**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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

**If you have sold or transferred** all your securities in Crosby Capital Limited (the "Company"), you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

**This circular is for information purpose only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities of the Company.**



CROSBY

# CROSBY CAPITAL LIMITED

# (高誠資本有限公司)*

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 8088)**

# (1) PROPOSED CAPITAL REORGANIZATION; (2) CHANGE IN BOARD LOT SIZE; (3) PROPOSED RIGHTS ISSUE ON THE BASIS OF ONE RIGHTS SHARE FOR EVERY ONE CONSOLIDATED SHARE HELD ON RECORD DATE WITH OPTION TO SUBSCRIBE FOR ONE REDEEMABLE CONVERTIBLE PREFERENCE SHARE FOR EVERY TWO RIGHTS SHARES SUBSCRIBED; (4) ADJUSTMENT TO THE OUTSTANDING WARRANTS AND OUTSTANDING OPTIONS; AND (5) PROPOSED CAPITAL REDUCTION

**Financial adviser to the Company**

英皇融資有限公司
Emperor Capital Limited

**Underwriter of the Rights Issue**

英皇證券(香港)有限公司
Emperor Securities Limited

**Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders**

VEDA | CAPITAL
智 略 資 本

It should be noted that the Consolidated Shares will be dealt in on an ex-rights basis from Tuesday, 16 August 2011. Dealings in the Rights Shares in the nil-paid form will take place from Thursday, 25 August 2011 to Wednesday, 31 August 2011 (both dates inclusive). If the conditions of the Rights Issue are not fulfilled or waived (as applicable) or the Underwriting Agreement is terminated by the Underwriter, the Rights Issue will not proceed. Any dealing in the nil-paid Rights Shares during the period from Thursday, 25 August 2011 to Wednesday, 31 August 2011 (both dates inclusive) will accordingly bear the risk that the Rights Issue may not become unconditional or may not proceed.

It should be noted that the Underwriting Agreement in respect of the Rights Issue contains provisions entitling the Underwriter by notice in writing to the Company at any time prior to 4:00 p.m. on the Latest Time For Termination to terminate the obligations of the Underwriter thereunder on the occurrence of certain events including force majeure. These events are set out under the paragraph headed "Termination of the Underwriting Agreement" on pages 25 to 26 of this circular. If the Underwriter terminates the Underwriting Agreement in accordance with the terms thereof, the Rights Issue will not proceed. In addition, the Rights Issue is conditional on all conditions set out on pages 26 to 27 of this circular being fulfilled or waived (as applicable). In the event that the above conditions have not been satisfied and/or waived in whole or in part by the Underwriter on or before 4:00 p.m. on Thursday, 8 September 2011 (or such later date as the Underwriter and the Company may agree), the Underwriting Agreement shall terminate and no party shall have any claim against the other party for costs, damages, compensation or otherwise and the Rights Issue will not proceed.

A letter of advice from Veda Capital Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders is set out on pages 47 to 72 of this circular and a letter of recommendation from the Independent Board Committee to the Independent Shareholders is set out on page 46 of this circular.

A notice convening an extraordinary general meeting of the Company to be held at Unit 502, 5th Floor, AXA Centre, 151 Gloucester Road, Wanchai, Hong Kong at 2:30 p.m. on Friday, 12 August 2011 is set out on pages 104 to 108 of this circular. Whether or not you are able to attend the meeting in person, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon and return it to the principal place of business of the Company at Unit 502, 5th Floor, AXA Centre, 151 Gloucester Road, Wanchai, Hong Kong, as soon as possible and in any event not later than 48 hours before the time appointed for holding the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting 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 and on the website of the Company at www.crosbycapitallimited.com for 7 days from the date of its publication.

* *for identification purpose only*

21 July 2011

# 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.**

# CONTENTS

*Set out below is an indicative timetable for the implementation of the Capital Reorganisation, the Change in Board Lot Size and the Rights Issue:*

| | |
|---|---|
| Latest time for lodging proxy forms for the EGM | 2:30 p.m. on Wednesday, 10 August 2011 |
| Expected date of the EGM | 2:30 p.m. on Friday, 12 August 2011 |
| Announcement of the results of the EGM | Not later than 11 p.m. on Friday, 12 August 2011 |
| Effective date of the Capital Reorganisation | Monday, 15 August 2011 |
| Commencement of dealings in the Consolidated Shares | 9:00 a.m. on Monday, 15 August 2011 |
| Original counter for trading in the Existing Shares in existing share certificates in board lots of 2,000 Existing Shares temporarily closes | 9:00 a.m. on Monday, 15 August 2011 |
| Temporary counter for trading in board lots of 200 Consolidated Shares (in the form of existing share certificates) opens | 9:00 a.m. on Monday, 15 August 2011 |
| First day of free exchange of certificates for the Existing Shares into new certificates for the Consolidated Shares | Monday, 15 August 2011 |
| Last day of dealings in the Consolidated Shares on a cum-right basis | Monday, 15 August 2011 |
| Commencement of dealings in the Consolidated Shares on an ex-right basis | 9:00 a.m. on Tuesday, 16 August 2011 |
| Latest time for lodging transfer of the Consolidated Shares in order to be qualified for the Rights Issue and the option for RCPS | 4:30 p.m. on Wednesday, 17 August 2011 |
| Closure of register of members to determine the eligibility of the Rights Issue (both dates inclusive) | Thursday, 18 August 2011 to Monday, 22 August 2011 |
| Record Date for the Rights Issue | Thursday, 18 August 2011 |

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| Register of members re-opens | Tuesday, 23 August 2011 |
| Despatch of the Prospectus Documents | Tuesday, 23 August 2011 |
| First day of dealings in nil-paid Rights Shares | Thursday, 25 August 2011 |
| Latest time for splitting in nil-paid Rights Shares | 4:30 p.m. on Friday, 26 August 2011 |
| Original counter for trading in the Consolidated Shares in board lots of 4,000 Consolidated Shares (only new certificates for the Consolidated Shares can be traded at this counter) re-opens | 9:00 a.m. on Monday, 29 August 2011 |
| Parallel trading in the Consolidated Shares (in the form of new and existing certificates) commences | 9:00 a.m. on Monday, 29 August 2011 |
| Designated broker starts to stand in the market to provide matching services for the sale and purchase of odd lots of the Consolidated Shares | Monday, 29 August 2011 |
| Last day of dealing in nil-paid Rights Shares | Wednesday, 31 August 2011 |
| Latest time for acceptance of, and payment for, the Rights Shares, application for excess Rights Shares and initial subscription amount of RCPS | 4:00 p.m. on Monday, 5 September 2011 |
| Latest time for termination of the Underwriting Agreement | 4:00 p.m. on Thursday, 8 September 2011 |
| Announcement of results of the Rights Issue | Monday, 12 September 2011 |
| Refund cheques for wholly and partially unsuccessful applications for excess Rights Shares and initial subscription amount of RCPS expected to be posted on or before | Wednesday, 14 September 2011 |
| Certificates for the Rights Shares and RCPS expected to be despatched on or before | Wednesday, 14 September 2011 |
| Dealings in fully-paid Rights Shares and commence | 9:00 a.m. on Friday, 16 September 2011 |
| Temporary counter for trading in board lots of 200 Consolidated Shares (in the form of existing share certificates) closes | 4:00 p.m. on Monday, 19 September 2011 |

Parallel trading in the Consolidated Shares (in the form of new and existing certificates) ends . . . . . . . . . . . 4:00 p.m. on Monday, 19 September 2011

Designated broker ceases to stand in the market to provide matching services for the sale and purchase of odd lots of the Consolidated Shares . . . . . . . . . . . . . . . . Monday, 19 September 2011

Last day of free exchange of certificates for the Existing Shares into new certificates for the Consolidated Shares . . . . . . . . . . . . . . . . . . . . . . . . . . Thursday, 22 September 2011

*Note: All references to time in this circular are references to Hong Kong time.*

Dates or deadlines specified in this circular for events in the timetable for (or otherwise in relation to) the Capital Reorganisation, the Change in Board Lot Size, the Rights Issue and RCPS is indicative only and may be extended or varied by agreement between the Company and the Underwriter, and subject to the approval by the Stock Exchange of such amendments. Any consequential changes to the expected timetable will be published or notified to Shareholders as and when appropriate.

**Effect of bad weather on the latest time for acceptance of and payment for the Rights Shares and for application and payment for excess Rights Shares**

If there is:

- a tropical cyclone warning signal number 8 or above, or
- a "black" rainstorm warning

(i) in force in Hong Kong at any local time before 12:00 noon and no longer in force after 12:00 noon on Monday, 5 September 2011, the latest time for acceptance of and payment for the Rights Shares and for application and payment for excess Right Shares will not take place at 4:00 p.m. on Monday, 5 September 2011, but will be extended to 5:00 p.m. on the same day instead; and

(ii) in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on Monday, 5 September 2011, the latest time for acceptance of and payment for the Rights Shares and for application and payment for excess Right Shares will not take place on Monday, 5 September 2011, but will be rescheduled to 4:00 p.m. on the following Business Day which does not have either of those warnings in force at any time between 9:00 a.m. and 4:00 p.m.

If the latest time for acceptance of and payment for the Rights Shares and for application and payment for excess Rights Shares does not take place on Monday, 5 September 2011, the dates mentioned in this section may be affected. An announcement will be made by the Company in such event.

*The following terms have the following meanings in this circular unless the context otherwise requires:*

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| "Adjusted Shares" | the ordinary share(s) and RCPS of US$0.01 each in the share capital of the Company immediately upon the Capital Reduction becoming effective |
| "Announcement" | the announcement of the Company dated 2 June 2011 in relation to, among other things, the Capital Reorganisation, proposed Rights Issue and proposed Capital Reduction |
| "Articles" | the articles of association of the Company |
| "associates" | has the meaning ascribed to it in the GEM Listing Rules |
| "Board" | the board of Directors |
| "Business Day(s)" | a day (other than Saturday, Sunday and public holiday and any day on which a tropical cyclone warning No. 8 or above is hoisted or remains hoisted between 9:00 a.m. and 12:00 noon and is not lowered at or before 12:00 noon or on which a "black" rainstorm warning signal is hoisted or remains in effect between 9:00 a.m. and 12:00 noon and is not discontinued at or before 12:00 noon) on which banks are open for business in Hong Kong |
| "Capital Reduction" | the proposal for the reduction of the par value of the issued Consolidated Shares and issued RCPS from US$0.10 each to US$0.01 each by canceling US$0.09 of the paid-up capital on each issued Consolidated Share and issued RCPS |
| "Capital Reorganization" | the proposed capital reorganization of the Company involving the Diminution, the Share Consolidation, the increase in authorised share capital and the Redesignation and Reclassification of Authorised Share Capital |
| "CCASS" | the Central Clearing and Settlement System established and operated by HKSCC |
| "Change in Board Lot Size" | the proposed change in board lot size of Shares for trading on the Stock Exchange from 2,000 Existing Shares to 4,000 Consolidated Shares |

