank borrowings and amounts due to related companies) and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The net debt-to-adjusted capital ratio at the end of each reporting period was as follows:

	As at 31 March		As at 31 December	
	2012	2013	2014	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Debts (including borrowings and amounts due to related companies)	19,000	99,307	2,950	66,014
Less: Bank and cash balances (including pledged deposits)	(28,541)	(46,973)	(28,332)	(62,503)
Net debts	<u>N/A</u>	<u>52,334</u>	<u>N/A</u>	<u>3,511</u>
Total equity	<u>272,304</u>	<u>351,365</u>	<u>58,408</u>	<u>103,833</u>
Net debt-to-equity adjusted capital ratio	<u>N/A</u>	<u>14.9%</u>	<u>N/A</u>	<u>3.4%</u>

The Target Group targets to maintain a net debt to equity ratio to be in line with the expected changes in economic and financial conditions. The Target Group's overall strategy on capital management remains unchanged throughout the Relevant Periods.

40. SUBSEQUENT EVENTS

On 15 March 2015, Shengan Chemical (Inner Mongolia) declared dividend of RMB30,000,000 in respect of the financial year ended 31 December 2014, of which RMB12,000,000 was attributable to the non-controlling interest shareholders.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Group in respect of any period subsequent to 31 December 2014.

Yours faithfully,

BDO Limited

Certified Public Accountants

Lee Ming Wai

Practising Certificate number: P05682

Hong Kong

The information set out in this appendix does not form part of the accountants' report prepared by the reporting accountants of the Company, BDO Limited, Certified Public Accountants, Hong Kong, set out in Appendix II "Financial Information of the Target Group" to this circular, and are included to herein for illustrative purposes only,

I. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The unaudited pro forma financial information of the Enlarged Group, comprising unaudited pro forma consolidated statement of financial position, unaudited pro forma consolidated statement of comprehensive income and unaudited pro forma consolidated statement of cash flows, has been prepared in accordance with Rule 7.31 of the GEM Listing Rules with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants, for the purpose of illustrating the financial impact of the Acquisition on the financial position of the Group as if the Acquisition had taken place on 30 September 2014, and on the financial result and cash flows of the Group as if the Acquisition had taken place at the commencement of the financial year ended 31 March 2014.

The unaudited pro forma consolidated statement of financial position of the Enlarged Group has been prepared based on the unaudited consolidated statement of financial position of the Group as at 30 September 2014, which has been extracted from the published interim financial report of the Group for the six months ended 30 September 2014, after giving effect to the pro forma adjustments as summarised in the accompany notes that are directly attributable to the Acquisition and not relating to future events or decisions, and are factually supportable.

The unaudited pro forma consolidated statement of comprehensive income and the unaudited pro forma consolidated statement of cash flows of the Enlarged Group have been prepared based upon the audited consolidated statement of comprehensive income and the audited consolidated statement of cash flows of the Group for the year ended 31 March 2014, which have been extracted from the published annual report of the Group for the financial year ended 31 March 2014, after giving effect to the pro forma adjustments as summarised in the accompany notes that are directly attributable to the Acquisition and not relating to future events or decisions, and are factually supportable.

The unaudited pro forma financial information of the Enlarged Group is for illustrative purpose only and is based on a number of assumptions, estimates and uncertainties. Because of its hypothetical nature, it may not give a true picture of the actual financial position, financial results and cash flows of the Enlarged Group that would have been attained had the Acquisition been completed on 30 September 2014 or 1 April 2013 or any other date.

The unaudited pro forma financial information of the Enlarged Group should be read in conjunction with the financial information of the Group as set out in Appendix I to this circular, the financial information of the Target Group as set out in Appendix II to this circular and other financial information included elsewhere in this circular.

(A) UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL
POSITION OF THE ENLARGED GROUP

	At 30 September 2014 The Group RMB'000 (Note 1)	At 31 December 2014 The Target Group RMB'000 (Note 2)	Notes	Pro forma adjustments RMB'000	Pro forma Enlarged Group RMB'000
ASSETS AND LIABILITIES					
Non-current assets					
Property, plant and equipment	22	84,692			84,714
Prepaid lease payments for land	-	6,330			6,330
Prepayment for purchase of property, plant and equipment	-	9,145			9,145
Intangible assets	-	221			221
Goodwill	-	-	6	53,924	-
			6	(53,924)	
Interests in associates	-	3,989			3,989
	<u>22</u>	<u>104,377</u>			<u>104,399</u>
Current assets					
Inventories	-	17,454			17,454
Trade and bills receivables	-	127,693			127,693
Other receivables, prepayments and deposits	4,300	9,247			13,547
Prepaid lease payments for land	-	203			203
Amounts due from shareholders	-	390			390
Amounts due from associates	-	2,696			2,696
Amounts due from a related company	-	31			31
Derivative financial assets	2,385	-			2,385
Cash and cash equivalents	7,088	62,503	7	(5,500)	64,091
	<u>13,773</u>	<u>220,217</u>			<u>228,490</u>
Current liabilities					
Trade and bills payables	-	59,693			59,693
Other payables and accruals	108	29,430	7	1,000	30,538
Dividend payables	-	57,200			57,200
Amounts due to related companies	-	14,650			14,650
Income tax payable	312	8,424			8,736
Derivative financial liabilities	531	-			531
	<u>951</u>	<u>169,397</u>			<u>171,348</u>
Net current assets	<u>12,822</u>	<u>50,820</u>			<u>57,142</u>
Total assets less current liabilities	<u>12,844</u>	<u>155,197</u>			<u>161,541</u>

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

	At 30 September 2014 The Group RMB'000 (Note 1)	At 31 December 2014 The Target Group RMB'000 (Note 2)	Notes	Pro forma adjustments RMB'000	Pro forma Enlarged Group RMB'000
Non-current liabilities					
Liability component of convertible bonds	-	-	3(i) & (ii)	455,954	455,954
Amount due to a related company	-	51,364	3(iii)	(51,364)	-
	<u>-</u>	<u>51,364</u>			<u>455,954</u>
Net assets/(liabilities)	<u>12,844</u>	<u>103,833</u>			<u>(294,413)</u>
EQUITY					
Share capital	21,186	306	5	(306)	21,186
Accumulated losses	(100,741)	(103,728)	6	(53,924)	(219,464)
			6	45,429	
			7	(6,500)	
Merger reserve	-	-	4	(515,252)	(515,252)
Convertible bonds - equity component	-	-	3(i) & (ii)	110,968	110,968
Other reserves	92,399	116,645	6	53,924	217,539
	<u>92,399</u>	<u>116,645</u>	6	(45,429)	<u>217,539</u>
Equity attributable to owners of the Company	12,844	13,223			(385,023)
Non-controlling interests	-	90,610			90,610
	<u>-</u>	<u>90,610</u>			<u>90,610</u>
Total equity/(Capital deficiency)	<u>12,844</u>	<u>103,833</u>	10		<u>(294,413)</u>

(B) UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF COMPREHENSIVE
INCOME OF THE ENLARGED GROUP

	Year ended 31 March 2014		Notes	Pro forma adjustments RMB'000	Pro forma Enlarged Group RMB'000
	The Group RMB'000 (Note 1)	The Target Group RMB'000 (Note 2)			
Revenue	605,483	405,782			1,011,265
Cost of goods sold and services provided	(604,595)	(159,563)			(764,158)
Gross profit	888	246,219			247,107
Other income	16	1,365			1,381
Share of profit of associates	-	1,614			1,614
Selling and distribution expenses	-	(21,744)			(21,744)
Administrative expenses	(14,930)	(53,772)	7	(6,500)	(75,202)
Other operating expenses	-	(152)			(152)
Other losses	(17,166)	-			(17,166)
(Loss)/Profit from operations	(31,192)	173,530			135,838
Finance costs	(2,941)	(2,362)	8	(55,814)	(61,117)
(Loss)/Profit before income tax	(34,133)	171,168			74,721
Income tax credit/(expense)	1,473	(26,922)			(25,449)
(Loss)/Profit for the year	(32,660)	144,246			49,272
Other comprehensive income <i>Items that may be reclassified subsequently to profit or loss</i>					
- translation of foreign operations	347	-			347
- reclassification relating to disposal of subsidiaries	90	-			90
Other comprehensive income for the year	437	-			437
Total comprehensive income for the year	(32,223)	144,246			49,709

APPENDIX III

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

	Year ended 31 March 2014		Notes	Pro forma adjustments RMB'000	Pro forma Enlarged Group RMB'000
	The Group RMB'000 (Note 1)	The Target Group RMB'000 (Note 2)			
(Loss)/Profit attributable to:					
Owners of the Company	(32,660)	86,000	8	(55,814)	(8,974)
			7	(6,500)	
Non-controlling interests	—	58,246			58,246
	<u>(32,660)</u>	<u>144,246</u>			<u>49,272</u>
Total comprehensive income attributable to:					
Owners of the Company	(32,223)	86,000	8	(55,814)	(8,537)
			7	(6,500)	
Non-controlling interests	—	58,246			58,246
	<u>(32,223)</u>	<u>144,246</u>			<u>49,709</u>
	<i>RMB</i>				<i>RMB</i>
Loss per share					
– Basic	<u>(0.031)</u>		9		<u>(0.008)</u>
– Diluted	<u>(0.031)</u>		9		<u>(0.008)</u>

(C) UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF CASH FLOWS OF
THE ENLARGED GROUP

	Year ended 31 March 2014			Pro forma	Pro forma
	The Group	The Target		adjustments	Enlarged
	RMB'000	RMB'000	Notes	RMB'000	Group
	(Note 1)	(Note 2)			RMB'000
Cash flows from operating activities					
(Loss)/Profit before income tax	(34,133)	171,168	8	(55,814)	74,721
			7	(6,500)	
Adjustments for:					
Amortisation of intangible assets	4,760	32			4,792
Amortisation of prepaid land					
lease payments	–	199			199
Depreciation	124	9,749			9,873
Change in fair value of					
derivative financial instruments	(152)	–			(152)
Finance costs	2,941	2,362	8	55,814	61,117
Gain on debt extinguishment	(53)	–			(53)
Gain on disposal of subsidiaries	(89)	–			(89)
Impairment loss on goodwill	20,761	–			20,761
Impairment loss on intangible assets	2,382	–			2,382
Impairment loss on property,					
plant and equipment	101	–			101
Interest income	(16)	(351)			(367)
Acquisition related costs	–	–	7	6,500	6,500
Reversal of impairment for					
trade receivables	(249)	–			(249)
Share of result of associates	–	(1,614)			(1,614)
Net exchange differences	(258)	–			(258)
Gain on disposal of property,					
plant and equipment	–	(31)			(31)
	<u> </u>	<u> </u>			<u> </u>
Operating (loss)/profit before					
working capital changes	(3,881)	181,514			177,633
Decrease in inventories	–	4,555			4,555
(Increase)/Decrease in trade					
and bill receivables	(78,731)	52,850			(25,881)
Increase in other receivables,					
prepayments and deposits	(4,054)	(13,411)			(17,465)
Increase in amounts due from associates	–	(2,082)			(2,082)
Decrease in amounts due from					
directors and shareholders	–	1,334			1,334
Decrease in trade and bills payables	(424)	(80,174)			(80,598)
Increase/(Decrease) in other					
payables and accruals	2,651	(9,961)			(7,310)
	<u> </u>	<u> </u>			<u> </u>
Cash (used in)/generated					
from operations	(84,439)	134,625			50,186
Income tax paid	(20)	(21,599)			(21,619)
	<u> </u>	<u> </u>			<u> </u>
<i>Net cash (used in)/generated</i>					
<i> from operating activities</i>	<u>(84,459)</u>	<u>113,026</u>			<u>28,567</u>

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

	Year ended 31 March 2014			Pro forma	Pro forma
	The Group	The Target		adjustments	Enlarged
	RMB'000	RMB'000	Notes	RMB'000	Group
	(Note 1)	(Note 2)			RMB'000
Cash flows from investing activities					
Interest received	16	351			367
Purchase of property, plant and equipment	(109)	(7,992)			(8,101)
Purchase of intangible assets	–	(98)			(98)
Decrease in amounts due from related companies	–	8,767			8,767
Net proceed from disposal of subsidiaries	131	–			131
Proceeds from disposal of property, plant and equipment	–	259			259
Decrease in pledged bank deposits	–	30,000			30,000
Net cash outflow on business combination	–	–	7	(6,500)	(6,500)
<i>Net cash generated from investing activities</i>	<u>38</u>	<u>31,287</u>			<u>24,825</u>
Cash flows from financing activities					
Insertion of new holding company on top of existing parent	–	10,000			10,000
Consideration paid for restructuring	–	(74,000)			(74,000)
Disposal of partial interest in a subsidiary	–	60,000			60,000
Acquisition of additional interest in a subsidiary	–	(10,000)			(10,000)
Dividends paid to shareholders	–	(20,235)			(20,235)
Decrease in amounts due to related companies	–	(11,550)			(11,550)
Proceeds from bank borrowings	3,000	–			3,000
Increase in financing from discounting of bill receivables with full recourse	81,322	–			81,322
Repayment of bank borrowings	–	(84,807)			(84,807)
Interest paid for bank borrowings	(1,177)	(2,362)			(3,539)
<i>Net cash generated from/(used in) financing activities</i>	<u>83,145</u>	<u>(132,954)</u>			<u>(49,809)</u>
Net (decrease)/increase in cash and cash equivalent	(1,276)	11,359			3,583
Cash and cash equivalents at beginning of the year	16,135	16,973			33,108
Effect of exchange rate changes on cash and cash equivalents	(110)	–			(110)
Cash and cash equivalents at end of the year	<u>14,749</u>	<u>28,332</u>			<u>36,581</u>

(D) NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

1. The consolidated statement of financial position of the Group are extracted without adjustment from the unaudited consolidated statement of financial position of the Company as at 30 September 2014 as published in the interim report of the Company for the six months ended 30 September 2014 whereas the consolidated statement of comprehensive income and the consolidated statement of cash flows of the Group for the year ended 31 March 2014 are extracted without adjustment from the audited consolidated statement of comprehensive income and the audited consolidated statement of cash flows of the Group for the year ended 31 March 2014 as published in the annual report of the Company for the year ended 31 March 2014.
2. The consolidated statement of financial position of the Target Group as at 31 December 2014, and the consolidated statement of comprehensive income and the consolidated statement of cash flows of the Target Group for the year ended 31 March 2014 are extracted from the Financial Information of the Target Group as set out in Appendix II to this circular.
3. Pursuant to the SP Agreement, the Vendors and Shiny Ocean have conditionally agreed to sell and the Company has conditionally agreed to purchase the (i) entire issued share capital of Ample Ocean (the "Sale Shares"); and (ii) the amount equals to 100% of the face value of all debts and liabilities owing by Ample Ocean to Shiny Ocean arising from a loan agreement dated 23 July 2014 and a loan purchase agreement dated 28 September 2014 (the "Sale Loan") at the aggregate consideration of HK\$837 million (the "Acquisition"), to be satisfied by the issuance of convertible bonds (the "Convertible Bonds") in the aggregate principal amount of HK\$837 million.

The fair value of the aggregate consideration assuming the Acquisition was completed on 30 September 2014 is as follows:

	<i>RMB'000</i>
Fair value of liability component (<i>note (ii)</i>)	455,954
Fair value of equity component (<i>note (ii)</i>)	<u>110,968</u>
Total consideration, at fair value (<i>note (ii)</i>)	566,922
Less: Consideration for the Sale Loan (<i>note (iii)</i>)	<u>(51,364)</u>
Consideration for the Sale Shares, at fair value (<i>note (iii)</i>)	<u><u>515,558</u></u>

Notes:

(i) According to the SP Agreement, the Convertible Bonds with the aggregate principal amount of HK\$837 million (equivalent to approximately RMB661,230,000) is to be issued by the Company upon Completion. The Convertible Bonds are non-interest bearing and will mature on the business day falling on the third anniversary from the date of issue of the Convertible Bonds. At the option of the holders of the Convertible Bonds (the “Bondholders”), the Bondholders may convert the whole or part of the Convertible Bonds into the shares of the Company (the “Conversion Shares”) at the conversion price of HK\$0.36 per Conversion Share (subject to anti-dilutive adjustments) during the period from the date of issue of the Convertible Bonds up to 4 p.m. (Hong Kong time) on the seventh business day prior to the maturity date, provided such conversion will not result in the Company breaching the minimum public float requirement under the GEM Listing Rules or trigger a mandatory general offer under the Takeovers Code. The Company shall redeem any Convertible Bonds which remains outstanding at 4 p.m. (Hong Kong time) on the maturity date at its principal amount. Any redemption prior to maturity date are subject to agreement between the Company and the Bondholders.

(ii) The fair value of the Convertible Bonds is determined based on the valuation conducted by Asset Appraisal Limited on the Convertible Bonds as at 30 September 2014. The Convertible Bonds contain two components, the liability and equity components. The fair value of the Convertible Bonds as a whole is determined by using the Binomial Option Pricing Model. The fair value of the liability component of the Convertible Bonds is calculated using cash flows discounted at a rate based on an equivalent market interest rate for equivalent non-convertible bonds. The initial carrying amount of the equity component is determined by deducting the fair value of the liability component from the fair value of the Convertible Bonds.

The fair value of the Convertible Bonds (including the values of the liability component and equity component) will have to be reassessed as at the date of Completion which may be different from that presented above.

(iii) The Sale Loan is unsecured, repayable on 22 July 2017 and interest bearing at 6% per annum. The directors of the Company are of the opinion that the carrying amount of the Sale Loan approximates to its fair value.

The carrying amount of the Sale Loan as at 31 December 2014 was HK\$64.01 million (equivalent to RMB51,364,000), which represented the outstanding principal amount of the Sale Loan and the accrued interest thereon at that date. The fair value of the consideration for the Sale Shares shall be taken as the total consideration at fair value less the carrying amount of the Sale Loan as at 31 December 2014 of HK\$64.01 million (equivalent to RMB51,364,000) which approximate its fair value as at 31 December 2014.

4. As the Company and the Target Company are ultimately controlled by a substantial shareholder of the Company, Mr. Ma Qiang (“Mr. Ma”), the Acquisition is a business combination under common control. Being consistent with the Group’s accounting policy for common control combination, the Acquisition is accounted for based on the principles of merger accounting in accordance with Accounting Guideline 5 *Merger Accounting for Common Control Combinations* (“AG 5”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) as if the Acquisition had occurred on the date when the combining entities first came under the control of Mr. Ma. By applying merger accounting, the assets and liabilities

of the Group and the Target Group are combined using their existing book values from Mr. Ma's perspective. The Target Group is founded and controlled by Mr. Ma. As to the Group, it was acquired by Shiny Ocean (wholly owned by Mr. Ma) in December 2012 and has since then been under the control of Mr. Ma. Accordingly, the financial statement items of the Group are included in the consolidated financial statements of the combined entity from the date when Mr. Ma obtained control over the Group using the acquisition values recognised at that date (see note 6 for financial impact arising from the acquisition of the Group by Mr. Ma). According to AG 5, no amount is recognised as consideration for goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interests. Accordingly, the difference arising from the acquisition of the Sale Shares, being the consideration given by the Company for the acquisition of the Sale Shares adjusted for the elimination of the share capital of the Target Company, is accounted for in equity as "Merger reserve".

Merger reserve of the Enlarged Group arising from the Acquisition is calculated as follows:

	<i>RMB'000</i>
Consideration for the Sale Shares, at fair value	515,558
Elimination of share capital of the Target Company	<u>(306)</u>
Merger reserve	<u><u>515,252</u></u>

5. The adjustment represents the elimination of the share capital of the Target Group upon combination following the adoption of merger accounting as mentioned in note 4.
6. As mentioned in note 4, Mr. Ma obtained control over the Group through Shiny Ocean in December 2012. Accordingly, the financial statement items of the Group are included in the consolidated financial statements of the combined entity from the date when Mr. Ma obtained control over the Group using the acquisition values recognised at that date. To apply merger accounting, the fair value of the identifiable assets and liabilities of the Group on the date of acquisition by Shiny Ocean together with the goodwill arising on the acquisition in December 2012 are combined with the carrying values of the assets and liabilities of the Target Group since its establishment. The adjustment is made to reflect the above financial effects on the Group as a result of recognising the financial statement items of the Group from the perspective of the controlling party, Mr. Ma, upon obtaining control of the Group.

Upon the closure of the cash offers for all the issued shares of the Company made by Shiny Ocean (wholly owned by Mr. Ma) on 14 December 2012, and the completion of the placing of shares by Shiny Ocean on 19 December 2012 for the purpose of restoring the minimum public float of the Company, Shiny Ocean acquired 707,356,693 shares or 74.95% of the total issued share capital of the Company (the “Cash Offers and the Placing of Shares”), and Mr. Ma, through Shiny Ocean, has obtained control over the Group since December 2012.

Shiny Ocean is an investment holding company without other operations. The identifiable assets and liabilities of the Group as at the date of acquisition by Shiny Ocean are as follows:

	<i>RMB'000</i>
Property, plant and equipment	670
Intangible assets – customer base	8,332
Trade and other receivables, prepayment and deposit	15,761
Escrow deposit	8,100
Cash and cash equivalent	5,100
Trade payables	(1,745)
Other payables and accruals	(9,351)
Short-term loan	(12,333)
Tax payable	(13)
Deferred tax liabilities	(1,670)
Long-term loan	(30,879)
	<u>(18,028)</u>
Net identifiable liabilities	<u>(18,028)</u>

The directors of the Company are of the opinion that the carrying amounts of the identifiable assets and liabilities of the Group approximated to their fair values as at the date of acquisition by Shiny Ocean.

As at the date of acquisition by Shiny Ocean, goodwill amounting to RMB36,431,000 was recorded by the Group which was attributable to the cash generating unit (“CGU”) of school network integration services business. The amount of goodwill arising as a result of Mr. Ma. obtaining control over the Group in December 2012 is calculated as follows:

	<i>RMB'000</i>
Consideration for the acquisition of the Group (<i>Note</i>)	76,843
Non-controlling interest, based on 25.05% of the net identifiable liabilities of the Group	(4,516)
Fair value of net identifiable liabilities of the Group	<u>18,028</u>
Goodwill arising from Mr. Ma obtaining control of the Group	90,355
Goodwill originally recorded by the Group	<u>(36,431)</u>
Additional goodwill recognised	<u>53,924</u>

Note: Consideration for the acquisition of the Group was based on the net amount of cash paid by Shiny Ocean for the Cash Offers and the Placing of Shares, details of which were disclosed in the composite document dated 12 November 2012 and announcements dated 14, 16 and 19 December 2012 published by the Company.