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| "Companies Law" | The Companies Law (Revised) of the Cayman Islands for the time being in force and as amended from time to time |
| "Company" | Crosby Capital Limited, a company incorporated under the laws of Cayman Islands with limited liability and the Existing Shares of which are listed on the GEM |
| "connected person(s)" | has the meaning ascribed to it in the GEM Listing Rules |
| "Consolidated Share(s)" | the ordinary share(s) of US$0.10 each in the share capital of the Company after the Share Consolidation becomes effective and prior to the Capital Reduction |
| "Court" | the Grand Court of the Cayman Islands |
| "Crosby Management" | Crosby Management Holdings Limited, a company incorporated under the laws of the British Virgin Islands and a substantial Shareholder of the Company which, as at the Latest Practicable Date, legally and beneficially owned 130,000,000 Existing Shares, representing approximately 26.5% of the entire issued share capital of the Company as at the Latest Practicable Date. Crosby Management is beneficially owned as to 96.7% by Mr. Nelson Tang Yu Ming |
| "Diminution" | the proposed diminution of the existing unissued 100,000 convertible redeemable preference shares of US$0.01 each in the authorised share capital of the Company as at the date of this circular |
| "Director(s)" | director(s) of the Company |
| "EGM" | the extraordinary general meeting of the Company to be convened to consider and, if thought fit, approve, among other things, (i) the Capital Reorganization; (ii) the Rights Issue; (iii) the issue of RCPS; (iv) the Capital Reduction; (v) the specific mandate for adjustment to the Outstanding Warrants and (vi) the specific mandate for adjustment to the Outstanding Options |
| "Emperor Securities" | Emperor Securities Limited, a licensed corporation to carry out business in type 1 (dealing in securities) and type 4 (advising on securities) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) |

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| "Excess Application Form(s)" or "EAF(s)" | the form of application for use by the Qualifying Shareholders who wish to apply for excess Rights Shares, being in such usual form as may be agreed between the Company and the Underwriter |
| "Excluded Overseas Shareholders" | the Overseas Shareholder(s) where, the Directors, based on legal opinions provided by legal advisers of the Company, consider it necessary or expedient on account either of the legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place not to offer the Rights Shares and the RCPS to such Shareholders |
| "Exercisable Outstanding Options" | 23,980,000 of the Outstanding Options which are exercisable as at the Record Date pursuant to the terms of the Share Option Scheme of the Company |
| "Existing Share(s)" | the ordinary share(s) of US$0.01 each in the existing share capital of the Company, before the Share Consolidation and Capital Reduction become effective |
| "GEM" | the Growth Enterprise Market of the Stock Exchange |
| "GEM Listing Rules" | the Rules Governing the Listing of Securities on GEM |
| "Group" | the Company and its subsidiaries |
| "HK$" | Hong Kong Dollar |
| "HKSCC" | Hong Kong Securities Clearing Company Limited |
| "Hong Kong" | the Hong Kong Special Administrative Region of the People's Republic of China |
| "Independent Board Committee" | The independent board committee of the Board comprising all the Independent Non-Executive Directors, namely Mr. Daniel Yen Tzu Chen, Mr. Joseph Tong Tze Kay and Mr. David John Robinson Herratt, established to give recommendations to the Shareholders regarding the Rights Issue and the transactions contemplated thereunder |
| "Independent Shareholder(s)" | the Shareholder(s) other than those Directors and their associates who are required to abstain from voting in favour of the Rights Issue |

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| "Last Trading Day" | 1 June 2011, being the last trading day of the Existing Shares prior to date of release of the announcement dated 2 June 2011 |
| "Latest Practicable Date" | 18 July 2011, being the latest practicable date prior to the printing of this circular for ascertaining certain information referred to in this circular |
| "Latest Time for Termination" | being the third business day after the latest time for acceptance of, and payment for, the offer of Rights Shares as described in the Prospectus, currently being 4:00 p.m. on Thursday, 8 September 2011 |
| "Outstanding Convertible Bonds" | the outstanding zero coupon convertible bond issued by the Company with an aggregate principal amount of HK$250 million, details of which were set out in the announcements of the Company dated 4 October 2010 and 30 March 2011 |
| "Outstanding Options" | the outstanding unexercised share options of the Company entitling the holders to subscribe, as at the Latest Practicable Date, for 43,480,000 Existing Shares (equivalent to 4,348,000 Consolidated Shares) |
| "Outstanding Warrants" | the outstanding unlisted warrants of the Company entitling holders to subscribe up to HK$4,500,000 for 3,000,000 Consolidated Shares at the exercise price of HK$1.50 per Consolidated Share |
| "Overseas Shareholders" | Shareholders whose names appear on the register of members of the Company as at the close of the business on the Record Date and whose addresses as shown on such register are outside Hong Kong |
| "Posting Date" | being the date of despatch of the Prospectus Documents to the Qualifying Shareholders and despatch of the Prospectus to the Excluded Overseas Shareholders for information only, currently being Tuesday, 23 August 2011 |
| "PRC" | The People's Republic of China, which for the purpose of this circular, shall exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan |
| "Previous Bonds" | The US$75 million zero coupon convertible bonds of the Company due March 2011 issued in March 2006, details of which were set out in the announcement of the Company dated 7 March 2006 |

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| "Prospectus" | the Rights Issue prospectus to be despatched to Shareholders |
| "Prospectus Documents" | the Prospectus, the PALs and the EAFs |
| "Provisional Allotment Letter(s)" or "PAL(s)" | the provisional allotment letter to be used in connection with the Rights Issue and the RCPS proposed to be issued to the Qualifying Shareholders, being in such usual form as may be agreed between the Company and the Underwriter |
| "Qualifying Shareholder(s)" | Shareholder(s) other than the Excluded Overseas Shareholders whose names appear on the register of members of the Company as at the close of business on the Record Date |
| "RCPS" | the unlisted redeemable convertible preference shares of US$0.10 each in the share capital of the Company upon the Redesignation and Reclassification of Authorised Share Capital becoming effective, the principal terms of which (subject to amendment) are set out in Appendix IV of this circular and the final terms of which will be tabled and adopted by the Shareholders at the EGM |
| "RCPS Conversion Price" | the initial conversion price of HK$1.23 per Consolidated Share (subject to adjustment) |
| "RCPS Subscription Price" | US$2.00 per RCPS, of which US$0.10 per RCPS to be paid on subscription (which will be at the same time when the Qualifying Shareholders pay for their entitlement or excess application for the Rights Shares), with the remaining balance of US$1.90 per RCPS to be paid immediately prior to the conversion of the RCPS into ordinary shares of the Company |
| "Record Date" | the record date by reference to which entitlements to the Rights Issue will be determined, currently being Thursday, 18 August 2011 |
| "Redesignation and Reclassification of Authorised Share Capital" | the redesignation and reclassification of the authorised share capital of the Company of US$200,000,000 of 2,000,000,000 Shares into (a) 1,900,000,000 ordinary shares of par value US$0.10 each and (b) 100,000,000 RCPS of par value US$0.10 each, the principal terms of which are set out in Appendix IV of this circular and the final terms of which will be tabled and adopted by the Shareholders at the EGM |

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| "Registrar" | Computershare Hong Kong Investor Services Limited with registered office at 46th Floor., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, the Company's Hong Kong branch share registrar |
| "Rights Issue" | the proposed issue by way of rights issue of the Rights Shares at the Subscription Price on the basis of one Rights Share for every one Consolidated Share then held on the Record Date |
| "Rights Share(s)" | a maximum of 199,309,759 Consolidated Shares proposed to be offered to the Qualifying Shareholders for subscription on the basis of one Rights Shares for every one Consolidated Share held on the Record Date pursuant to the Rights Issue |
| "SFC" | the Securities and Futures Commission of Hong Kong |
| "Share(s)" | the Existing Share(s), the Consolidated Share(s), the Adjusted Share(s) and the RCPS as the case may be |
| "Share Consolidation" | the proposed consolidation of every ten Existing Shares of US$0.01 each into one Consolidated Share of US$0.10 each in the issued share capital of the Company |
| "Shareholder(s)" | holder(s) of the Existing Share(s), the Consolidated Share(s) or the Adjusted Share(s), as the case may be |
| "Share Option Scheme" | the employee share option scheme of the Company approved at the extraordinary general meeting of the Company dated 27 March 2002 |
| "Shikumen" | Shikumen Capital Management (HK) Limited, a wholly owned subsidiary of the Company |
| "Specified Event" | an event occurring or matter arising on or after the date of the Underwriting Agreement and prior to the Latest time for Termination which if it had occurred or arisen before the date of the Underwriting Agreement would have rendered any of the undertakings, warranties and representations contained in clause 11.1 of the Underwriting Agreement untrue or incorrect in any material respect |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "Subscription Price" | the subscription price for the Rights Shares, being HK$0.8 per Rights Share |

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| "Takeovers Code" | The Hong Kong Code on Takeovers and Mergers and Share Repurchases |
| "Tranche 1 Convertible Bonds" | the first tranche of the Outstanding Convertible Bonds issued by the Company on 4 October 2010 with an aggregate principal amount of HK$160 million as set out in the circular of the Company dated 26 July 2010 |
| "Tranche 2 Convertible Bonds" | the second tranche of the Outstanding Convertible Bonds issued by the Company on 30 March 2011 with an aggregate principal amount of HK$90 million as set out in the circular of the Company dated 26 July 2010 |
| "Terms and Conditions of the Warrants" | the terms and conditions of the warrants as set out in the instrument of warrant dated 4 October 2010 issued by the Company |
| "Underwriter" | Emperor Securities |
| "Underwriting Agreement" | the underwriting agreement dated 2 June 2011 in relation to the Rights Issue entered into between the Company and the Underwriter |
| "Veda Capital" or "Independent Financial Adviser" | Veda Capital Limited, a licensed corporation to carry out type 6 (advising on corporate finance) regulated activity under the SFO being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Rights Issue with the option to subscribe for RCPS |
| "%" | per cent. |

# CROSBY
## CROSBY CAPITAL LIMITED
## (高誠資本有限公司)*

*(Incorporated in the Cayman Islands with limited liability)*
**(Stock Code: 8088)**

*Executive Directors:*
Johnny Chan Kok Chung
Ulric Leung Yuk Lun
Jeffrey Lau Chun Hung

*Non-Executive Director:*
Ahmad S. Al-Khaled

*Independent Non-Executive Directors:*
Daniel Yen Tzu Chen
Joseph Tong Tze Kay
David John Robinson Herratt

*Registered Office:*
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

*Head Office and principal place of business in Hong Kong:*
Unit 502 5th Floor
AXA Centre
151 Gloucester Road
Wanchai Hong Kong

21 July 2011

*To the Shareholders, holders of Outstanding Options granted under the Share Option Scheme and holders of the Outstanding Convertible Bonds and Outstanding Warrants*

Dear Sir or Madam,

**(1) PROPOSED CAPITAL REORGANIZATION;
(2) CHANGE IN BOARD LOT SIZE;
(3) PROPOSED RIGHTS ISSUE ON THE BASIS OF
ONE RIGHTS SHARE FOR EVERY ONE CONSOLIDATED SHARE
HELD ON RECORD DATE WITH OPTION TO SUBSCRIBE
FOR ONE REDEEMABLE CONVERTIBLE PREFERENCE SHARE
FOR EVERY TWO RIGHTS SHARES SUBSCRIBED;
(4) ADJUSTMENT TO THE OUTSTANDING WARRANTS AND
OUTSTANDING OPTIONS; AND
(5) PROPOSED CAPITAL REDUCTION**

## INTRODUCTION

On 2 June 2011, the Board announced that the Company proposed to raise a minimum of approximately HK$39.25 million before expenses (assuming no Exercisable Outstanding Options, Outstanding Convertible Bonds and Outstanding Warrants are

* *For identification purpose only*

exercised before the Record Date) and a maximum of approximately HK$159.45 million before expenses (assuming all Exercisable Outstanding Options, Outstanding Convertible Bonds and Outstanding Warrants are exercised before the Record Date), by way of the Rights Issue of 49,059,798 Rights Shares and not more than 199,309,759 Rights Shares, respectively, at the Subscription Price of HK$0.80 per Rights Share on the basis of one Rights Shares for every one Consolidated Share held on the Record Date and payable in full on acceptance.