Goodwill arising from Mr. Ma obtaining control of the Group in December 2012 amounting to RMB90,355,000 was attributable to the CGUs of school network integration services business and money lending business, which were then the existing businesses of the Group.

Due to the changes in the business environment for school network integration services and the existence of prevailing unfavorable factors including tightened PRC government policies affecting funding available for education sector and thus demand for school network integration services and the increasing keen competition in the industry, goodwill attributable to this CGU as recorded by the Group of RMB36,431,000 was impaired as to RMB15,670,000 during the year ended 31 March 2013 and RMB20,761,000 during the year ended 31 March 2014. In addition, the business was subsequently disposed of in August 2014. As to the money lending business, its operation was not up to expectation and did not contribute any revenue to the Group during the year ended 31 March 2014 or the six months ended 30 September 2014. The recoverable amount of the CGU of money lending is estimated by the management to be minimal. Based on the current assessment of the Company's directors, the entire amount of goodwill arising from the acquisition of the Group by Mr. Ma through Shiny Ocean in December 2012 has been fully impaired due to the reasons mentioned above.

Accordingly, in the pro forma consolidated statement of financial position of the Enlarged Group, additional goodwill amounting to RMB53,924,000 is recognised a result of Mr. Ma obtaining control of the Group in December 2012 with the corresponding entry being credited to other reserves within equity. Due to the subsequent changes in business environment and other factors as mentioned above, the additional goodwill is fully impaired and the corresponding entry is debited to accumulated losses within equity. The impairment loss on the additional goodwill shall not have bearing on the pro forma consolidated statement of comprehensive income of the Enlarged Group as the directors of the Company have assessed that such goodwill has been fully impaired due to the conditions mentioned above, which existed before the completion of the Acquisition.

The accumulated losses of the Group as at the date of acquisition by Mr. Ma amounting to RMB45,429,000 is adjusted to other reserves such that only those results of the Group after Mr. Ma has obtained control over the Group is included in the combined financial statements of the Group and the Target Group. The net adjustment to other reserve amounting to RMB8,495,000 arising from the acquisition

of the Company by Shiny Ocean in December 2012 comprised of the recognition of additional goodwill from acquisition amounting to RMB53,924,000 as mentioned above and the elimination of accumulated losses of the Group as of the date of acquisition by Shiny Ocean amounting to RMB45,429,000.

7. The estimated transaction costs for the Acquisition of approximately RMB6,500,000 mainly comprise financial adviser fees, legal fees, and remunerations to valuers and reporting accountants. The estimated transaction costs are expensed to the profit or loss. This adjustment has no continuing effect on the Enlarged Group's financial statements in subsequent years.

The directors estimate that transaction costs of RMB5,500,000 will be settled by the timing of Completion while the remaining balance of RMB1,000,000 will be settled immediately following the Completion.

8. The adjustment represents the annual finance cost of the imputed interest of approximately RMB55,814,000 in respect of the Convertible Bonds calculated at discount rate of 11.8% per annum which reflects the return required by Bondholders for investing in a similar financial instrument without conversion option. The fair value of the Convertible Bonds is determined based on the valuation conducted by Asset Appraisal Limited on the Convertible Bond as at 1 April 2013. This adjustment has continuing effect on the financial statements of the Enlarged Group in subsequent years.
9. The calculation of the pro forma basic loss per share attributable to the owners of the Enlarged Group is based on the unaudited pro forma consolidated loss attributable to the owners of the Enlarged Group of RMB8,974,000 and the weighted average number of 1,067,025,000 ordinary shares. Weighted average number of ordinary shares for the year ended 31 March 2014 was extracted from published annual report of the Group for the year ended 31 March 2014.

Pro forma diluted loss per share is the same as the pro forma basic loss per share as the Enlarged Group has no dilutive potential ordinary shares outstanding. The impact of the Convertible Bonds has an anti-dilutive effect on the pro forma basic loss per share presented.

10. For the purpose of the presentation of the unaudited pro forma financial information, conversion of HK\$ to RMB is calculated at the following exchange rates:

HK\$1.234 to RMB1 for the acquisition of the Group by Mr. Ma
HK\$1.266 to RMB1 as at 1 April 2013
HK\$1.266 to RMB1 for the year ended 31 March 2014
HK\$1.266 to RMB1 as at 30 September 2014
HK\$1.246 to RMB1 as at 31 December 2014

11. The unaudited pro forma financial information has been prepared under the going concern assumption notwithstanding that the Enlarged Group had capital deficiency of RMB294,413,000 as if the Acquisition was completed on 30 September 2014. The capital deficiency is mainly resulted from issuing the Convertible Bonds with liability component amounting to RMB455,954,000 as at 30 September 2014. The going concern basis has been adopted on the basis that some of the Vendors have confirmed their intention to exercise the Convertible Bonds after Acquisition and before the maturity day in order to restore the Enlarged Group to net asset position. Accordingly, the directors are satisfied that it is appropriate to prepare the unaudited pro forma financial information on a going concern basis which assumes, among other things, the realisation of assets and satisfaction of liabilities in the normal course of business.

Should the Enlarged Group be unable to continue in business as going concerns, adjustments would have to be made to restate the values of assets to their recoverable amounts, to provide for further liabilities that may arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively. The unaudited pro forma financial information does not include any adjustments that would result from the failure of the Enlarged Group to continue in business as going concern.

**II. ACCOUNTANTS' REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION
OF THE ENLARGED GROUP**

The following is the text of a report from BDO Limited, Certified Public Accountants, Hong Kong, the independent reporting accountants, in respect of the unaudited pro forma financial information of the Enlarged Group as set out in this Appendix and prepared for the sole purpose of inclusion in this circular.



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香港干諾道中111號
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28 June 2015

The Board Of Directors
Pizu Group Holdings Limited

Dear Sirs

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Pizu Group Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) by the directors of the Company (the “Director”) for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of financial position as at 30 September 2014, the unaudited pro forma consolidated statement of comprehensive income and the unaudited pro forma consolidated statement of cash flows for the year ended 31 March 2014 and related notes as set out in Section I of Appendix III to the circular of the Company dated 28 June 2015 (the “Circular”) issued by the Company in connection with the proposed acquisition (the “Acquisition”) of the entire equity interest in and the loan from a related company due by Ample Ocean Holdings Limited (the “Target Company”). The Group and the Target Company and its subsidiaries (collectively referred to as the “Target Group”) are collectively referred to as the “Enlarged Group”. The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are set out in Section I of Appendix III to the Circular.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the Acquisition on the Group’s financial position as at 30 September 2014 as if the Acquisition had taken place at 30 September 2014, and the Group’s financial performance and cash flows for the year ended 31 March 2014 as if the Acquisition had taken place at 1 April 2013. As part of this process, information about the Group’s financial position has been extracted by the Directors from the Company’s interim report for the six months ended 30 September 2014, on which no audit nor review report has been published, whereas the Group’s financial performance and cash flows have been extracted by the Directors from the Group’s financial statements included in the Company’s annual report for the year ended 31 March 2014, on which an audit report has been published. The same information about the Target Group has been extracted by the Directors from Appendix II to this Circular, on which an accountant’s report was 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 7.31 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM 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 (the "HKICPA").

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 7.31(7) of the GEM 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 (HKSAE) 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 comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the unaudited pro forma financial information in accordance with paragraph 7.31 of the GEM Listing Rules and with reference to AG 7 issued by the HKICPA.

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

The purpose of the unaudited pro forma financial information included in the Circular is solely to illustrate the impact of the Acquisition on unadjusted financial information of the Group as if the Acquisition had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Acquisition 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 Acquisition, and to obtain sufficient appropriate evidence about whether:

- the related unaudited pro forma adjustments give appropriate effect to those criteria; and
- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Enlarged Group and the Acquisition, 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 7.31(1) of the GEM Listing Rules.

Yours faithfully

BDO Limited
Certified Public Accountants
Hong Kong

The following is the text of a letter, summary of valuation and valuation certificate, prepared for the purpose of incorporation in this circular received from Asset Appraisal Limited, an independent property valuer, in connection with the valuation as at 30 April 2015 of the property interests held by the Target Group.



Asset Appraisal Limited
中誠達資產評估顧問有限公司

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145 Hennessy Road, Wanchai, Hong Kong
香港灣仔軒尼詩道145號
安康商業大廈9字樓901室
Tel : (852) 2529 9448 Fax : (852) 3544 5854

28 June 2015

The Board of Directors
Pizu Group Holdings Limited

Dear Sirs,

Re: Valuation of property interests situated in the People's Republic of China (the "PRC")

In accordance with the instructions of **Pizu Group Holdings Limited** (the "**Company**") to value the property interests (the "**Properties**") held by Ample Ocean Holdings Limited (the "**Target Company**") and its subsidiaries (altogether referred to as the "**Target Group**") situated in the People's Republic of China (the "**PRC**"), we confirm that we have carried out inspections of the properties, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the Properties as at **30 April 2015** (the "**date of valuation**").

BASIS OF VALUATION

Our valuation of the Properties represents the market value which we would define as intended to mean "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

TITLESHIP

We have been provided with copies of legal documents regarding the Properties. However, we have not verified ownership of the Properties and the existence of any encumbrances that would affect their ownership.

Further, we have relied upon the legal opinion provided by the PRC legal advisers, namely Beijing Jingtian & Gongcheng Law Firm (北京市競天公誠律師事務所) (the "**PRC Legal Opinion**"), to the Company on the relevant laws and regulations in the PRC, on the nature of the Target Group's interests in the Properties. Its material content has been summarized in the valuation certificate attached herewith.

VALUATION METHODOLOGY

The Properties have been valued by the comparison method where comparison was based on price information of comparable properties. Comparable properties of similar size, character and location have been analysed and carefully selected of each property in order to arrive at a fair comparison of capital values.

Due to the nature of the buildings and structures erected thereon, the properties numbered 1 and 2 have been valued on the basis of depreciated replacement cost (DRC). The assessment of the DRC requires an estimate of the market value of the land in existing use and an estimate of the new replacement (reproduction) cost of the buildings and structures and other site works as at the date of valuation, from which deductions are then made to allow for age, condition, functional obsolescence, etc.. In valuing the market value of the land portions of the properties, the comparison method has been adopted.

The Target Group's interests in those Properties rented by it have no commercial value due either to the short-term nature of the leases or the prohibition against assignment or sub-letting or otherwise due to the lack of substantial profit rents.

ASSUMPTIONS

Our valuation has been made on the assumption that the Target Group sells its interests in the Properties on the market without the benefit of deferred terms contracts, leaseback, joint ventures, management agreements or any similar arrangement which would serve to affect the value of its property interests.

For those properties which are held by the owners by means of long term Land Use Rights granted by the PRC Government, we have assumed that they have free and uninterrupted rights to use the Properties for the whole of the respective unexpired terms of the land use rights.

Unless stated as otherwise, we have assumed that the owners of the Properties have the rights to sell, lease, mortgage, charge or otherwise dispose of the Properties to any person without payment of any additional premium or substantial fee to government authorities.

Other special assumptions for our valuation (if any) would be stated out in the footnotes of the valuation certificate attached herewith.

LIMITING CONDITIONS

No allowance has been made in our report for any charges, mortgages or amounts owing on the Properties valued nor for any expenses or taxation. Unless otherwise stated, it is assumed that the Properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

We have relied to a very considerable extent on the information given by the Target Group and the PRC Legal Opinion and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have not carried out detailed site measurements to verify the correctness of the floor areas in respect of the Properties but have assumed that the floor areas shown on the legal documents handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations.

The properties situated in the PRC were inspected on 27 February 2015 to 1 March 2015 by Mr. Nie Zhi Yong who is a professional member of the Royal Institute of Chartered Surveyors and a PRC registered property appraiser. However, no structural survey has been made for them. In the course of our inspection, we did not note any apparent defects. We are not, however, able to report whether the buildings and structures inspected by us are free of rot, infestation or any structural defect. No test was carried out on any of the building services and equipment.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Target Group. We have also sought confirmation from the Target Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and we have no reason to suspect that any material information has been withheld.

In valuing the Properties, we have complied with all the requirements contained in Chapter 8 to the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and the HKIS Valuation Standards (2012 Edition) published by The Hong Kong Institute of Surveyors.

We have valued the Properties in Renminbi (RMB).

Our summary of valuation and valuation certificate are attached herewith.

Yours faithfully,
for and on behalf of
Asset Appraisal Limited

Tse Wai Leung
MFin BSc MRICS MHKIS RPS(GP)
Director

Tse Wai Leung is a member of the Royal Institution of Chartered Surveyors, a member of The Hong Kong Institute of Surveyors, a Registered Professional Surveyor in General Practice and a qualified real estate appraiser in the PRC.. He is on the list of Property Valuers for Undertaking Valuations for Incorporation or Reference in Listing Particulars and Circulars and Valuations in Connection with Takeovers and Mergers of the Hong Kong Institute of Surveyors, Registered Business Valuer under the Hong Kong Business Valuation Forum and has over 10 years' experience in valuation of properties in Hong Kong, in Macau and in the PRC.

SUMMARY OF VALUATION

Property	Market value in existing state as at 30 April 2015 <i>RMB</i>	Interest attributable to the Company (%)	Value of property interest attributable to the Company as at 30 April 2015 <i>RMB</i>
Group I – Properties held and occupied by the Target Group			
1. Factory complex located at Lot Nos. HHHL-2010004 and HHHL-2010011 Wulan Village, Bayin Zhen Wulatehouqi, Bayannaoer City Inner Mongolia Autonomous Region the PRC.	28,800,000	60%	17,280,000
2. Factory complex located at Lot Nos. 604-01-01-01, 604-01-01-02, 604-01-01-03, 604-01-01-04 and 604-01-01-05 south of State Road No. 109 Saiyinwusugacha Aerbasisumu Etokeqi Eerduosi City Inner Mongolia Autonomous Region the PRC	19,300,000	60%	11,580,000
Sub total:	<u>48,100,000</u>		<u>28,860,000</u>
Group II – Properties rented by the Target Group			
3. Factory complex located at Lot No. 607-01 Murengacha, Xinhuresumu Wulatezhongqi Bayannaoer City Inner Mongolia Autonomous Region the PRC			No commercial value
4. Level 4, Block B Forture Plaza Bayin Zhen, Wulatehouqi Bayannaoer City Inner Mongolia Autonomous Region the PRC			No commercial value
5. Level 1 and 2, Unit 3 No. 23 Fayuanjiefang Haibei New Distruct Hai Liu Tu Zhen Wulatezhongqi Bayannaoer City Inner Mongolia Autonomous Region the PRC			No commercial value
Grand total:			<u><u>28,860,000</u></u>

VALUATION CERTIFICATE

Group I - Properties held and occupied by the Target Group

Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 30 April 2015 RMB
1. Factory complex located at Lot Nos. HHHL-2010004 and HHHL-20100011 Wulan Village, Bayin Zhen Wulatehouqi Bayannaer City Inner Mongolia Autonomous Region the PRC (內蒙古自治區巴彥淖爾市烏拉特後旗巴音鎮烏蘭村工業廠房)	<p>The property comprises two discrete parcels of industrial land with a total area of approximately 210,914.30 square metres on which 8 block of 1 to 3-storey major industrial and ancillary buildings together with some supporting structures are erected.</p> <p>The total gross floor area of the 8 major buildings of the industrial complex is 14,117.06 square metres which were completed in between 1996 and 2014.</p> <p>The land use rights of Lot No. HHHL-2010004 of the property have been granted for a term expiring on 1 June 2060 for industrial purposes.</p> <p>The land use rights of Lot No. HHHL-20100011 of the property have been granted for a term expiring on 10 November 2060 for industrial purposes.</p>	The property is being occupied by the Target Group as a production base	<p>28,800,000</p> <p>60% interest attributable to the Company</p> <p>RMB17,280,000</p>

Notes:

- As revealed by the Land Use Right Certificate (Ref: Wu Hou Guo Yong (2010) No. 4011439, 烏後國用(2010)第4011439號) issued by the Municipal Government of Wulatehouqi on 3 June 2010, the land use rights of the subject land parcel (Lot No. HHHL-2010004) with an area of 58,964.80 square metres were granted to Shengan Cherial (Bayannur, an indirect 60%-owned subsidiary of the Target Company) for a land use right term expiring on 1 June 2060 for industrial purposes.
- Pursuant to a Land Use Right Grant Contract entered into between Shengan Cherial Bayannur and the Land Administration Bureau of Wulatehouqi, Ba Yan Nao Er City (巴彥淖爾市烏後旗國土資源分局) on 1 June 2010, the land use rights of Lot No. HHHL-2010004 were acquired by the Target Group at a land premium of RMB2,122,732.80 which has been paid off by the Target Group.
- As revealed by another Land Use Right Certificate (Ref: Wu Hou Guo Yong (2010) No. 4011530, 烏後國用 (2010) 第4011530號) issued by the Municipal Government of Wulatehouqi on 12 November 2010, the land use rights of the subject land parcel (Lot No. HHHL-2010004) with an area of 151,949.50 square metres were granted to Shengan Cherial (Bayannur, an indirect 60%-owned subsidiary of the Target Company) for a land use right term expiring on 10 November 2060 for industrial purposes.
- Pursuant to a Land Use Right Grant Contract entered into between Shengan Cherial Bayannur and the Land Administration Bureau of Wulatehouqi, Ba Yan Nao Er City (巴彥淖爾市烏後旗國土資源分局) on 10 November 2010, the land use rights of Lot No. HHHL-20100011 were acquired by the Target Group at a land premium of RMB1,823,394.00 which has been paid off by the Target Group.

5. As revealed by a Building Ownership Certificate (Ref: Fang Quan Zhen Wu La Te Hou Qi Zi No. 107011400221, 房權證烏拉特後旗字第107011400221號) issued by the Property Administration Bureau of Wulatehouqi and registered on 13 June 2014, the building ownership rights of the workshop building with a gross floor area of 603.07 square metres are held by Shengan Chemical Bayannur for industrial purposes.
6. As revealed by another Building Ownership Certificate (Ref: Fang Quan Zhen Wu La Te Hou Qi Zi No. 107031400235, 房權證烏拉特後旗字第107031400235號) issued by the Property Administration Bureau of Wulatehouqi and registered on 18 June 2014, the building ownership rights of the administrative building with a gross floor area of 3,976.06 square metres are held by Shengan Chemical Bayannur for office purposes.
7. As revealed by another Building Ownership Certificate (Ref: Fang Quan Zhen Wu Hou Ba Zi No. 1106, 房權證烏後巴字第1106號) issued by the Property Administration Bureau of Wulatehouqi and registered on 7 June 2007, the building ownership rights of the office and dormitory building with a gross floor area of 996.69 square metres are held by Bayannur Yitai Chemical Co., Ltd (巴彥淖爾盛安化工有限責任公司, an indirect 60%-owned subsidiary of the Target Company) for office and dormitory purposes.
8. As revealed by another Building Ownership Certificate (Ref: Fang Quan Zhen Wu Hou Ba Zi No. 1107, 房權證烏後巴字第1107號) issued by the Property Administration Bureau of Wulatehouqi and registered on 7 June 2007, the building ownership rights of the workshop building with a gross floor area of 1,856.73 square metres are held by Shengan Chemical Bayannur for industrial purposes.
9. As revealed by another Building Ownership Certificate (Ref: Fang Quan Zhen Wu Hou Ba Zi No. 1108, 房權證烏後巴字第1108號) issued by the Property Administration Bureau of Wulatehouqi and registered on 7 June 2007, the building ownership rights of the workshop building with a gross floor area of 622.02 square metres are held by Shengan Chemical Bayannur for industrial purposes.
10. As revealed by another Building Ownership Certificate (Ref: Fang Quan Zhen Wu Hou Ba Zi No. 1109, 房權證烏後巴字第1109號) issued by the Property Administration Bureau of Wulatehouqi and registered on 7 June 2007, the building ownership rights of the workshop building with a gross floor area of 2,604.93 square metres are held by Shengan Chemical Bayannur for industrial purposes.
11. As revealed by another Building Ownership Certificate (Ref: Fang Quan Zhen Wu Hou Ba Zi No. 3594, 房權證烏後巴字第3594號) issued by the Property Administration Bureau of Wulatehouqi and registered on 7 June 2007, the building ownership rights of the workshop building and guard house with a gross floor area of 2,147 square metres are held by Shengan Chemical Bayannur for industrial purposes.
12. As revealed by another Building Ownership Certificate (Ref: Fang Quan Zhen Wu Hou Ba Zi No. 4240, 房權證烏後巴字第4240號) issued by the Property Administration Bureau of Wulatehouqi and registered on 30 October 2009, the building ownership rights of the warehouse and guard house with a gross floor area of 1,310.56 square metres are held by Shengan Chemical Bayannur for storage purposes.
13. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal adviser, which contains, inter alia, the following:-
 - i. The land use rights of the subject land parcels have been legally acquired by Shengan Chemical Bayannur by way of land grant of which the land purchase consideration has been settled in full. During the unexpired land use right terms as mentioned in the Land Use Right Certificates of the subject land parcels, Bayannur Yitai Chemical Co., Ltd. is the sole legal owners of the subject land parcels.
 - ii. The building ownership rights of the 8 subject buildings are legally and validly owned by Shengan Chemical Bayannur which has the rights to occupy, use, derive benefit and otherwise dispose of them in accordance with laws and regulations.
 - iii. The property is not subject to any mortgage and any collateral rights.