Subject to the Shareholders approving the Capital Reorganization, the Rights Issue and the issue of the RCPS, each Qualifying Shareholder and holder of nil-paid Rights Shares exercising its rights to subscribe for Rights Share(s) shall be granted an option to subscribe for new RCPS(s) to be issued by the Company on the basis of one RCPS for every two Rights Shares subscribed at the RCPS Subscription Price of US$2.00 per RCPS, of which US$0.10 per RCPS has to be paid upon subscription. Holders of the RCPS will have the right, upon full payment of the RCPS Subscription Price for each RCPS, to convert the RCPS into Consolidated Shares at the RCPS Conversion Price of HK$1.23 each.

The Company also proposes to carry out the Capital Reduction and Capital Reorganization, which involves the Diminution, the Share Consolidation, the increase in authorised share capital and the Redesignation and Reclassification of Authorised Share Capital.

On 20 June 2011, the Company announced that the board lot size for trading in the Shares would be changed from 2,000 Existing Shares to 4,000 Consolidated Shares.

The purpose of this circular is to provide you with, amongst other matters, (i) further information regarding the details about (a) the Capital Reorganization; (b) the Change in Board Lot Size; (c) the Rights Issue and the RCPS; (d) the Capital Reduction; (ii) a letter of advice from Veda Capital to the Independent Board Committee and the Independent Shareholders in relation to the Rights Issue and RCPS; (iii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders in relation to the Rights Issue; and (iv) a notice convening the EGM.

**PROPOSED CAPITAL REORGANIZATION**

As at the date of this circular, the existing authorised share capital of the Company is US$40,001,000 divided into 4,000,000,000 ordinary shares of US$0.01 each and 100,000 convertible redeemable preference shares of US$0.01 each, of which 490,597,984 ordinary shares are in issue and nil convertible redeemable preference shares are in issue.

The Company proposes to carry out the Capital Reorganization, which involves the Diminution, the Share Consolidation, the increase in authorised share capital of the Company and the Redesignation and Reclassification of Authorised Share Capital as follows.

(i) The Company proposes to diminish its authorised but unissued share capital by canceling 100,000 convertible redeemable preferences shares of US$0.01 each. Upon completion of the Diminution, the authorised share capital of the Company will be US$40,000,000 divided into 4,000,000,000 ordinary shares of US$0.01 each.

(ii) The Company proposes to implement the Share Consolidation on the basis that every ten (10) issued and unissued Existing Shares of US$0.01 each in the share capital of the Company will be consolidated into one Consolidated Share of US$0.10 each. Immediately after the Share Consolidation, the authorised share capital of the Company will be US$40,000,000 divided into 400,000,000 Consolidated Shares of US$0.10 each. As at the Latest Practicable Date, there are 490,597,984 Existing Shares in issue. On the basis of such issued share capital, there will be 49,059,798 Consolidated Shares of US$0.10 each in issue immediately following the Share Consolidation becoming effective. The Consolidated Shares will rank pari passu in all respects with each other. The Share Consolidation will become effective upon the fulfillment of the conditions set out in the paragraph headed "Conditions of the Share Consolidation" below.

(iii) The Company proposes to increase the authorised share capital of the Company from US$40,000,000 divided into 400,000,000 Consolidated Shares of US$0.10 each to US$200,000,000 divided into 2,000,000,000 Consolidated Shares of US$0.10 each by the creation of an additional 1,600,000,000 Consolidated Shares of US$0.10 each. The increase of authorised share capital is subject to and conditional upon the passing of an ordinary resolution by the Shareholders at the EGM.

(iv) Immediately following the increase in authorised share capital of the Company becoming effective, the Company proposes to redesignate and reclassify the authorised share capital of US$200,000,000 of 2,000,000,000 Consolidated Shares into: (a) 1,900,000,000 Consolidated Shares of par value US$0.10 each and (b) 100,000,000 RCPS of par value US$0.10 each, having the rights and restrictions set out in Appendix IV of this circular. The 49,059,798 Consolidated Shares of US$0.10 each will remain in issue as ordinary shares of the Company after the Redesignation and Reclassification of Authorised Share Capital.

**Reasons for the Capital Reorganization**

The proposed Share Consolidation will reduce the total number of Existing Shares currently in issue and it is expected to bring about a corresponding upward adjustment in the trading price per board lot of the Consolidated Shares on the Stock Exchange, which will reduce the overall transaction costs for dealing in the Consolidated Shares. In order to accommodate the future expansion and growth of the Group and the Consolidated Shares to be issued upon conversion of the RCPS, the Company also proposes to increase the authorised share capital of the Company. The Diminution and the Redesignation and Reclassification of Authorised Share Capital is to facilitate the issue of the new RCPS. Accordingly, the Directors are of the view that the Capital Reorganization is in the interests of the Company and the Shareholders as a whole.

Implementation of the Capital Reorganization will not, of itself, alter the underlying assets, business operations, management or financial position of the Company or the proportionate interests and rights of the Shareholders, except for the payment of the related expenses.

**Conditions of the Share Consolidation**

The Share Consolidation is conditional upon the fulfillment of the following conditions:

(i) the passing by the Shareholders of an ordinary resolution at the EGM by way of poll to approve the Share Consolidation;

(ii) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Consolidated Shares in issue and to be issued upon the Share Consolidation becoming effective;

(iii) the approval of any relevant regulatory authority, if required.

Subject to the fulfillment of the above conditions, it is expected that the Share Consolidation will become effective on the next Business Day following the date of passing the relevant resolutions to approve the Share Consolidation.

**Listing and dealings**

Application will be made to the Listing Committee of the Stock Exchange for the granting of the listing of, and permission to deal in, the Consolidated Shares arising from the Share Consolidation and the Consolidated Shares which may fall to be issued upon the exercise of the Outstanding Options, Outstanding Convertible Bonds and Outstanding Warrants.

The Consolidated Shares will be identical in all respects and rank pari passu in all respects with each other as to all future dividends and distributions which are declared, made or paid. Subject to the granting of the listing of, and permission to deal in, the Consolidated Shares on the Stock Exchange, the Consolidated Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Consolidated Shares on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

**Fractional Shares and odd lot trading arrangements after Share Consolidation**

Fractional Consolidated Shares will not be issued by the Company to the Shareholders. Any fractional entitlements of the Consolidated Shares will be aggregated and sold for the benefit of the Company.

In order to facilitate the trading of odd lots (if any) of the Consolidated Shares arising from the Share Consolidation, a designated broker will be appointed to match the purchase and sale of odd lots of the Consolidated Shares at the relevant market price per Consolidated Share for the period from Monday, 29 August 2011 to Monday, 19 September 2011 (both dates inclusive). Holders of odd lots of the Consolidated Shares should note that successful matching of the sale and purchase of odd lots of the Consolidated Shares is not guaranteed. Any Shareholder who is in any doubt about the odd lot arrangement is recommended to consult his/her/its own professional advisers.

**Free exchange of share certificates after Share Consolidation**

Subject to the Share Consolidation becoming effective, Shareholders may, from Monday, 15 August 2011 to Thursday, 22 September 2011 (both dates inclusive), submit existing certificates for the Existing Shares in board lots of 2,000 Existing Shares, which is sky blue in color, to the branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at Rooms 1712–1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong in exchange for new share certificates for Consolidated Shares, at the expense of the Company. Thereafter, certificates for the Shares will be accepted for exchange only on payment of a fee of HK$2.50 or such higher amount as may from time to time be allowed by the Stock Exchange for each existing share certificate of the Existing Shares cancelled or each new share certificate to be issued for the Consolidated Shares, whichever number of certificates cancelled/issued is higher, payable by the Shareholders to the Registrar of the Company.

Nevertheless, certificates for the Existing Shares will continue to be good evidence of legal title and will be valid for dealings, trading and settlement purpose after the Share Consolidation has become effective and may be exchanged for certificates for the Consolidated Shares at any time in accordance with the foregoing.

**CHANGE IN BOARD LOT SIZE**

The Existing Shares are currently traded in board lots of 2,000. The Company proposes to change the board lot size for trading on the Stock Exchange from 2,000 Existing Shares to 4,000 Consolidated Shares upon the Share Consolidation becoming effective.

The Existing Shares are currently traded in board lots of 2,000 and the market value per board lot of the Existing Shares is HK$178, based on the closing price of HK$0.089 per Share as quoted on the Stock Exchange on the Latest Practicable Date. Assuming the Share Consolidation and the Change in Board Lot Size become effective, the Consolidated Shares will be traded in board lots of 4,000 Consolidated Shares and the estimated market value per board lot of the Consolidated Shares will be HK$3,560, based on the closing price of HK$0.89 per Consolidated Share (based on the closing price of HK$0.089 per Share as quoted on the Stock Exchange on the Latest Practicable Date and consolidated for the effect of the Share Consolidation). The Change in Board Lot Size is conditional on the Share Consolidation becoming effective.

The Change in Board Lot Size is expected to increase the trading value per board lot of the Consolidated Shares on the Stock Exchange to not less than HK$2,000, which will reduce the overall transaction costs for dealing in each board lot of the Consolidated Shares. The Change in Board Lot Size will not result in any change in the relative rights of the Shareholders. The Board is of the opinion that the Change in Board Lot Size is in the interests of the Company and its Shareholders as a whole.

**PROPOSED RIGHTS ISSUE WITH OPTION TO SUBSCRIBE FOR RCPS**

The Company proposes to raise up to approximately a minimum of HK$39.25 million before expenses, by way of the Rights Issue.

**Issue statistics**

| | | |
|---|---|---|
| Basis of the Rights Issue | : | one Rights Share for every one Consolidated Share held by the Qualifying Shareholder on the Record Date (by reference to the number of Shares held by the Qualifying Shareholder on the Record Date, applying the Share Consolidation and deducting any fractions of Consolidated Shares that might otherwise arise under the Share Consolidation) |
| Subscription Price | : | HK$0.80 per Rights Share |
| Number of Shares in issue as at the date of this circular | : | 490,597,984 Existing Shares |

| | | |
|---|---|---|
| Number of Consolidated Shares in issue upon the Share Consolidation | : | 49,059,798 Consolidated Shares (assuming that no further Existing Shares are issued or repurchased between the Latest Practicable Date and the effective date of the Share Consolidation) |
| Number of Outstanding Warrants in issue | : | 3,000,000 Consolidated Shares may be issued upon exercise in full at the exercise price of HK$1.50 per Consolidated Share (adjusted for Share Consolidation and subject to further adjustment arising from the Rights Issue) |
| Number of Outstanding Convertible Bonds in issue | : | 144,851,961 Consolidated Shares may be issued upon full conversion of all Outstanding Convertible Bonds at the conversion price of HK$1.7259 per Consolidated Share (adjusted for Share Consolidation and subject to further adjustment arising from the Rights Issue) |
| Number of Exercisable Outstanding Options in issue | : | 23,980,000 share options entitling holders to subscribe for 2,398,000 Consolidated Shares |
| Minimum number of Rights Shares *(Note 1)* | : | 49,059,798 Rights Shares (with an aggregate nominal value of US$4,905,979.80) |
| Maximum number of Rights Shares *(Note 2)* | : | 199,309,759 Rights Shares (with an aggregate nominal value of US$19,930,975.90) |
| Minimum number of Consolidated Shares in issue upon completion of the Rights Issue *(Note 1)* | : | 98,119,596 Consolidated Shares |
| Maximum number of Consolidated Shares in issue upon completion of the Rights Issue *(Note 2)* | : | 398,619,518 Consolidated Shares |

*Notes:*

1. The minimum number of Rights Shares is arrived at assuming no exercise or conversion of the Exercisable Outstanding Options, Outstanding Warrants and Outstanding Convertible Bonds on or before the Record Date.