VALUATION CERTIFICATE

Group I - Properties held and occupied by the Target Group

Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 30 April 2015 RMB
2. Factory complex located at Lot Nos. 604-01-01-01, 604-01-01-02, 604-01-01-03, 604-01-01-04 and 604-01-01-05 south of State Road No. 109 Saiyinwusugacha Aerbasisumu Etuokeqi Eerduosi City Inner Mongolia Autonomous Region the PRC (內蒙古自治區鄂爾多斯市鄂托克旗阿爾巴斯蘇木賽音烏素嘎查109國道南廠房)	<p>The property comprises five discrete parcels of industrial land with a total area of approximately 194,416 square metres on which various industrial and ancillary buildings and structures are erected.</p> <p>The total gross floor area of the buildings and structures of the industrial complex is 11,212.30 square metres which were completed in between 2006 and 2014.</p> <p>The land use rights of the property have been granted for a term expiring on 19 December 2036 for industrial purposes.</p>	The property is being occupied by the Target Group as a production base.	<p>19,300,000</p> <p>60% interest attributable to the Company</p> <p>RMB11,580,000</p>

Notes:

- As revealed by the Land Use Right Certificate (Ref: A 604 Guo Yong (2006) No. 018, 阿604國用(2006)第018號) issued by the Municipal Government of Etuokeqi on 30 December 2006, the land use rights of the subject land parcel (Lot No. 604-01-01-01) with an area of 28,000 square metres were granted to Shengan Chemical (Otog Banner), an indirect 60% owned subsidiary of the Target Company for a land use right term expiring on 19 December 2036 for industrial purposes.
- Pursuant to a Land Use Right Grant Contract (Serial No. 2006-195) entered into between 內蒙古鄂托克旗盛安九二九化工有限責任公司 and the Land Administration Bureau of Etuokeqi, Eerduosi City (鄂爾多斯市鄂托克旗國土資源局) on 20 December 2006, the land use rights of Lot No. 604-01-01-01 were acquired by the Target Group at a land premium of RMB504,000 which has been paid off by the Target Group.
- As revealed by the Land Use Right Certificate (Ref: A 604 Guo Yong (2006) No. 019, 阿604國用(2006)第019號) issued by the Municipal Government of Etuokeqi on 30 December 2006, the land use rights of the subject land parcel (Lot No. 604-01-01-02) with an area of 105,000 square metres were granted to Shengan Chemical (Otog Banner), an indirect 60% owned subsidiary of the Target Company for a land use right term expiring on 19 December 2036 for industrial purposes.
- Pursuant to a Land Use Right Grant Contract (Serial No. 2006-196) entered into between Shengan Chemical (Otog Banner) and the Land Administration Bureau of Etuokeqi, Eerduosi City (鄂爾多斯市鄂托克旗國土資源局) on 20 December 2006, the land use rights of Lot No. 604-01-01-02 were acquired by the Target Group at a land premium of RMB1,890,000 which has been paid off by the Target Group.
- As revealed by the Land Use Right Certificate (Ref: A 604 Guo Yong (2006) No. 020, 阿604國用(2006)第020號) issued by the Municipal Government of Etuokeqi on 30 December 2006, the land use rights of the subject land parcel (Lot No. 604-01-01-03) with an area of 10,000 square metres were granted to Shengan Chemical (Otog Banner), an indirect 60% owned subsidiary of the Target Company for a land use right term expiring on 19 December 2036 for industrial purposes.

6. Pursuant to a Land Use Right Grant Contract (Serial No. 2006-197) entered into between Shengan Chemical (Otog Banner) and the Land Administration Bureau of Etuoqeqi, Eerduosi City (鄂爾多斯市鄂托克旗國土資源局) on 20 December 2006, the land use rights of Lot No. 604-01-01-03 were acquired by the Target Group at a land premium of RMB180,000 which has been paid off by the Target Group.
7. As revealed by the Land Use Right Certificate (Ref: A 604 Guo Yong (2006) No. 021, 阿604國用(2006)第021號) issued by the Municipal Government of Etuoqeqi on 30 December 2006, the land use rights of the subject land parcel (Lot No. 604-01-01-04) with an area of 314.16 square metres were granted to Shengan Chemical (Otog Banner), an indirect 60% owned subsidiary of the Target Company) for a land use right term expiring on 19 December 2036 for industrial purposes.
8. Pursuant to a Land Use Right Grant Contract (Serial No. 2006-197) entered into between Shengan Chemical (Otog Banner) and the Land Administration Bureau of Etuoqeqi, Eerduosi City (鄂爾多斯市鄂托克旗國土資源局) on 20 December 2006, the land use rights of Lot No. 604-01-01-04 were acquired by the Target Group at a land premium of RMB5,654.88 which has been paid off by the Target Group.
9. As revealed by the Land Use Right Certificate (Ref: A 604 Guo Yong (2006) No. 022, 阿604國用(2006)第022號) issued by the Municipal Government of Etuoqeqi on 30 December 2006, the land use rights of the subject land parcel (Lot No. 604-01-01-05) with an area of 20,000 square metres were granted to Shengan Chemical (Otog Banner), an indirect 60% owned subsidiary of the Target Company) for a land use right term expiring on 19 December 2036 for industrial purposes.
10. Pursuant to a Land Use Right Grant Contract (Serial No. 2006-197) entered into between Shengan Chemical (Otog Banner) and the Land Administration Bureau of Etuoqeqi, Eerduosi City (鄂爾多斯市鄂托克旗國土資源局) on 20 December 2006, the land use rights of Lot No. 604-01-01-05 were acquired by the Target Group at a land premium of RMB360,000 which has been paid off by the Target Group.
11. As revealed by 6 sets of Building Ownership Certificate (Ref: Fang Quan Zhen Wu La Te Hou Qi Zi Nos. 152010901362, 152010901363, 152010901364, 152010901365, 152010901366 and 152010901367, 蒙房權證鄂托克旗棋盤井字第152010901362, 152010901363, 152010901364, 152010901365, 152010901366, 152010901367號) issued by the Property Administration Bureau of Etuoqeqi and registered on 2 June 2009, the building ownership rights of the subject buildings with a total gross floor area of 11,212.30 square metres are held by Shengan Chemical (Otog Banner)) for industrial purposes.
12. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal adviser, which contains, inter alia, the following:-
 - i. The land use rights of the subject land parcels have been legally acquired by Shengan Chemical (Otog Banner)) by way of land grant of which the land purchase consideration has been settled in full. During the unexpired land use right terms as mentioned in the Land Use Right Certificates of the subject land parcels, Otog Banner Shengan 929 Chemical Limited is the sole legal owners of the subject land parcels.
 - ii. The building ownership rights of the subject buildings are legally and validly owned by Shengan Chemical (Otog Banner)) which has the rights to occupy, use, derive benefit and otherwise dispose of them in accordance with laws and regulations.
 - iii. The property is not subject to any mortgage and any collateral rights.
 - iv. The Land Use Rights of the subject land parcel and the Building Ownership Rights of the subject building are free from encumbrance, mortgage and closure order. Also, they were not subject to any order of compulsory acquisition by the Government authorities.

VALUATION CERTIFICATE

Group II - Properties rented by the Target Group

Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 30 April 2015 RMB
3. Factory complex located at Lot No. 607-01 Murengacha Xinhuresumu Wulatezhongqi Bayannaer City Inner Mongolia Autonomous Region the PRC (內蒙古自治區巴彥淖爾市烏拉特中旗新忽熱蘇木牧仁嘎查廠房)	<p>The property comprises a parcel of industrial land with an area of approximately 99,535 square metres on which various industrial and ancillary buildings and structures are erected.</p> <p>The total gross floor area of the buildings and structures of the industrial complex is 2,255.60 square metres which were completed in 2013.</p> <p>The property is leased by the Target Group for a term of 5 year commencing on 15 August 2012 on gratuitous basis.</p>	The property is being occupied by the Target Group as a production base.	No commercial value

Notes:

1. As revealed by the Land Use Right Certificate (Ref: Wu Zhong Guo Yong (2007) No. 23715, 烏中國用 (2007) 第23715號) issued by the Land Administrative Bureau of Wulatezhongqi, the land use rights of the subject land parcel (Lot No. 607-01) with an area of 99,535 square metres were granted to Inner Mongolia Taiping Mining Co. Ltd. (內蒙古太平礦業有限公司, an independent third party to the Target Group) for a land use right term expiring on 20 June 2056 for industrial purposes.
2. Pursuant to a tenancy agreement entered into between Inner Mongolia Taiping Mining Co. Ltd. as landlord and Shengan Chemical (Urad Middle Banner), the branch company of Shengan Chemical (Bayannur), an indirect 60% owned subsidiary of the Target Company) as tenant on 15 August 2012, the property is rented by the Target Group for a term of 5 year commencing on 15 August 2012 free of any rental payment.
3. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal adviser, which contains, inter alia, the following:-
 - i. Inner Mongolia Taiping Mining Co. Ltd. as the legal owner of the property has the right to lease out the property.
 - ii. The tenancy agreement entered into between Inner Mongolia Taiping Mining Co. Ltd. and Shengan Chemical (Urad Middle Banner) is legal, valid and enforceable between both parties to the agreement.

VALUATION CERTIFICATE

Group II - Properties rented by the Target Group

Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 30 April 2015 RMB
4. Level 4, Block B Fortune Plaza Bayin Zhen Wulatehouqi Bayannaer City Inner Mongolia Autonomous Region the PRC (內蒙古自治區巴彥淖爾市烏拉特後旗巴音鎮財富廣場B棟四樓)	<p>The property comprises office spaces on Level 4 of a 4-storey commercial building completed in 2004.</p> <p>The gross floor area of the property is 340.94 square metres.</p> <p>The property is leased by the Target Group for a term of 1 year commencing on 3 July 2014 and expiring on 2 July 2015 at an annual rental of RMB27,275.20.</p>	The property is being occupied by the Target Group as offices.	No commercial value

Notes:

1. As revealed by the Building Ownership Certificate (Ref: Meng Fang Quan Zhen Wu La Te Hou Qi Zi No. 107031000132, 蒙房權證烏拉特後旗字第107031000132號) issued by the Property Administrative Bureau of Wulatehouqi, the building ownership rights of the property are held by Wulatehouqi Jirigelang Hotel Co. Ltd. (烏拉特後旗吉日格琅大酒店有限責任公司) for commercial uses.
2. Pursuant to a tenancy agreement entered into between Wulatehouqi Jirigelang Hotel Co. Ltd. as landlord and Juli Blasting, an indirect 60% owned subsidiary of the Target Company) as tenant on 3 July 2014, the property is rented by the Target Group for a term of 1 year commencing on 3 July 2014 and expiring on 2 July 2015 at an annual rental of RMB27,275.20.
3. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal adviser, which contains, inter alia, the following:-
 - i. Wulatehouqi Jirigelang Hotel Co. Ltd. as the legal owner of the property has the right to lease out the property.
 - ii. The tenancy agreement entered into between Wulatehouqi Jirigelang Hotel Co. Ltd. and Bayannur Juli Blasting Services Ltd. is legal, valid and enforceable between both parties to the agreement.
 - iii. The property is subject to a mortgage for a loan period of 3 years expiring in June 2016 and the relevant mortgage registration has been completed.
 - iv. The relevant registration procedures for the aforesaid tenancy agreement has not yet been completed. Under the Commodity Property Leasing Administration Law, any tenancy agreement is required to complete registration procedures within 30 days from its execution. The failure of completing the registration within the allowed period may lead to punishment with a fine in the range of RMB1,000 to RMB10,000.