2. The maximum number of Rights Shares is arrived at assuming the Exercisable Outstanding Options, the Outstanding Warrants and Outstanding Convertible Bond are all exercised or converted on or prior to the Record Date.

Subject to the Shareholders approving the Capital Reorganization, the Rights Issue and the issue of the RCPS, each Qualifying Shareholder and holder of nil-paid Rights Shares exercising its rights to subscribe for Rights Share(s) shall be granted an option to subscribe for new RCPS(s) to be issued by the Company on the basis of one RCPS for every two Rights Shares subscribed at the RCPS Subscription Price of US$2.00 per RCPS, of which US$0.10 per RCPS has to be paid upon subscription (which will be at the same time when the Qualifying Shareholder pays for its entitlement or excess application for the Rights Shares), with the payment of the remaining balance of US$1.90 per RCPS to be paid immediately prior to the conversion of the RCPS into ordinary shares of the Company. The option to subscribe for the RCPS is non-transferrable (except upon a transfer of the entitlement to the Rights Issue in accordance with the procedures for transferring nil-paid rights) and the Qualifying Shareholders cannot exercise the option after the latest time for acceptance of the Rights Issue. Holders of the RCPS will have the right, upon full payment of the RCPS Subscription Price for each RCPS, to convert the RCPS into Consolidated Shares at the RCPS Conversion Price of HK$1.23 each.

It should be noted that in the event that the issuance of the RCPS does not become unconditional in accordance with the conditions precedent set out in the paragraph headed "Conditions Precedent of the RCPS", the Rights Issue shall nevertheless proceed (provided that it becomes unconditional) without the option to subscribe for the RCPS.

Crosby Management has undertaken to subscribe for its entitlement of 13,000,000 Rights Shares, representing approximately 26.5% of all the Rights Shares (assuming no further Shares have been issued and all the Outstanding Options, Outstanding Convertible Bonds and Outstanding Warrants remain unexercised before the Record Date) at an aggregate subscription price of approximately HK$10.40 million. Crosby Management has also undertaken to exercise its option to subscribe for 6,500,000 RCPS, to which it is entitled under the Rights Issue, subject to the satisfaction of the conditions precedent of the RCPS. The 6,500,000 RCPS may be converted into 82,439,024 Consolidated Shares upon payment of the balance of approximately US$12.35 million (approximately HK$96.33 million) of the RCPS Subscription Price to the Company. The undertaking given by Crosby Management does not extend to converting the RCPS to which it is entitled.

If all the Qualifying Shareholders elect to subscribe for their RCPS and assuming no exercise or conversion of the Exercisable Outstanding Options, Outstanding Warrants and Outstanding Convertible Bonds on or before the Record Date, 24,529,899 RCPS will be issued. A sum of approximately US$2.45 million (approximately HK$19.13 million) being the initial RCPS Subscription Price will be received upon acceptance of the Rights Shares (in addition to the proceeds received in respect of the Rights Shares) and the balance of approximately US$46.61 million (approximately HK$363.53 million) will be received immediately before conversion of the RCPS. Upon conversion of all the RCPS, a total of 311,110,914 Consolidated Shares will be issued.

If all the Qualifying Shareholders elect to subscribe for their RCPS and assuming all the Exercisable Outstanding Options, Outstanding Warrants and Outstanding Convertible Bonds are exercised or converted on or before the Record Date, 99,654,879 RCPS will be issued. A sum of approximately US$9.97 million (approximately HK$77.73 million), being the initial RCPS Subscription Price, will be received upon acceptance of the Rights Shares (in addition to the proceeds received in respect of the Rights Shares), and the balance of approximately US$189.34 million (approximately HK$1,476.89 million) will be received immediately before conversion of the RCPS. Upon conversion of all the RCPS, a total of 1,263,915,538 Consolidated Shares will be issued.

Save for the Outstanding Options, Outstanding Warrants and the Outstanding Convertible Bonds, the Company has no other outstanding options, warrants, derivatives or convertible securities in issue which confer any rights to subscribe for, convert or exchange into the Shares as at the date of this circular.

**Qualifying Shareholders**

The Company will send the Prospectus Documents to the Qualifying Shareholders only. For the Excluded Overseas Shareholders, the Company will send copies of the Prospectus to them for their information only, but the Company will not send any PAL or EAF to the Excluded Overseas Shareholders.

To qualify for the Rights Issue, a Shareholder must (i) be registered as a member of the Company at the close of business on the Record Date; and (ii) be a Qualifying Shareholder. In order to be registered as members of the Company at the close of business on the Record Date, Shareholders must lodge any transfers of Consolidated Shares (together with the relevant share certificates) with the Registrar for registration no later than 4:30 p.m. on Wednesday, 17 August 2011.

**Closure of register of members**

In accordance with Rule 17.78 of the GEM Listing Rules, the Company announces that the register of members of the Company will be closed from Thursday, 18 August 2011 to Monday, 22 August 2011, both dates inclusive, for the purpose of determining the entitlements of the Qualifying Shareholders for the Rights Issue. No transfers of Shares will be registered during the book closure period. In order to qualify for the Rights Issue, all transfer forms accompanied by the relevant share certificates must be lodged with the Registrar by 4:30 p.m. on Wednesday, 17 August 2011.

**Rights of Overseas Shareholders**

If, at the close of business on the Record Date, a Shareholder's address on the register of members of the Company is in a place outside Hong Kong, that Overseas Shareholder may not be eligible to take part in the Rights Issue as the Prospectus Documents will not be registered and/or filed under the applicable securities legislation of any jurisdictions other than Hong Kong.

As at the Latest Practicable Date, the Company noted that 11 shareholders have maintained addresses located in Canada, the United Kingdom, the United States of America and Singapore. The Board will make enquiries with legal advisers as to whether the issue of Rights Shares and the RCPS to the Overseas Shareholders may contravene the applicable securities legislation of these overseas jurisdictions or the requirements of the relevant regulatory bodies or stock exchanges pursuant to Rule 17.41(1) of the GEM Listing Rules. If, after making such enquiries, the Board is of the opinion that it would be necessary or expedient on account either of the legal restrictions under the laws of these overseas jurisdictions or the requirements of the relevant regulatory bodies or stock exchanges in these overseas jurisdictions, not to offer the Rights Shares and the RCPS to the Overseas Shareholders, no provisional allotment of Rights Shares and the RCPS will be made to the Overseas Shareholders. Accordingly, the Rights Issue will not be extended to the Excluded Overseas Shareholders.

The Company will continue to ascertain whether there are any other Overseas Shareholders at the Record Date and will, if necessary, make further enquiries with legal advisers in other overseas jurisdictions regarding the feasibility of extending the Rights Issue and the RCPS to such Overseas Shareholders as at the Record Date and make relevant disclosure in the Prospectus.

For those Overseas Shareholders who are to be excluded from the Rights Issue, the Company will, subject to compliance with the relevant local laws, regulations and requirements, send copies of the Prospectus for information only to these Excluded Overseas Shareholders, but the Company will not send the PAL and EAF to such Excluded Overseas Shareholders.

Arrangements will be made for the Rights Shares which would otherwise have been provisionally allotted to the Excluded Overseas Shareholders to be sold in the market in their nil-paid form as soon as practicable after dealings in the nil-paid Rights Shares commence on the Stock Exchange and in any event before the last day for dealings in nil-paid Rights Shares if a premium (net of expenses) can be obtained. Net proceeds after deducting the expenses of sale (if any) of HK$100 or more shall be distributed pro rata (but rounded down to the nearest cent) to the Excluded Overseas Shareholders. Individual amounts of less than HK$100 shall be retained by the Company for its own benefit. Any unsold rights of the Excluded Overseas Shareholders will be made available for excess application by the Qualifying Shareholders and allocated on a fair and equitable basis.

**Subscription Price**

The Subscription Price of HK$0.80 per Rights Share is payable in full upon acceptance of the relevant offer of Rights Shares.

The Subscription Price represents:

(i) a discount of approximately 46.67% to the closing price of HK$1.50 per Consolidated Share, based on the closing price of HK$0.15 per Existing Share as quoted on the Stock Exchange on the Last Trading Date and adjusted for the effect of the Share Consolidation;

(ii) a discount of approximately 47.30% to the average closing prices of approximately HK$1.518 per Consolidated Share, based on the average closing price of approximately HK$0.1518 per Existing Share for the last 5 trading days as quoted on the Stock Exchange up to and including the Last Trading Date and adjusted for the effect of the Share Consolidation;

(iii) a discount of approximately 30.43% to the theoretical ex-entitlement price of approximately HK$1.15 per Consolidated Share, based on the closing price of HK$0.15 per Existing Share as quoted on the Stock Exchange on the Last Trading Date and adjusted for the effect of the Share Consolidation; and

(iv) a discount of approximately 10.11% to the adjusted closing price of HK$0.89 per Consolidated Share based on the closing price of HK$0.089 per Existing Share as quoted on the Stock Exchange on the Latest Practicable Date and adjusted for the effect of the Share Consolidation.

The Subscription Price was arrived at between the Company and the Underwriter with reference to the prevailing market price of the Existing Shares. The Directors consider that the discount of the Subscription Price to the market price is to make the Rights Issue more attractive to the Qualifying Shareholders. Each Qualifying Shareholder is entitled to subscribe for the Rights Shares at the same price in proportion to his/her/its existing shareholding in the Company. The Directors consider the terms of the Rights Issue, the option to subscribe for RCPS and the Subscription Price, are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

As the estimated net proceeds (after expenses) from the Rights Issue (excluding the initial payment from RCPS) will be between approximately HK$36.42 million (assuming the Exercisable Outstanding Options, Outstanding Warrants and Outstanding Convertible Bonds will not be exercised on or before the Record date) and approximately HK$156.62 million (assuming the Exercisable Outstanding Options, Outstanding Warrants and Outstanding Convertible Bonds will be exercised in full on or before the Record date), the net price per Rights Share would be approximately HK$0.74 to HK$0.79.

**Status of the Rights Shares**

The Rights Shares, when allotted and fully paid, will rank pari passu in all respects with the Consolidated Shares then in issue. Holders of Rights Shares will be entitled to receive all future dividends and distributions which are declared, made or paid on or after the date of allotment of the Rights Shares.

**Offer Period**

The offer period of the Rights Issue (and the option to subscribe for the RCPS) is expected to commence from, Wednesday, 24 August 2011, being the next Business Day after the despatch of the Prospectus Documents. It is expected that the latest time for acceptance of and payment for the Rights Shares (and the RCPS) will be at 4:00 p.m. on Monday, 5 September 2011.

**Fractions of Rights Share**

On the basis of one Rights Share for every Consolidated Share held by Qualifying Shareholders, no fractional entitlements to the Rights Shares are expected to arise under the Rights Issue.