VALUATION CERTIFICATE

Group II – Properties rented by the Target Group

Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 30 April 2015 RMB
5. Level 1 and 2, Unit 3 No.23 Fayuanjiefang Haibei New District Hai Liu Tu Zhen Wulatezhongqi Bayannaer City Inner Mongolia Automomous Region the PRC (內蒙古自治區巴彥淖爾市烏 拉特中旗海流圖鎮海北新區法 院街坊23幢3號門點一至二層)	The property comprises a shop unit of a 3-storey buildings completed in 2010. The gross floor area of level 1 and 2 of the property is 77.89 and 77.88 square metres respectively. The property is leased by the Target Group for a term of 1 year commencing on 20 April 2015 and expiring on 20 April 2016 at a total annual rental of RMB24,000.	The property being occupied by the Target Group.	No commercial value

Notes:

1. Pursuant o a Building Ownership Certificate (Ref: Fang Quan Zehng Zi No.201017134, 房權證字第201017134號) dated 13 September 2010, the property with a total gross floor area of 155.77 square metres is held by Yan Hua (燕華).
2. Pursuant to a tenancy agreement entered into between the aforesaid owner as landlord and Shengan Chemical (Urad Middle Banner), the branch company of Shengan Chemical (Bayannur) as tenant on 10 March 2015, Level 1 of the property is rented by the Target Group for a term of 1 year commencing on 20 April 2015 and expiring on 20 April 2016 at an annual rental of RMB14,000 exclusive of management fees.
3. Pursuant to another tenancy agreement entered into between the aforesaid owner as landlord and Inner Mongolia Urad Middle Banner Shengan Trading Limited (內蒙古烏特拉中旗盛安工貿有限責任公司, a wholly-owned subsidiary of the Target Company) as tenant on 10 March 2015, Level 2 of the property is rented by the Target Group for a term of 1 year commencing on 20 April 2015 and expiring on 20 April 2016 at an annual rental of RMB10,000 exclusive of management fees.
3. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal adviser, which contains, inter alia, the following:—
 - i. Yanhua as the legal owner of the property has the right to lease out the property.
 - ii. The tenancy agreements entered into between Yanhua as landlord and Shengan Chemical (Urad Middle Banner), the branch company of Shengan Chemical (Bayannur) and Inner Mongolia Urad Middle Banner Shengan Trading Limited as tenant are legal, valid and enforceable between both parties to the agreement.
 - iii. The relevant registration procedures for the aforesaid tenancy agreement has not yet been completed. Under the Commodity Property Leasing Administration Law, any tenancy agreement is required to complete registration procedures within 30 days from its execution. The failure of completing the registration within the allowed period may lead to punishment with a fine in the range of RMB1,000 to RMB10,000.

PROPERTY RECONCILIATION

Property	Factory complex located at Lot Nos. HHHL-2010004 and HHHL-20100011 Wulan Village, Bayin Zhen Wulatehouqi, Bayannaer City Inner Mongolia Autonomous Region the PRC RMB	Factory complex located at Lot Nos. 604-01-01-01, 604-01-01-02, 604- 01-01-03, 604-01-01-04 and 604-01-01-05 south of State Road No. 109 Saiyinwusugacha Aerbasisumu Etuokeqi Eerduosi City Inner Mongolia Autonomous Region the PRC RMB
Carrying value as at 31 December 2014	22,372,406	16,276,648
Depreciation for the four months ended 30 April 2015	(447,114)	(366,478)
Carrying value as at 30 April 2015	21,925,292	15,910,170
Revaluation Surplus of 100% property interest (<i>Note 1</i>)	6,874,708	3,389,830
Valuation Report as at 30 April 2015	28,800,000	19,300,000

Notes:—

1. pursuant to the revaluation of the properties as set out in Appendix IV to this circular. Such revaluation surplus will not be recorded in the Company's accounts as the Company's land and buildings are stated at cost less accumulated depreciation and currency realignment (if any).

RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM 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 is not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

1. SHARE CAPITAL

As at the Latest Practicable Date, the authorised and issued share capital of the Company was, and immediately following: (a) the increase in authorised share capital; and (b) the allotment and issue of the Conversion Shares, assuming the conversion rights attaching to the Convertible Note are exercised in full will be as follows:

		<i>HK\$</i>
<i>Authorised</i>		
1,500,000,000	Shares as at the Latest Practicable Date	15,000,000.00
3,500,000,000	Shares to be created upon the increase in authorised share capital	35,000,000.00
<hr/>		<hr/>
5,000,000,000		50,000,000.00
<i>Issued and credited as fully paid</i>		
1,233,724,860	Shares as at the Latest Practicable Date	12,337,248.60
2,325,000,000	Conversion Shares to be allotted and issued upon exercise of the conversion rights attaching to the Convertible Note in full	23,250,000.00
<hr/>		<hr/>
<u>3,558,724,860</u>		<u>35,587,248.60</u>

All the issued share capital of the Company shall rank pari passu with each other in all respects including the rights as to dividends, voting and return of capital. The Conversion Shares to be allotted and issued will, when issued and fully paid, rank pari passu in all respects with the then existing Shares in issue on the date of allotment and issue of such Conversion Shares.

2. DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executives of the Company in any of the shares, underlying shares and debentures of the Company and any of its associated corporation (within the meaning of Part XV of the SFO), which had been 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 in which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register maintained by the Company under section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuer referred to in Rule 5.46 of the GEM Listing Rules, were as follows:

Name of Director	Capacity/nature of interest	Number and class of securities held <i>(Note 1)</i>	Approximate percentage of shareholding <i>(Note 2)</i>
Mr. Ma Qiang	Interest of a controlled corporation <i>(Note 3)</i>	888,740,477 ordinary Shares (L)	72.04%
		884,500,000 ordinary Shares (L) <i>(Note 4)</i>	71.69%
		Interests of any parties to an agreement to acquire interests in the Company required to be disclosed under sections 317(1)(a) and section 318 of the SFO	735,085,000 ordinary Shares (L) <i>(Note 5)</i>
Mr. Xiong Zeke	Interest of a controlled corporation <i>(Note 6)</i>	56,330,000 ordinary Shares (L)	4.57%
Ms. Qin Chunhong	Beneficial owner	21,500,000 ordinary Shares (L) <i>(Note 7)</i>	1.74%

Notes:

1. The letter “L” denotes a long position in the shares or underlying shares of the Company or any of its associated corporations.
2. The percentage of shareholding is calculated based on the number of issued shares of the Company as at the Latest Practicable Date, taking no accounts of any Conversion Shares to be issued upon the exercise of the conversion rights attached to the Convertible Bonds.
3. These Shares were held by Shiny Ocean, the entire issued share capital of which was owned by Mr. Ma Qiang. Accordingly, Mr. Ma Qiang was deemed to be interested in all the Shares in which Shiny Ocean was interested by virtue of the SFO.
4. These Shares represented the interests of Shiny Ocean in 884,500,000 Conversion Shares to be issued by the Company upon the exercise in full of the conversion rights attached to the Convertible Bonds to be issued to Shiny Ocean pursuant to the SP Agreement at the initial Conversion Price of HK\$0.36 (subject to adjustment) per Conversion Share.
5. These Shares represented the interest of Mr. Ma Suocheng, Ms. Ma Xia, Ms. Ma Ye and Mr. Liu Fali in 150,500,000 Conversion Shares, 108,790,000 Conversion Shares, 324,005,000 Conversion Shares and 151,790,000 Conversion Shares respectively to be issued by the Company upon their exercise in full of the conversion rights attached to the Sale Shares Bonds to be issued to each of them pursuant to the SP Agreement at the initial Conversion Price of HK\$0.36 (subject to adjustment) per Conversion Share.

Pursuant to an irrevocable undertaking (the “**Irrevocable Undertaking**”) dated 22 June 2015 given by Mr. Ma Suocheng, Ms. Ma Xia, Ms. Ma Ye and Mr. Liu Fali in favour of Mr. Ma Qiang. Mr. Ma Suocheng, Ms. Ma Xia, Ms. Ma Ye and Mr. Liu Fali had undertaken, among others, (i) to exercise the conversion rights attached to the Sale Shares Bonds issued to them pursuant to the SP Agreement in accordance with the direction of Mr. Ma Qiang; (ii) to exercise their voting rights as shareholders of the Conversion Shares (upon the exercise of the conversion rights attached to the Sale Shares Bonds) in the shareholders’ meeting of the Company in accordance with the direction of Mr. Ma Qiang; and (iii) not to transfer the conversion rights nor Conversion Shares they obtained upon the exercise of the conversion rights to any third party without prior written consent from Mr. Ma Qiang.

Accordingly, Mr. Ma Qiang was deemed to be interested in all the Shares in which Mr. Ma Suocheng, Ms. Ma Xia, Ms. Ma Ye and Mr. Liu Fali were interested by virtue of the SFO.

6. These Shares represented the interests of Fabulous Seeker Holdings Limited in 56,330,000 Conversion Shares to be issued by the Company upon the exercise in full of the conversion rights attached to the Sale Shares Bonds to be issued to Fabulous Seeker Holdings Limited pursuant to the SP Agreement at the initial Conversion Price of HK\$0.36 (subject to adjustment) per Conversion Share. As the entire issued share capital of Fabulous Seeker Holdings Limited was owned by Mr. Xiong Zeke, he was deemed to be interested in all the Shares in which Fabulous Seeker Holdings Limited was interested by virtue of the SFO.
7. These Shares represented the interests of Ms. Qin Chunhong in 21,500,000 Conversion Shares to be issued by the Company upon the exercise in full of the conversion rights attached to the Sale Shares Bonds to be issued to her pursuant to the SP Agreement at the initial Conversion Price of HK\$0.36 (subject to adjustment) per Conversion Share.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were recorded in the register maintained by the Company pursuant to section 352 of the SFO or which were notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuer referred to in Rule 5.46 of the GEM Listing Rules.