**Application for excess Rights Shares**

Qualifying Shareholders may apply by using the EAF for any unsold entitlement of the Excluded Overseas Shareholders together with any Rights Shares provisionally allotted but not taken up by the Qualifying Shareholders or by transferees of nil-paid Rights Shares. Subject to the Shareholders approving the Capital Reorganization, the Rights Issue and the issue of the RCPS, the EAF forms will include the application for RCPS and the Qualifying Shareholders may elect simultaneously to subscribe for such number of RCPS attached to the excess Rights Shares they apply for in the same forms.

The Company will allocate excess Rights Shares to the Qualifying Shareholders at its discretion on a fair and equitable basis on the following principles:

(1) preference will be given to applications for less than a board lot of Rights Shares where they appear to the Directors that such applications are made to top up odd-lot holdings to whole-lot holdings and not made with intention to abuse this mechanism;

(2) subject to the availability of excess Rights Shares after allocation under principle (1) above, any further remaining excess Rights Shares will be allocated to applicants in proportion to the number of excess Rights Shares being applied for under each application.

Qualifying Shareholders who have elected to subscribe for the RCPS attached to the excess Rights Shares they apply for using the EAF will be allotted such number of RCPS equal to the lower of (i) the number of the RCPS they have applied for in the EAF and (ii) the number of RCPS calculated on the basis of one RCPS for every two excess Rights Shares alloted to and taken up by the Qualifying Shareholders.

Qualifying Shareholders whose Shares are held by a nominee company should note that for the purposes of the principles above, the Board will regard the nominee company as a single Shareholder according to the register of members of the Company. Accordingly, Qualifying Shareholders should note that the aforesaid arrangement in relation to the allocation of the excess Rights Shares will not be extended to beneficial owners individually. Investors whose Shares are held by their nominee(s) and who would like to have their names registered on the register of members of the Company, must lodge all necessary documents with the Registrar of the Company for completion of the relevant registration by 4:30 p.m. on Wednesday, 17 August 2011.

Shareholders or potential investors should note that the number of excess Rights Shares which may be allocated to them may be different where they make applications for excess Rights Shares by different means, such as making applications in their own names as against through nominees who also hold Shares for other Shareholders/investors.

Shareholders and investors should consult their professional advisors if they are in any doubt as to whether they should register their shareholding in their own names and apply for the excess Rights Shares themselves.

Under Rule 10.26(2) of the GEM Listing Rules, as the Rights Issue is not fully underwritten, any Shareholder who applies to take up excess Rights Shares may unwittingly incur an obligation to make a general offer under the Takeovers Code, unless a waiver from the SFC has been obtained. Accordingly, the Rights Issue will be made on the term that the Company will provide for Shareholders to apply on the basis that if the Rights Shares are not fully taken up, the application(s) of any Shareholder(s) for excess Rights Shares under the excess application forms (for use by the Qualifying Shareholders to apply for excess Rights Shares), which would result in its/his/her shareholding to increase to 30% or more of the Company's enlarged issued share capital upon completion of the Rights Issue, will be scaled down to a level which does not trigger an obligation on the part of the relevant Shareholder(s) to make a general offer under the Takeovers Code.

**Certificates for the Rights Shares/RCPS and refund cheques under Rights Issue**

Subject to the fulfillment of the conditions precedent of the Rights Issue and the RCPS, share certificates for the Rights Shares and RCPS (if applicable), respectively, are expected to be posted on or before Wednesday, 14 September 2011 to those Shareholders entitled thereto by ordinary post at their own risk.

Refund cheques in respect of wholly or partially unsuccessful applications for excess Rights Shares and the attached RCPS (if applicable) are also expected to be posted by ordinary post on or before Wednesday, 14 September 2011 at such Shareholders' own risk.

**Application for listing**

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Rights Shares in both nil-paid and fully-paid forms to be allotted and issued pursuant to the Rights Issue. No part of the securities of the Company is listed or dealt in or on which listing or permission to deal is being or is proposed to be sought on any other stock exchange.

Subject to the granting of the listing of, and permission to deal in, the Rights Shares, the Rights Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the respective commencement dates of dealings in the Rights Shares on the Stock Exchange or such other dates as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Dealings in the Rights Shares in their nil-paid form (in board lots of 200) and fully-paid forms (in board lots of 4,000) which are registered in the branch register of members of the Company in Hong Kong will be subject to the payment of stamp duty, Stock Exchange trading fee, transaction levy, investor compensation levy or any other applicable fees and charges in Hong Kong.

**UNDERWRITING AGREEMENT**

| | | |
|---|---|---|
| Date | : | 2 June 2011 |
| Underwriter | : | Emperor Securities<br><br>To the best knowledge, information and belief of the Directors, the Underwriter is an independent third party independent of, and not connected with, the Company and its connected persons and is not a connected person of the Company. The Underwriter does not have any beneficial interests in the Existing Shares |
| Number of Rights Shares underwritten | : | The Underwriter has agreed to underwrite a maximum of 36,059,798 Rights Shares |
| Commission | : | 2.5% of the aggregate Subscription Price of the Rights Shares underwritten by Emperor Securities |

The Rights Issue is only partially underwritten as any new Shares that may be issued arising from the conversion of the Exercisable Outstanding Options, Outstanding Convertible Bonds and the Outstanding Warrants up until the Record Date (and therefore entitled to participate in the Rights Issue) will not be covered by the Underwriting Agreement. Pursuant to the Company's constitutional documents and the Companies Law, there are no requirements for minimum levels of subscription. Subject to fulfillment of the conditions precedent of the Rights Issue, the Rights Issue will proceed regardless of the ultimate subscription level. Based on the irrevocable undertakings given by Crosby Management (details of which are set out in the paragraph below "Irrevocable undertakings from Crosby Management with respect to the Rights Issues") and the extent of the underwriting commitment of the Underwriter, it is anticipated at least 49,059,798 Rights Shares will be taken up.

The executive Directors are of the opinion that the terms of the Underwriting Agreement and the amount of commission given to the Underwriter are fair as compared to the market practice and commercially reasonable as agreed between the parties to the Underwriting Agreement.

The obligation of the Underwriter is subject to the terms and conditions set out in the Underwriting Agreement including the conditions set out in the paragraph headed "Conditions Precedent of the Rights Issue" of this circular and the right of the Underwriter to terminate the Underwriting Agreement.

**Termination of the Underwriting Agreement**

The Underwriter may terminate the arrangements set out in the Underwriting Agreement by notice in writing to the Company at any time prior to the Latest Time for Termination if there occurs any of the following events:

(a) in the reasonable opinion of the Underwriter, the success of the Rights Issue would be materially and adversely affected by:

(i) the introduction of any new regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the reasonable opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole; or

(ii) the occurrence of any local, national or international event or change, whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date of the Underwriting Agreement, of a political, financial, economic currency, market or other nature (whether or not ejusdem generis with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the reasonable opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole; or

(iii) any material adverse change in the business or in the financial or trading position or prospects of the Group as a whole; or

(iv) any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out which would, in the reasonable opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole; or

(v) there occurs or comes into effect the imposition of any moratorium, suspension or material restriction on trading in the Shares generally on the Stock Exchange due to exceptional financial circumstances or otherwise; or

(vi) the commencement by any third party of any litigation or claim against any member of the Group which is or might be material to the Group taken as a whole; or

(b) any material adverse change in market conditions (including, without limitation, a change in fiscal or monetary policy or foreign exchange or currency markets, suspension or restriction of trading in securities, imposition of economic sanctions, on Hong Kong, the PRC or other jurisdiction relevant to the Group or any member of the Group and a change in currency conditions (which includes a change in the system under which the value of the Hong Kong currency is pegged with that of the currency of the United States of America) occurs which in the reasonable opinion of the Underwriter makes it inexpedient or inadvisable to proceed with the Rights Issue; or

(c) this circular or the Prospectus when published contain information (either as to business prospects or the condition of the Group or as to its compliance with any laws or the Listing Rules or any applicable regulations) which has not prior to the date of the Underwriting Agreement been publicly announced or published by the Company and which in the reasonable opinion of the Underwriter is material to the Group as a whole and is likely to affect materially and adversely the success of the Rights Issue or might cause a prudent investor not to accept the Rights Shares provisionally allotted to it.

If, at or prior to the Latest Time for Termination,

(i) any material breach of any of the warranties or undertakings of the Company under the Underwriting Agreement comes to the knowledge of the Underwriter;

(ii) any Specified Event comes to the knowledge of the Underwriter; or

(iii) any breach of the irrevocable undertakings from Crosby Management in respect of the Rights Shares and RCPS,

the Underwriter shall also be entitled by notice in writing to the Company prior to the Latest Time for Termination to terminate the Underwriting Agreement and the obligations of all parties under the Underwriting Agreement shall terminate forthwith.

**Conditions Precedent of the Rights Issue**

The obligations of the Underwriter under the Underwriting Agreement and the completion of the Rights Issue are conditional upon, among other things, the following conditions precedent being fulfilled or waived:

(a) the Company despatching this circular to the Shareholders;

(b) the passing of the resolutions by the Shareholders' (or Independent Shareholders', as the case maybe) approving the Share Consolidation and the Rights Issue at the EGM by way of poll no later than the Posting Date;

(c) the Listing Committee of the Stock Exchange granting or agreeing to grant in principle (subject to allotment of Rights Shares) and not having withdrawn or revoked the listing of and permission to deal in all the Rights Shares in their nil-paid and fully paid forms before the Posting Date;

(d) the Listing Committee of the Stock Exchange granting or agreeing to grant in principle and not having withdrawn or revoked the listing of and permission to deal in the Consolidated Shares;

(e) the Company despatching the Prospectus Document to Qualifying Shareholders on or before the Posting Date;

(f) the Share Consolidation having become effective;

(g) the Underwriting Agreement not being terminated by the Underwriter pursuant to its terms;

(h) the Company complying with all its undertakings and obligations under the terms of the Underwriting Agreement; and

(i) Crosby Management having fulfilled its obligations under its undertakings in respect of the Rights Issue (details of which are stated below in this circular).

Save for conditions precedent (g) to (i) above, none of the above conditions precedent is capable of being waived. In the event that the above conditions are not satisfied and/or waived in whole or in part, by the Underwriter on or before 31 October 2011 or such other time and date as agreed between the Company and the Underwriter in writing, the Underwriting Agreement shall terminate and the Rights Issue will lapse accordingly.

**Irrevocable undertakings from Crosby Management with respect to the Rights Issue**

As at the Latest Practicable Date, Crosby Management and its associates were interested in an aggregate of 130,000,000 Existing Shares, representing approximately 26.5% of the entire issued share capital of the Company.

On 2 June 2011, Crosby Management has irrevocably undertaken to the Company, that (i) it will not dispose of the 130,000,000 Existing Shares it beneficially owns up to the final date of acceptance of the Rights Shares; and (ii) it will accept and pay for its entire entitlement to the subscription of 13,000,000 Rights Shares under the Rights Issue in respect of the 130,000,000 Existing Shares held by them as at the Latest Practicable Date.

**PRINCIPAL TERMS OF THE RCPS**

Please refer to Appendix IV for the principal terms of the RCPS.