3. SUBSTANTIAL SHAREHOLDERS' AND OTHERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at the Latest Practicable Date, the interests and short positions of each persons (other than a Director or chief executive of the Company) in the Shares or underlying Shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO were as follows:

Name of shareholder	Capacity/nature of interest	Number and class of securities held <i>(Note 1)</i>	Approximate percentage of shareholding <i>(Note 2)</i>
Shiny Ocean	Beneficial owner	888,740,477 ordinary Shares (L)	72.04%
		884,500,000 ordinary Shares (L) <i>(Note 3)</i>	71.69%
Mr. Ma Suocheng	Beneficial owner	150,500,000 ordinary Shares (L) <i>(Note 4)</i>	12.20%
	Interests of any parties to an agreement to acquire interests in the Company required to be disclosed under sections 317(1)(a) and section 318 of the SFO	2,357,825,477 ordinary Shares (L) <i>(Note 5)</i>	191.11%

Name of shareholder	Capacity/nature of interest	Number and class of securities held <i>(Note 1)</i>	Approximate percentage of shareholding <i>(Note 2)</i>
Ms. Ma Xia	Beneficial owner	108,790,000 ordinary Shares (L) <i>(Note 4)</i>	8.82%
	Interests of any parties to an agreement to acquire interests in the Company required to be disclosed under sections 317(1)(a) and section 318 of the SFO	2,399,535,477 ordinary Shares (L) <i>(Note 5)</i>	194.50%
Ms. Ma Ye	Beneficial owner	324,005,000 ordinary Shares (L) <i>(Note 4)</i>	26.26%
	Interests of any parties to an agreement to acquire interests in the Company required to be disclosed under sections 317(1)(a) and section 318 of the SFO	2,184,320,477 ordinary Shares (L) <i>(Note 5)</i>	177.05%
Mr. Liu Fali	Beneficial owner	151,790,000 ordinary Shares (L) <i>(Note 4)</i>	12.30%
	Interests of any parties to an agreement to acquire interests in the Company required to be disclosed under sections 317(1)(a) and section 318 of the SFO	2,356,535,477 ordinary Shares (L) <i>(Note 5)</i>	191.01%

Name of shareholder	Capacity/nature of interest	Number and class of securities held <i>(Note 1)</i>	Approximate percentage of shareholding <i>(Note 2)</i>
Mr. Yang Tao	Beneficial owner	172,000,000 ordinary Shares (L) <i>(Note 4)</i>	13.94%
Mr. Li Man	Beneficial owner	172,000,000 ordinary Shares (L) <i>(Note 4)</i>	13.94%
Mr. Lv Wenhua	Beneficial owner	151,790,000 ordinary Shares (L) <i>(Note 4)</i>	12.30%

Notes:

1. The letter “L” denotes a long position in the shares or underlying shares of the Company or any of its associated corporations.
2. The percentage of shareholding is calculated based on the number of issued shares of the Company as at the Latest Practicable Date, taking no accounts of any Conversion Shares to be issued upon the exercise of the conversion rights attached to the Convertible Bonds.
3. These Shares represented the interests of Shiny Ocean in 884,500,000 Conversion Shares to be issued by the Company upon the exercise in full of the conversion rights attached to the Convertible Bonds to be issued to Shiny Ocean pursuant to the SP Agreement at the initial Conversion Price of HK\$0.36 (subject to adjustment) per Conversion Share.
4. These Shares represented the interest of Mr. Ma Suocheng, Ms. Ma Xia, Ms. Ma Ye, Mr. Liu Fali, Mr. Yang Tao, Mr. Li Man and Mr. Lv Wenhua in 150,500,000 Conversion Shares, 108,790,000 Conversion Shares, 324,005,000 Conversion Shares, 151,790,000 Conversion Shares, 172,000,000 Conversion Shares, 172,000,000 Conversion Shares and 151,790,000 Conversion Shares respectively to be issued by the Company upon their exercise in full of the conversion rights attached to the Sale Shares Bonds to be issued to each of them pursuant to the SP Agreement at the initial Conversion Price of HK\$0.36 (subject to adjustment) per Conversion Share.
5. By virtue of the SFO and the Irrevocable Undertaking given by Mr. Ma Suocheng, Ms. Ma Xia, Ms. Ma Ye and Mr. Liu Fali in favour of Mr. Ma Qiang, each of Mr. Ma Suocheng, Ms. Ma Xia, Ms. Ma Ye and Mr. Liu Fali was deemed to be interested in all the Shares in which Mr. Ma Suocheng, Ms. Ma Xia, Ms. Ma Ye, Mr. Liu Fali and Mr. Ma Qiang were interested.

Save as disclosed above, as at the Latest Practicable Date, no person (other than a Director or chief executive of the Company) had an interest or short position in the Shares or the underlying Shares of the Company that were recorded in the register kept by the Company under Section 336 of the SFO.

In addition to the above and so far as the Directors are aware, as at the Latest Practicable Date, the following persons (other than a director or chief executive of the Company) were, either 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 subsidiaries of the Enlarged Group.

Name of the member of the Enlarged Group	Substantial shareholder of each subsidiary	Percentage of shareholding
The Company	Shiny Ocean (<i>Note 1</i>)	72.04%
Shengan Chemical (Inner Mongolia)	Jungar Banner Lida (<i>Note 2</i>)	40%

Notes:

1. Shiny Ocean was wholly and beneficially owned by Mr. Ma Qiang.
2. Jungar Banner Lida was wholly owned by 內蒙古生力資源集團有限責任公司 (Inner Mongolia Shengli Resources Group Co., Limited*), which owned 40% equity interest in the registered capital of Shengan Chemical (Inner Mongolia).

4. DIRECTORS' OTHER INTERESTS

(a) As at the Latest Practicable Date, save as Mr. Xiong Zeke, Ms. Qin Chunhong and Mr. Ma Qiang who were materially interested in the SP Agreement, none of the Directors was materially interested, directly or indirectly, in any contract or arrangement entered into by any member(s) of the Enlarged Group subsisting as at the Latest Practicable Date which was significant in relation to the business of the Enlarged Group.

(b) As at the Latest Practicable Date,

Mr. Xiong Zeke, Ms. Qin Chunhong and Mr. Ma Qiang were materially interested in the following assets which have been acquired or disposed of by or proposed to be acquired by any member of the Enlarged Group since 31 March 2014:

- (i) the Sale Shares and Sale Loan to be acquired by the Company pursuant to the SP Agreement;
- (ii) the entire equity interest in Hengtai Technology disposed of by Juli Blasting and acquired by Shengan Real Estate for a consideration of approximately RMB0.48 million pursuant to the equity transfer agreement dated 3 December 2014 entered into between Juli Blasting and Shengan Real Estate;

- (iii) the entire equity interest in Shengan Security disposed of by Shengan Chemical (Inner Mongolia) and acquired by Shengan Real Estate for a consideration of approximately RMB1.10 million pursuant to the equity transfer agreement dated 24 November 2014 entered into between Shengan Chemical (Inner Mongolia) and Shengan Real Estate; and
- (iv) the entire equity interest in Qinghai Fudeyuan acquired by Ample Ocean HK from Qinghai Boyang for a total consideration of HK\$63 million pursuant to the equity transfer agreement dated 16 May 2014 entered into between Qinghai Fudeyuan, Qinghai Boyang and Ample Ocean HK; and

Mr. Ma Qiang is materially interested in the following asset which has been disposed of by the Group since 31 March 2014:

- (v) the entire issued share capital of Jumbo Lucky Limited disposed of by Dragon Era Investments Limited (a wholly-owned subsidiary of the Company) and acquired by Ms. Zhang Su for a consideration of HK\$7.80 pursuant to the sale and purchase agreement dated 15 August 2014 entered into between Dragon Era Investments Limited and Ms. Zhang Su.

Save as disclosed above, none of the Directors had any direct or indirect interest in any assets acquired or disposed of by or leased to any member(s) of the Enlarged Group or was proposed to be acquired or disposed of by or leased to any member(s) of the Enlarged Group since 31 March 2014, being the date to which the latest published audited financial statements of the Company were made up.

- (c) As at the Latest Practicable Date, none of the Directors, controlling Shareholder or, so far as is known to them, their respective close associates has any interest in any business apart from the Enlarged Group's business that competes or may compete, either directly or indirectly, with the business of the Enlarged Group.

5. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, there was no existing or proposed service contract, excluding contracts expiring or determinable by the Enlarged Group within one year without payment of compensation (other than statutory compensation), between any of the Directors and any member(s) of the Enlarged Group.

6. AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in compliance with Rules 5.28 and 5.29 of the GEM Listing Rules and paragraphs C.3.1 to C.3.7 of the Corporate Governance Code contained in Appendix 15 to the GEM Listing Rules. The primary duties of the audit committee of the Company are, among others, to review and supervise the financial reporting processes and internal control procedures of the Group and to provide advice and comments to the Board accordingly. The audit committee consists of the three independent non-executive Directors of the Company, namely Ms. Zhang Lin (as chairperson), Ms. Liu Talin and Mr. Enhe Bayaer. Their backgrounds are as follows:

Ms. ZHANG Lin, aged 42, was appointed as an independent non-executive Director with effect from 14 December 2012. She is the chairperson of audit committee and remuneration committee of the Company and a member of nomination committee of the Company. She was licensed as a certified public accountant in the state of California, the United States from June 2002 and the state of Georgia, the United States from October 2006. She has not at any time during the three years preceding the Latest Practicable Date served nor is currently serving as a director of any other publicly listed companies in Hong Kong or overseas.

Ms. LIU Talin, aged 47, was appointed as an independent non-executive Director with effect from 14 December 2012. She is a member of audit committee, remuneration committee and nomination committee of the Company. She obtained a bachelor's degree from the Department of Chemistry of 內蒙古大學 (Inner Mongolia University) in July 1991. She worked in 內蒙古物資集團有限責任公司 (Inner Mongolia Resources Group Co., Ltd.*) from 1994 to 2003. She has not at any time during the three years preceding the Latest Practicable Date served nor is currently serving as a director of any other publicly listed companies in Hong Kong or overseas.

Mr. ENHE Bayaer, aged 62, was appointed as an independent non-executive Director with effect from 14 December 2012. He is a member of audit committee and the chairman of nomination committee. He obtained a bachelor's degree from the Department of Chinese of 內蒙古大學 (Inner Mongolia University*) majoring in Mongolian translation in August 1976. He has not at any time during the three years preceding the Latest Practicable Date served nor is currently serving as a director of any other publicly listed companies in Hong Kong or overseas.

7. LITIGATION

As at the Latest Practicable Date, there were no litigations or claims of material importance pending or threatened against any member(s) of the Enlarged Group which were known to the Directors.

8. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of businesses) have been entered into by the member(s) of the Enlarged Group within the two years immediately preceding the Latest Practicable Date which are or may be material:

The Group

- (a) the SP Agreement;
- (b) the sale and purchase agreement dated 15 August 2014 entered into between Dragon Era Investments Limited (a wholly-owned subsidiary of the Company) as vendor and Ms. Zhang Su as purchaser for the sale and purchase of the entire issued share capital of Jumbo Lucky Limited at the consideration of HK\$7.80; and
- (c) the conditional agreement dated 8 July 2013 entered into between the Company and Shiny Ocean in relation to the subscription of 50,000,000 Shares at HK\$0.185 per Share by Shiny Ocean by capitalising HK\$9,250,000 and issue of convertible bonds by the Company in the principal amount of HK\$28,306,000 convertible into Shares.

The Target Group

- (a) the confirmation entered into between Qinghai Fudeyuan and Qinghai Boyang dated 19 January 2015 in relation to the repayment of amounts due to Qinghai Boyang;
- (b) the equity transfer agreement dated 3 December 2014 entered into between Juli Blasting and Shengan Real Estate pursuant to which Juli Blasting agreed to sell and Shengan Real Estate agreed to purchase the entire equity interest in Hengtai Technology for the consideration of approximately RMB0.48 million;
- (c) the equity transfer agreement dated 24 November 2014 entered into between Shengan Chemical (Inner Mongolia) and Shengan Real Estate pursuant to which Shengan Chemical (Inner Mongolia) agreed to sell and Shengan Real Estate agreed to purchase the entire equity interest in Shengan Security for the consideration of approximately RMB1.10 million;
- (d) the loan agreement dated 23 July 2014 entered into between the Target Company as borrower and Richful China as lender, in relation to the Restructuring Loan of HK\$63 million granted by Richful China to the Target Company to finance the acquisition of the entire equity interest of Qinghai Fudeyuan by the Target Company at a consideration of HK\$63 million as part of the corporate restructuring exercise of the Target Group;

- (e) the equity transfer agreement dated 16 May 2014 entered into between Qinghai Fudeyuan, Qinghai Boyang and Ample Ocean HK pursuant to which Ample Ocean HK acquired from Qinghai Boyang the entire equity interest in Qinghai Fudeyuan for a total consideration of HK\$63 million; and
- (f) the equity transfer agreement dated 10 January 2014 entered into between Shengshi Mining and Qinghai Fudeyuan pursuant to which Qinghai Fudeyuan acquired from Shengshi Mining 5% equity interest in Shengan Chemical (Inner Mongolia) for a consideration of RMB10 million.

9. EXPERTS AND CONSENTS

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

Name	Qualification
Octal Capital Limited	Independent financial adviser
BDO Limited	Certified public accountants
Jingtian & Gongcheng	Legal adviser as to PRC laws
Asset Appraisal Limited	Independent property valuation specialist

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its statement, its letter or report or references to its name in the form and context in which it is included.

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

As at the Latest Practicable Date, each of the above experts did not have any direct or indirect interests in any assets which have been, since 31 March 2014 (being the date to which the latest published audited accounts of the Group were made up), acquired or disposed of by or leased to any member(s) of the Group, or which are proposed to be acquired or disposed of by or leased to any member(s) of the Group.

10. INDEBTEDNESS

As at 30 April 2015, save as disclosed in this circular, both the Target Group and the Group did not have any borrowings.

Save as disclosed in the circular, as at 30 April 2015, the Group did not have any outstanding loan capital, bank overdrafts, loans, mortgages, charges or other similar indebtedness, or hire purchase of finance lease commitments, liabilities under acceptances or acceptance credits, guarantees or other material contingent liabilities.

The Directors are not aware of any material adverse changes in the Enlarged Group's indebtedness position or contingent liabilities of both the Group and the Enlarged Group since 31 December 2014.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Chiu & Partners as 40th Floor, Jardine House, 1 Connaught Place, Hong Kong during normal business hours for a period of 14 days from the date of this circular:

- (a) the memorandum and articles of association of the Company;
- (b) the material contracts referred to in the paragraph headed "8. Material contracts" in this Appendix;
- (c) the annual report of the Company for each of the three financial years ended 31 March 2014;
- (d) the third quarterly report of the Company for the nine months ended 31 December 2014;
- (e) the accountants' report on the Target Group, the text of which is set out in Appendix II;
- (f) the report on the unaudited pro forma financial information on the Enlarged Group, the text of which is set out in Appendix III to this circular;
- (g) the property valuation report of the Target Group, the text of which is set out in Appendix IV to this circular;
- (h) the written consents of the experts referred to in the section headed "9 Experts and Consents" in this Appendix; and
- (i) this circular.

12. MISCELLANEOUS

- (a) The company secretary of the Company is Ms. Shen Tianwei. Ms. Shen has obtained a master degree in professional accounting and information system from City University of Hong Kong and is an associate member of both the Hong Kong Institute of Certified Public Accountants and Chinese Institute of Certified Public Accountants.
- (b) The compliance officer of the Company appointed pursuant to Rule 5.19 of the GEM Listing Rules is Ms. Qin Chunhong. Ms. Qin has obtained a master's degree in business administration from the School of Business Administration in Peking University and is a member of the China Certified Tax Agents Association and Chinese Institute of Certified Public Accountants.
- (c) The registered office of the Company is at Royal Bank of Canada Trust Company (Cayman) Limited, 4th Floor, Royal Bank House, 24 Shedden Road, George Town, Grand Cayman KY1-1110, Cayman Islands. The Company's head office and principal place of business is at Flat A, 11/F, Two Chinachem Plaza, 68 Connaught Road Central, Hong Kong.
- (d) The principal share registrar and transfer office of the Company in Cayman Islands is Butterfield Fund Services (Cayman) Limited at Butterfield House, 68 Fort Street, P.O. Box 705, George Town, Grand Cayman, Cayman Islands.
- (e) The Hong Kong branch share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (f) The English text of this circular shall prevail over the Chinese text.

NOTICE OF EGM

Pizu Group Holdings Limited

比優集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8053)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “**Meeting**”) of Pizu Group Holdings Limited (the “**Company**”) will be held at Flat A, 11th Floor, Two Chinachem Plaza, 68 Connaught Road Central, Hong Kong, at 3:00 p.m. on Monday, 20 July 2015 to consider and, if thought fit, pass the following resolution as ordinary resolution (with or without modification):

1. “**THAT:**

- (1) the sale and purchase agreement (the “**SP Agreement**”) dated 19 January 2015 entered into between the Company as purchaser and 26 individuals and Shiny Ocean Holdings Limited as vendors (the “**Vendors**”) in relation to the sale and purchase of the entire issued share capital in Ample Ocean Holdings Limited (the “**Target Company**”) and all debts and liabilities owing by Ample Ocean Holdings Limited to Shiny Ocean Holdings Limited, at the aggregate consideration of HK\$837 million which will be satisfied by the Company issuing to the Vendors or (in respect of Mr. Ma Qiang and Mr. Xiong Zeke) to Shiny Ocean Holdings Limited and Fabulous Seeker Holdings Limited, and Shiny Ocean Holdings Limited, convertible bonds (the “**Convertible Bonds**”) in the principal amount of HK\$837 million, which may be converted into 2,325,000,000 ordinary shares of HK\$0.01 each in the share capital of the Company (the “**Conversion Share(s)**”) at the conversion price of HK\$0.36 per Conversion Share (subject to adjustment), and the transactions contemplated thereby be and are hereby approved;
- (2) the specific mandate for the issue of the Convertible Bonds and the allotment and issue of the Conversion Shares, to be credited as fully paid, upon exercise of the conversion rights attaching to the Convertible Bonds in accordance with the terms and conditions of the SP Agreement and the Convertible Bonds be and are hereby approved;
- (3) the board of directors (the “**Board**”) of the Company be and is hereby authorised to take any step and execute whether under Common Seal of the Company or otherwise all such acts, matters, deeds, documents and to do all such acts or things as the Board may consider necessary, appropriate, desirable or expedient in connection with:
 - (a) the SP Agreement, the issue of the Convertible Bonds and all other transactions contemplated thereunder, and the closing and implementation thereof;

NOTICE OF EGM

- (b) securing the fulfilment of the conditions precedent of completion of the SP Agreement; and
- (c) the approval of any amendments or variations to any of the documents tabled or the granting of waivers of any matters contemplated thereby that are, in the Board's opinion, not fundamental to the transactions contemplated thereby and are in the best interests of the Company, including without limitation the signing (under the Common Seal of the Company where required or expedient) of any supplemental or ancillary agreements and instruments and the giving of any undertakings and confirmations for any such purposes.”
2. “**THAT** the authorised share capital of the Company be and is hereby increased from HK\$15,000,000 divided into 1,500,000,000 ordinary shares of HK\$0.01 each to HK\$50,000,000 divided into 5,000,000,000 ordinary shares of HK\$0.01 each, by the creation of an additional 3,500,000,000 ordinary shares of HK\$0.01 each and the Directors be and are hereby authorised for and on behalf of the Company to execute all such documents and to do all such acts and things as they consider desirable, necessary or expedient in connection with and to give effect to such increase in authorised share capital of the Company”.
3. “**THAT** the transportation services framework agreement (the “**Transportation Framework Agreement**”) dated 22 June 2015 and entered into between 巴彥淖爾盛安運輸有限責任公司 (Bayannur Shengan Transportation Limited*) (“**Shengan Transport**”) as services provider and 鄂托克旗盛安九二九化工有限責任公司 (Otog Banner Shengan 929 Chemical Limited*) (“**Shengan Chemical (Otog Banner)**”), 巴彥淖爾盛安化工有限責任公司 (Bayannur Shengan Chemical Limited*) (“**Shengan Chemical (Bayannur)**”), 巴彥淖爾盛安化工有限責任公司烏拉特中旗分公司 (Bayannur Shengan Chemical Limited Urad Middle Banner Branch*) (“**Shengan Chemical (Urad Middle Banner)**”), being subsidiaries of the Target Company and which will become subsidiaries of the Company upon completion of the SP Agreement, as customers relating to the provision of transportation services of civil explosives, blasting equipment and/or other production materials by Shengan Transport to Shengan Chemical (Otog Banner), Shengan Chemical (Bayannur) and Shengan Chemical (Urad Middle Banner) for the term of three years commencing from the date of the Transportation Framework Agreement, the transactions contemplated thereby and the expected annual caps of RMB18.0 million, RMB19.8 million and RMB21.8 million for each of the three years ending 31 March 2018 respectively, be and are hereby approved and that the directors of the Company be and are hereby authorised to take any action and sign any document (under seal, if necessary) as they consider necessary, desirable or expedient in connection with the Transportation Framework Agreement or the transactions contemplated thereby.”

By order of the Board
Pizu Group Holdings Limited
Xiong Zeke
Chief Executive Officer

Hong Kong, 28 June 2015

(* The English translation of the Chinese name is for information purposes only, and should not be regarded as the official English translation of such name.)

NOTICE OF EGM

Head office and principal place of business in Hong Kong:
Flat A, 11/F, Two Chinachem Plaza
68 Connaught Road Central
Hong Kong

Notes:

1. A member of the Company entitled to attend and vote at the Meeting is entitled to appoint in written form one or, if he is the holder of two or more shares (the “Shares”) of the Company, more proxies to attend and vote instead of him. A proxy need not be a member of the Company.
2. In the case of joint holders of Shares, any one of such joint holders may vote, either in person or by proxy, in respect of such Shares as if he/she were solely entitled thereto, but if more than one of such joint holders are present at the Meeting, whether in person or by proxy, then one of the said persons so present whose name stands first on the register in respect of such Shares shall alone be entitled to vote in respect thereof.
3. In order to be valid, the form of proxy must be in writing under the hand of the appointor or of his/her attorney duly authorised in writing, or if the appointor is a corporation, either under seal, or under the hand of an officer or attorney duly authorised, and must be deposited with the Hong Kong share registrar and transfer office (the “**Hong Kong Share Registrar**”) of the Company, Computershare Hong Kong Investor Services Limited at 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong (together with the power of attorney or other authority, if any, under which it is signed or a notorially certified copy thereof) not less than 48 hours before the time fixed for holding of the Meeting or any adjournment thereof.
4. For the purpose of determining members who are qualified for attending the Meeting, the register of members of the Company will be closed from 16 July 2015 to 20 July 2015 (both days inclusive), during which period no transfer of the Shares will be effected. In order to qualify for attending the Meeting or any adjournment thereof, all transfers of Shares accompanied by the relevant share certificates must be lodged with the Hong Kong Share Registrar at the above address by no later than 4:00 p.m. on 15 July 2015.
5. Delivery of an instrument appointing a proxy will not preclude a member from attending and voting in person at the Meeting or any adjournment thereof and in such event, the instrument appointing a proxy will be deemed to be revoked.
6. This notice has been printed in English and Chinese. In the event of any inconsistency, the English text of this notice shall prevail over its Chinese text.

As at the date of this notice, the Board comprises seven directors. The executive directors are Mr. Ding Baoshan (Chairman), Mr. Xiong Zeke (Chief Executive Officer) and Ms. Qin Chunhong; the non-executive director is Mr. Ma Qiang and the independent non-executive directors are Ms. Zhang Lin, Ms. Liu Talin and Mr. Enhe Bayaer.