The RCPS Conversion Price of HK$1.23 per Consolidated Share represents the theoretical ex-rights entitlement price of the Existing Shares, which is derived from the following formula:

$$\frac{\text{HK\$1.66 per Consolidated Share } \textit{(Note 1)} \times 49{,}059{,}798 \text{ issued Consolidated Shares} + \text{HK\$0.80 per Rights Share } \textit{(Note 2)} \times 49{,}059{,}798 \text{ Rights Shares}}{(49{,}059{,}798\ \textit{(Note 3)} + 49{,}059{,}798\ \textit{(Note 4)}) \text{ Consolidated Shares}}$$

where

| | | | |
|---|---|---|---|
| *Note 1:* | HK$1.66 per Consolidated Share | = | the average closing price of 30 consecutive trading days (15 April 2011 to 1 June 2011) on GEM immediately prior to the date of the Announcement and adjusted for the effect of the Share Consolidation; |
| *Note 2:* | HK$0.80 per Rights Share | = | Subscription Price of Rights Issue; |

*Note 3:* The 49,059,798 issued Consolidated Shares being the number of Shares (adjusted for the Share Consolidation) in issue as of the date of the Announcement and the Latest Practicable Date; and

*Note 4:* The 49,059,798 Rights Shares being the number of Rights Shares undertaken by the Underwriter and Crosby Management.

The above formula is the theoretical ex-rights entitlement price and does not take into consideration the effect of the Rights Issue on the trading price of the Shares of the Company.

The RCPS Conversion Price represents (i) a discount of approximately 18% to the closing price of HK$1.50 per Consolidated Share, based on the closing price of HK$0.15 per Existing Share as quoted on the Stock Exchange on the day prior to the date of the Announcement and adjusted for the effect of the Share Consolidation; and (ii) a premium of approximately 38.20% to the closing price of HK$0.89 per Consolidated Share, based on the closing price of HK$0.089 per Existing Share as quoted on the Stock Exchange on the Latest Practicable Date and adjusted for the effect of the Share Consolidation.

Upon the issue of the RCPS becoming effective, Qualifying Shareholders and holders of nil-paid Rights Shares will be entitled to subscribe in part or in full for the RCPS to which they are entitled.

**Conditions Precedent of the RCPS**

The issuance of the RCPS is conditional upon, inter alia, the following conditions being fulfilled:

(a) the passing of the resolutions by the Shareholders' (or Independent Shareholders' as the case may be) approving the issue of the RCPS at the EGM by way of poll no later than the Posting Date;

(b) the Listing Committee of the Stock Exchange having granted the approval of the listing of, and permission to deal in, the Consolidated Shares that may fall to be issued upon exercise of the conversion rights attaching to the RCPS;

(c) the Rights Issue becoming unconditional; and

(d) the Capital Reorganization having become effective.

It should be noted that in the event that the issuance of the RCPS does not become unconditional save for the condition (c) above, the Rights Issue shall nevertheless proceed (provided that it becomes unconditional) without the option to subscribe for the RCPS.

In the event that any of the conditions is not fulfilled by the Latest Time for Termination, the issuance of the RCPS shall lapse.

**Fractions of RCPS**

The Company will not issue any fractions of RCPS. Any fractional entitlements of RCPS will be rounded down to the nearest whole figure.

**Irrevocable undertakings from Crosby Management with respect to the RCPS**

In addition to its irrevocable undertakings with respect to the subscription of its entitlement to the Rights Shares, Crosby Management has also undertaken to exercise its option to subscribe for 6,500,000 RCPS, to which it is entitled under the Rights Issue.

**Application for listing**

The RCPS will not be listed in any stock exchange. The Company will apply to the Stock Exchange for the listing of and permission to deal in the Consolidated Shares upon conversion of the RCPS.

**Completion**

Completion of the issuance of RCPS shall take place on the same day as the issue of the Rights Shares subject to the above conditions being fulfilled or waived, as the case may be, or such other date as may be determined by the Company.

## CHANGES IN THE SHAREHOLDING STRUCTURE OF THE COMPANY

Set out below is the shareholding structure of the Company as at the date of this circular and the possible changes upon completion of the Rights Issue and the conversion of the RCPS for illustration purposes only:

### (a) Scenario 1

Assuming no Exercisable Outstanding Options, Outstanding Convertible Bonds and Outstanding Warrants are exercised on or before the Record Date:

| | As at the Latest Practicable Date | | Immediately after Share Consolidation but before completion of Rights Issue | | Assuming all Shareholders are Qualifying Shareholders and take up his/her/its entitlement under the Rights Issue | | Assuming no Qualifying Shareholders take up his/her/its entitlement under the Rights Issue except Crosby Management | | Assuming all Shareholders are Qualifying Shareholders and take up his/her/its entitlement under the Rights Issue and fully convert their RCPS at the RCPS Conversion Price | |
|---|---|---|---|---|---|---|---|---|---|---|
| | *No. of Shares* | *%* | *No. of Shares* | *%* | *No. of Shares* | *%* | *No. of Shares* | *%* | *No. of Shares* | *%* |
| **Existing and Ex-Directors** *(Note 3)* | 33,970,743 | 6.92 | 3,397,074 | 6.92 | 6,794,148 | 6.92 | 3,397,074 | 3.46 | 28,336,568 | 6.92 |
| **Crosby Management** | 130,000,000 | 26.50 | 13,000,000 | 26.50 | 26,000,000 | 26.50 | 26,000,000 | 26.50 | 108,439,024 | 26.50 |
| **Outstanding Convertible Bond holders** | | | | | | | | | | |
| Main Wealth Enterprises Limited *(Note 1)* | 15,000,000 | 3.06 | 1,500,000 | 3.06 | 3,000,000 | 3.06 | 1,500,000 | 1.53 | 12,512,195 | 3.06 |
| Hidy Investment Limited *(Note 1)* | 15,000,000 | 3.06 | 1,500,000 | 3.06 | 3,000,000 | 3.06 | 1,500,000 | 1.53 | 12,512,195 | 3.06 |
| **Underwriter and sub-underwriters** *(Note 2)* | – | – | – | – | – | – | 36,059,798 | 36.75 | – | – |
| **Public Shareholders** | 296,627,241 | 60.46 | 29,662,724 | 60.46 | 59,325,448 | 60.46 | 29,662,724 | 30.23 | 247,430,527 | 60,46 |
| **Total** | 490,597,984 | 100.00 | 49,059,798 | 100.00 | 98,119,596 | 100.00 | 98,119,596 | 100.00 | 409,230,509 | 100.00 |

*Notes:*

1. Main Wealth Enterprises Limited and Hidy Investment Limited are independent third parties not connected with the Company and its connected parties and they are considered as public Shareholders.

2. The Underwriter has procured sub-underwriters to underwrite the Rights Shares. As stipulated in the sub-underwriting agreements with the sub-underwriters, the sub-underwriters have confirmed with the Underwriter that they would not be obliged to make a mandatory offer for all the Existing Shares by reason of them taking up any Rights Shares. Each of the Underwriter and sub-underwriters is an independent third party not connected with the Company and its connected parties. Each of the Underwriter and the sub-underwriters and their respective ultimate beneficial owners does not have any shareholding in the issued share capital of the Company.

3. Ulric Leung Yuk Lun, an Executive Director, purchased 110,000 Existing Shares on 3 June 2011.

**(b) Scenario 2**

Assuming the Exercisable Outstanding Options, Outstanding Convertible Bonds and Outstanding Warrants are exercised in full on or before the Record Date:

| | As at the Latest Practicable Date | | Immediately after Share Consolidation and upon exercise of all the Exercisable Outstanding Options, Outstanding Warrants and Outstanding Convertible Bonds but before completion of Rights Issue | | Assuming all the Shareholders are Qualifying Shareholders and take up their entitlement under Rights Issue | | Assuming no Qualifying Shareholders take up their entitlement under Rights Issue except Crosby Management | | Assuming all Shareholders are Qualifying Shareholders and take up their entitlement under the Rights Issue and fully convert their RCPS at the RCPS Conversion Price | |
|---|---|---|---|---|---|---|---|---|---|---|
| | *No. of Shares* | *%* | *No. of Shares* | *%* | *No. of Shares* | *%* | *No. of Shares* | *%* | *No. of Shares* | *%* |
| **Existing and Ex-Directors** *(Note 6)* | 33,970,743 | 6.92 | 8,664,113 *(Note 2)* | 4.35 | 17,328,226 | 4.35 | 8,664,113 | 3.49 | 72,271,381 | 4.35 |
| **Crosby Management** | 130,000,000 | 26.50 | 13,000,000 | 6.52 | 26,000,000 | 6.52 | 26,000,000 | 10.47 | 108,439,024 | 6.52 |
| **Holders of Outstanding Convertible Bonds and Outstanding Warrants** | | | | | | | | | | |
| Main Wealth Enterprises Limited *(Note 1)* | 15,000,000 | 3.06 | 25,835,128 | 12.96 | 51,670,256 | 12.96 | 25,835,128 | 10.40 | 215,502,775 | 12.96 |
| Hidy Investment Limited *(Note 1)* | 15,000,000 | 3.06 | 24,096,905 | 12.09 | 48,193,810 | 12.09 | 24,096,905 | 9.70 | 201,003,451 | 12.09 |
| Greyhound International Limited *(Note 1)* | – | – | 24,676,313 | 12.38 | 49,352,626 | 12.38 | 24,676,313 | 9.94 | 205,836,562 | 12.38 |
| Win World Profits Limited *(Note 1)* | – | – | 35,923,286 | 18.02 | 71,846,572 | 18.02 | 35,923,286 | 14.46 | 299,652,775 | 18.02 |
| Others *(Note 4)* | – | – | 37,423,290 | 18.78 | 74,846,580 | 18.78 | 37,423,290 | 15.07 | 312,165,004 | 18.78 |
| **Underwriter and its sub-underwriters** | – | – | – | – | – | – | 36,059,798 | 14.52 | – | – |
| **Public Shareholders** | 296,627,241 | 60.46 | 29,690,724 *(Note 3)* | 14.90 | 59,381,448 | 14.90 | 29,690,724 | 11.95 | 247,664,088 | 14.90 |
| **Total** | 490,597,984 | 100.00 | 199,309,759 | 100.00 | 398,619,518 | 100.00 | 248,369,557 *(Note 5)* | 100.00 | 1,662,535,060 | 100.00 |

*Notes:*

(1) Main Wealth Enterprises Limited, Hidy Investment Limited, Greyhound International Limited and Win World Profits Limited are all independent third parties not connected with the Company and its connected parties.

(2) The 8,664,113 Consolidated Shares consist of (i) 3,397,074 Consolidated Shares based on their existing shareholdings as a result of the Share Consolidation, (ii) 2,370,000 Consolidated Shares upon the exercise of their 23,700,000 Outstanding Options and (iii) 2,897,039 Consolidated Shares upon conversion of HK$5,000,000 Outstanding Convertible Bonds.

(3) The 29,690,724 Consolidated Shares consist of 29,662,724 Consolidated Shares based on their existing shareholdings as a result of the Share Consolidation and 28,000 Consolidated Shares upon the exercise of 280,000 Outstanding Options.

(4) Each of the other Outstanding Convertible Bond holders and Outstanding Warrant holders is holding less than 10% of the enlarged issued share capital of the Company upon exercise of their rights and therefore they are considered as public Shareholders of the Company.

(5) As the Rights Issue is only partially underwritten as to 36,059,798 Rights Shares, a total of 150,249,961 Rights Shares will lapse if no Qualifying Shareholders (save for Crosby Management) take up their entitlement to Rights Shares and if there is no excess application for Rights Shares.

(6) Ulric Leung Yuk Lun, an Executive Director, purchased 110,000 Existing Shares on 3 June 2011.

## FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

| Date of announcement | Event | Gross amount raised | Intended Use of proceeds | Actual use of proceeds as at the date of the Announcement |
|---|---|---|---|---|
| 25 June 2010 | Issue of 130,000,000 Existing Shares at issue price of HK0.13 per Existing Share | HK$16.9 million | For settlement of part of the consideration for acquiring 100% interest in Shikumen Capital Management (HK) Limited | Used as intended |
| 21 September 2010 | Issue of the unlisted warrants | HK$9 million if the warrants are exercised in full. As at the date of this circular, an aggregate sum of HK$4.5 million has been received by the Company upon conversion of 30,000,000 warrants. The Outstanding Warrants of HK$4.5 million are not yet exercised. | General working capital and/or future development of the Group | Used as intended |

| Date of announcement | Event | Gross amount raised | Intended Use of proceeds | Actual use of proceeds as at the date of the Announcement |
|---|---|---|---|---|
| 4 October 2010 | Issue of Tranche 1 Convertible Bonds | Principal amount of HK$160 million | The net amount of approximately HK$156 million for repurchasing the old convertible bonds due 2011 of the Company | Used as intended |
| 30 March 2011 | Issue of Tranche 2 Convertible Bonds | Principal amount of HK$90 million | Approximately HK$86 million for general working capital, in particular for the expansion and development of the asset management business after the acquisition of Shikumen Capital Management (HK) Limited, and for settling part of the consideration for acquiring an office unit, details as set out in the announcement dated 12 November 2010 | Used as intended |

Save as disclosed above, the Company has not conducted any other equity fund raising activities in the past twelve months before the date of this circular.

## REASONS FOR THE RIGHTS ISSUE AND THE ISSUE OF THE RCPS AND USE OF PROCEEDS

The Group is engaged in the business of asset management and direct investment.

(a) Use of proceeds under Scenario 1 where all Exercisable Outstanding Options, Outstanding Convertible Bonds and Outstanding Warrants remain unexercised or are not converted as at the Record Date:

| | **Estimated Net Proceeds** | **Use of Proceeds** |
|---|---|---|
| Minimum net proceeds (after expenses) of the Rights Issue and from the initial RCPS subscription payment (as covered by the Underwriting Agreement and the undertaking of Crosby Management) | Approximately HK$41.48 million (including initial RCPS subscription payment by Crosby Management only)<br><br>Approximately HK$55.54 million if all Shareholders are Qualifying Shareholders and elect for the subscription of their RCPS | (i) general working capital for the day-to-day operation of the Group which includes investing in funds and participating in co-investments managed by the Group; and<br><br>(ii) expansion of the existing business of the Group including but not limited to expansion of the investment team and expansion of associated office space (by purchase or lease of new office premises). |
| If only Crosby Management pays up the balance of RCPS Subscription Price upon conversion of the RCPS into Consolidated Shares | Addition of approximately HK$96.33 million | (i) increase the scale of its investments in funds and co-investments managed by the Group;<br><br>(ii) to make acquisitions of new financial services businesses complementary to the Group's strategies, including but not limited to asset management firms; and<br><br>(iii) additional personnel and premises for such acquired businesses. |
| If all other Shareholders are Qualifying Shareholders and elect for the subscription of their RCPS and pay up the balance of the RCPS Subscription Price upon conversion of the RCPS | Addition of approximately HK$267.20 million | (i) utilize 33.3% of the additional proceeds for acquisition of new business;<br><br>(ii) 33.3% for expansion of the existing business of the Group; and<br><br>(iii) the remaining for general working capital for the day-to-day operation of the Group. |

(b) Use of proceeds under Scenario 2 where all Exercisable Outstanding Options, Outstanding Convertible Bonds and Outstanding Warrants are exercised or converted in full before the Record Date:

| | Estimated Net Proceeds | Use of Proceed |
|---|---|---|
| Net proceeds of the Rights Issue and from the initial RCPS subscription payment assuming all the Shareholders are Qualifying Shareholders and participate in the Rights Issue | Approximately HK$156.61 million from the Rights Issue only<br><br>Approximately HK$234.34 million (Rights Issue together with the initial RCPS subscription payment by all Qualifying Shareholders) | (i) 50% of the proceeds as general working capital for the day to day operation which includes investing in funds and participating in co-investments managed by the Group and expansion of the existing business of the Group including but not limited to expansion of the investment team and expansion of associated office space (by purchase or lease of new office premises); and<br><br>(ii) 50% of the proceeds to make acquisitions of new financial services businesses complementary to the Group's strategies, including but not limited to asset management firms and additional personnel and premises for such acquired business. |
| If all the Qualifying Shareholders fully pay up the balance of the RCPS Subscription Price upon conversion of the RCPS into Consolidated Shares | Addition of approximately HK$1,476.89 million | (i) 30% of the additional proceeds for investing in funds and participating in co-investments managed by the Group;<br><br>(ii) 20% for expansion of the existing business of the Group;<br><br>(iii) 30% for acquisition of new business; and<br><br>(iv) 20% for general working capital, including redemption of the Outstanding Convertible Bonds (if any). |

In year 2010, the Group underwent a restructuring of its business and has acquired Shikumen so as to expand its asset management services. Currently, Shikumen has assets under management of approximately US$130 million. After the Group's restructuring, the Group wishes to utilize its resources more efficiently and the Directors consider that it is time to expand its existing business or invest in new investment business in the near future so as to strengthen the Group's income base and balance sheet. The Group intends to increase its assets under management in different asset classes either by launching new investment funds under its management or via acquisitions of other asset management firms. Under both Scenarios 1 and 2, as part of the above strategy to increase its assets under management, the Group may consider to invest as an anchor investor in future, subsequent follow-on funds of the BlackPine Private Equity Partners Fund which is currently managed by Shikumen, or such other new investment funds which may be launched and managed by the Group from time to time. As of the Latest Practicable Date, the Group has no concrete time table for launching such follow-on funds and/or other new funds and the timing and scale of the launch of such follow-on funds and/or new funds is highly uncertain.

The risks for the Group associated with investing in funds are mainly the macroeconomic risks, business risks, market risks, regulatory risks and the liquidity risks of the funds and their underlying investments. There is no guarantee that investments in such funds may necessarily generate gains or be able to preserve capital for the Group. However, managing these funds is expected to generate management fee income and, if profits are generated in these funds, performance fees for the Group.

The Group may also from time to time discuss with fund management companies with a view to invest in them in return for equity interests in the fund management companies or economic shares in their income. Investing in these fund management companies in return for equity or share of income will be affected by the management of these fund management companies, their ability to grow assets under management, as well as the performance of the funds managed by these companies. The Group will normally receive equity interests in the fund management companies and/or share a percentage of the fund management companies' management fees and/or performance fees (if any) as its return. However, where the funds managed by the fund management companies do not generate positive returns, the fund management companies may not be able to receive any performance fees. As such, there may not be any guarantee of profits or capital preservation for the Group's investments in these fund management companies. Given Shikumen's current assets under management has already reached approximately US$130 million, the Directors are of the view that the Group possesses the expertise and experience to expand its assets under management by launching and investing in new funds under its management and identifying suitable fund management companies as investment targets with the right balance of returns and risks. The Directors consider that managing and investing in new funds under the Group's management and investing in fund management companies are in the ordinary course of business of the Group and in the interests of the Company and its shareholders as a whole.

However, the ability to finance the above plans will largely be dependent upon the timing of payment and the amount of the balance of the RCPS Subscription Price being paid to the Company upon conversion of the RCPS, which is uncertain as of the Latest Practicable Date. No definitive agreements have been entered into with any third parties and no definitive acquisition targets have been identified as of the Latest Practicable Date. In view of the uncertainty of the timing of the payment of the balance of the RCPS Subscription Price (if any), which spreads across a period of 5 years, it is difficult for the Company to enter into any agreements for any definite, substantive investment at this stage. The Company will make announcements of such plans when they materialise in accordance with the requirements of the GEM Listing Rules.

The Rights Issue will give the Qualifying Shareholders an equal opportunity to maintain their respective pro rata shareholding interests in the Company and participate in the growth of the Company, whilst the RCPS provides Shareholders with an option of possible further investment in the Company at a discount to the closing price of the Existing Shares at the Last Trading Day while lowering the investment risk by having an option to redeem the RCPS on or before maturity (subject to exercise of the early redemption option). Hence, the Board considers that fund raising through the Rights Issue and RCPS is in the interest of the Company and the Shareholders as a whole.

## IMPLICATION UNDER THE GEM LISTING RULES

The Rights Issue would increase the issued share capital of the Company by more than 50%. Therefore, under Rule 10.29(1) of the GEM Listing Rules, the Rights Issue must be made conditional on approval by the Shareholders in the EGM in which any controlling shareholders and their associates or, where there are no controlling shareholders, Directors (excluding the independent non-executive Directors) and the chief executive of the Company and their respective associates shall abstain from voting in favour. The Company has no controlling shareholder as at the date of this circular, therefore, the Directors (excluding the independent non-executive Directors) and their associates (including Mr. Johnny Chan Kok Chung, Crosby Management and Mr. Ulric Leung Yuk Lun, who are interested in an aggregate of 162,743,058 Existing Shares, representing 33.2% of the total issued Shares as at the date of this circular) are required to abstain from voting in favour of the Rights Issue at the EGM. Save as disclosed above and to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no other Shareholder or Director (other than independent non-executive Directors) will be required to abstain from voting in favour of the resolution to approve the Rights Issue at the EGM.

### Issue of cash company under Rule 19.82 of the GEM Listing Rules

Rule 19.82 of the GEM Listing Rules stipulates that if the assets of a listed issuer consist wholly or substantially of cash or short-dated securities, it will not be regarded as suitable for listing and trading in its securities will be suspended. Pursuant to Rule 19.84 of the GEM Listing Rules, the listed issuer may apply to the Stock Exchange to lift the suspension once it has a business suitable for listing. The Stock Exchange will treat its application for lifting of the suspension as if it were an application for listing from a new applicant. The Stock Exchange reserves the right to cancel the listing if such suspension continues for more than six months or in any other case where it considers it necessary.

The Company would like to draw the attention of all Shareholders and investors to the situation which may arise, if all of the following events occur.

(i) all existing holders of the Outstanding Convertible Bonds, Outstanding Warrants and Exercisable Outstanding Options exercise their conversion rights before the Record Date and choose to participate in the Rights Issue; and

(ii) all Shareholders (including those arising from (i) above) participate in the Rights Issue and elect to subscribe for the RCPS in full; and

(iii) all the holders of the RCPS pay up the residual consideration of the RCPS to convert them into ordinary shares of the Company shortly thereafter.

The Company's cash might be increased by an aggregate sum of HK$1,711.23 million of proceeds from the Rights Issue and the subscription of the RCPS, resulting in a cash-to-total assets ratio over 93% (with reference to the cash position of the Group as at 31 December 2010 and taking into account the issue of the Outstanding Convertible Bonds after 31 December 2010 and acquisition of property, details of which were set out in the circular of the Company dated 13 December 2010).

Under such circumstances, the Company may become a "cash company" as stipulated under Rule 19.82 of the GEM Listing Rules after the completion of the proposed Rights Issue and payment of RCPS Subscription Price. The cash level of the Company and the cash-to-total assets ratio will vary according to the level of acceptance of the Rights Issue and the subscription of RCPS, the chance of conversion of the Company's outstanding convertible securities and the timing of the RCPS conversion. Shareholders and investors should also note that the Company may trigger suspension of trading in the Shares under Rule 19.82 of the GEM Listing Rules after completion of the Rights Issue even with a lower level of acceptance or conversion of existing convertible securities or RCPS as compared with the situation stipulated above depending on the then financial and operational conditions of the Company.

The Directors consider that it is not ascertainable whether all of the above conditions would occur. However, the Directors consider that it is unlikely that all the holders of the Outstanding Convertible Bonds, the Outstanding Warrants and the Exercisable Outstanding Options will exercise their conversion rights before the Record Date as some of them may be "out of the money" as at the Record Date. The conversion price of the Outstanding Convertible Bonds is HK$0.17259 (subject to adjustments) per Existing Share, the exercise price of the Outstanding Warrants is HK$0.15 (subject to adjustments) per Existing Share and the exercise price for the Exercisable Outstanding Options ranges from HK$0.18 to HK$7.70 per Existing Share. The closing price of the Existing Shares was HK$0.089 per Existing Share as of the Latest Practicable Date. Therefore, the Outstanding Convertible Bonds, the Outstanding Warrants and the Exercisable Outstanding Options are all currently out of the money.

The Directors also consider that the chance of the RCPS holders exercising their rights to convert the RCPS into Shares at the same time resulting in a sudden inflow of substantial cash into the Company is low. The Directors do not envisage the full amount of HK$1,711.23 million would be paid to the Company simultaneously, as the majority of this amount, being HK$1,476.89 million, might only be paid to the Company upon conversion of all the RCPS over the course of a five year period.

Notwithstanding the above, the Directors propose to include certain restrictions in the terms of the RCPS to limit the conversion of the RCPS if the Directors envisage that such conversion would ultimately lead to the Shares of the Company being suspended for trading pursuant to Rule 19.82 of the GEM Listing Rules. Details on the conversion restrictions of the RCPS are set out in Appendix IV to this circular.

**PROPOSED CAPITAL REDUCTION**

The Company proposes to put forward to the Shareholders a Capital Reduction proposal which will take place after the completion of the Rights Issue (together with, subject to the satisfaction of the conditions precedent of the RCPS, the option to subscribe for the RCPS) and will involve the following:

(i) the reduction of issued share capital whereby the par value of each issued Consolidated Share and RCPS will be reduced from US$0.10 to US$0.01 by canceling US$0.09 of the paid-up capital on each issued Consolidated Share and RCPS;

(ii) each authorised but unissued Consolidated Share and RCPS of par value of US$0.10 will be subdivided into 10 unissued Adjusted Shares;

(iii) the board proposes to transfer and apply the credit arising from the Capital Reduction along with the entire amount standing to the credit of the share premium account of the Company to set off substantially against the accumulated losses of the Company and be otherwise applied in such manner as is permitted by and subject to the laws of the Cayman Islands and the Articles of the Company.

**Effect of the Capital Reduction**

As at the date of this circular, the authorised share capital of the Company is US$40,001,000 divided into 4,000,000,000 Shares of US$0.01 each and 100,000 convertible redeemable preference shares of US$0.01 each, of which 490,597,984 ordinary shares are in issue and are fully paid and nil convertible redeemable preference shares are in issue. Upon the Capital Reorganization becoming effective and the completion of the Rights Issue, the authorised share capital of the Company will become US$200,000,000 consisting of 2,000,000,000 Consolidated Shares divided into (a) 1,900,000,000 Consolidated Shares of US$0.10 each and (b) 100,000,000 RCPS of US$0.10 each, of which 98,119,596 Consolidated Shares and a minimum of 6,500,000 RCPS or a maximum of 24,529,899 RCPS of US$0.10 each will be in issue (on the assumption that no further Shares (save and except for the Rights Shares and the RCPS pursuant to the Rights Issue) will be issued or repurchased by the Company after the Latest Practicable Date). The nominal value of the issued Consolidated Shares of the Company immediately before the Capital Reduction becoming effective will be approximately US$9,811,960. By cancelling US$0.09 of the paid up capital on each issued Consolidated Share, a credit of approximately US$8,830,764 will arise as a result of the Capital Reduction.

Assuming all the Outstanding Warrants and Outstanding Convertible Bonds are exercised before the Record Date, their full participation in the Rights Issue and full subscription of the RCPS, a total of 398,619,518 Consolidated Shares and 99,654,880 RCPS will be in issue immediately after the completion of the Rights Issue. The nominal value of the issued Consolidated Shares of the Company will be approximately US$39,861,952 immediately before the Capital Reduction becoming effective. Upon the Capital Reduction becoming effective, a credit of approximately US$35,875,757 will arise.

Such credit along with the entire amount standing to the credit of the share premium account of the Company will be transferred and applied by the Directors to set off substantially against the accumulated losses of the Company. The share premium and accumulated losses of the Company were approximately US$108 million and US$139 million respectively as shown in the unaudited financial statements of the Company for the period ended 31 March 2011.

Implementation of the Capital Reduction will not, of itself, alter the underlying assets, business operations, management or financial position of the Company or the proportionate interests of the Shareholders, except for the payment of the related expenses. The Directors believe that the Capital Reduction will not have any adverse effect on the financial position of the Company and its subsidiaries and the Directors believe that on the date the Capital Reduction is to be effected, there are no reasonable grounds to believe that the Company is, or after the Capital Reduction will be, unable to pay its liabilities as they become due. No capital will be lost as a result of the Capital Reduction and, except for the expenses involved in relation to the Capital Reduction which is expected to be insignificant in the context of the net asset value of the Company, the net asset value of the Company will remain unchanged before and after the Capital Reduction becoming effective. The Capital Reduction does not involve any diminution of any liability in respect of any unpaid capital of the Company or the repayment to the Shareholders of any paid up capital of the Company. The Capital Reduction will not result in any change in the relative rights of the Shareholders.

It is expected that the completion of the Capital Reduction will take place after the completion of the Rights Issue. In the event the Rights Issue does not become unconditional, the Capital Reduction will still proceed.

**Reason for the Capital Reduction**

The Directors consider that the Capital Reduction will give greater flexibility to the Company to raise funds through the issue of new Adjusted Shares in the future and the elimination of a substantial amount of the Company's accumulated loss will allow greater flexibility for the Company to pay dividends in the future. As such, the Directors are of the view that the Capital Reduction is in the interests of the Company and the Shareholders as a whole. At this stage, there can be no assurance that a dividend will be declared or paid in the future even if the Capital Reduction becomes effective.

**Conditions of the Capital Reduction**

The Capital Reduction is conditional upon the fulfillment of the following conditions:

(i) the passing by Shareholders of a special resolution at the EGM by way of poll to approve the Capital Reduction;

(ii) an order being made by the Court confirming the Capital Reduction;

(iii) the registration by the Registrar of Companies in the Cayman Islands of a copy of the Court order and the minute approved by the Court pursuant to the Companies Law;

(iv) compliance with any conditions which the Court may impose; and

(v) the Listing Committee of the Stock Exchange granting listing of, and permission to deal in the Adjusted Shares in issue or to be issued by the Company.

An application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Adjusted Shares.

Upon the conditions mentioned above being fulfilled, the Capital Reduction and the listing of the Adjusted Shares will become effective. A further announcement will be made by the Company to inform the shareholders of the arrangements for the free exchange of the Adjusted Share certificates for the Consolidated Share certificates.

The Capital Reduction is tentatively scheduled to be completed in mid November 2011, the date of which is subject to the fulfillment of the conditions of the Capital Reduction and the sanction of the Court. Free exchange of share certificates for the Consolidated Shares into new certificates for the Adjusted Shares will commence after the Capital Reduction becomes effective. Further announcement will be made by the Company when the timetable for the Capital Reduction can be confirmed.

**ADJUSTMENT IN RELATION TO THE OUTSTANDING OPTIONS, OUTSTANDING WARRANTS AND OUTSTANDING CONVERTIBLE BONDS**

Upon the Capital Reorganization becoming effective and the completion of the Rights Issue, the exercise price and the number of the Consolidated Shares to be issued under the Outstanding Options, Outstanding Convertible Bonds and the Outstanding Warrants, respectively, will be adjusted in accordance with the relevant anti-dilution provisions of the agreements relating to the Outstanding Options, Outstanding Convertible Bonds and the Outstanding Warrants, respectively. As such adjustments can only be finalized after the Record Date, the Company will make an announcement of such adjustments in due course.

**SPECIFIC MANDATE FOR ADJUSTMENT TO THE OUTSTANDING WARRANTS**

The Directors propose to seek a specific mandate from the Shareholders to issue additional Shares to be allotted and issued pursuant to the anti-dilution adjustment to the exercise price of the Outstanding Warrants as a result of the Rights Issue and the RCPS, and any other future adjustments to such exercise price under the Terms and Conditions of the Warrants.

As at the Latest Practicable Date, the Company had 30,000,000 Outstanding Warrants. The Outstanding Warrants entitle the holders thereof to subscribe for Existing Shares at the exercise price of HK$0.15 per Existing Share (subject to adjustment). Upon the Share Consolidation becoming effective, the exercise price and the number of Consolidated Shares to be issued upon exercise of the Outstanding Warrants will be adjusted to HK$1.50 per Consolidated Share and 3,000,000 Consolidated Shares, respectively.

The Outstanding Warrants were issued as part of the consideration for the repurchase of all the outstanding Previous Bonds as set out in the announcement dated 21 September 2010 and the Shares upon the exercise of the Outstanding Warrants are to be issued pursuant to the general mandate granted on 7 May 2010 which allows the Company to issue a total of 66,119,590 Existing Shares. As at the Latest Practicable Date, the general mandate was utilised as to 30,000,000 Existing Shares upon the exercise of the warrants of the Company in November 2010.

The Terms and Conditions of the Warrants provides for customary adjustments to be made to the exercise price and the number of Shares to be issued upon exercise of the Outstanding Warrants in the event the Company issues Shares to all or substantially all Shareholders by way of rights issue at less than 90% of the market price per Share on the date of the announcement of the terms of the offer or grant, the market price being the average of the closing prices per Share for the thirty consecutive trading days on which the Shares were quoted on GEM prior to such announcement.

Set out below is the provision of the adjustment in relation to the rights issue as set out in the Terms and Conditions of the Warrants:

Adjusted exercise price of the Outstanding Warrants = current exercise price multiplied by

$$\frac{G+H}{G+I}$$

where:

G = the number of Shares in issue immediately before the date of such announcement;

H = the number of Shares which the aggregate of the amount (if any) payable for the rights, options or warrants and of the amount payable for the total number of new Shares comprised therein would purchase at such market price; and

I = the aggregate number of Shares offered for subscription or comprised in the options or warrants being granted.

Assuming none of the Outstanding Convertible Bonds and Outstanding Options are converted before the Record Date, the relevant figures for the variables applicable to the above formula shall be:

G = 49,059,798, being the number of Shares in issue as of the date of the Announcement as adjusted for the effect of the Share Consolidation;

H = 254,165,219, being the number of Shares which HK$421,914,263, being the aggregate amount payable for the Rights Shares and the RCPS (based on (i) HK$0.80 for each Rights Share and 49,059,798 Rights Shares being issued; and (ii) US$2.00 for each RCPS and a maximum of 24,529,899 RCPS being issued pursuant to the terms of the Rights Issue) would purchase at the 30-trading-day average of the closing prices of the Shares of the Company prior to the Announcement, being HK$1.66 per Consolidated Share; and

I = 360,170,712, being the aggregate number of 49,059,798 Rights Shares and 311,110,914 ordinary Shares issued upon full conversion of the 24,529,899 RCPS.

Therefore, under the scenario above, the adjusted exercise price of the Outstanding Warrants would become HK$1.111 per Consolidated Share. As the Outstanding Warrants are denominated in Hong Kong Dollars, the number of Consolidated Shares that would be issued upon the exercise of the Outstanding Warrants would be adjusted to 4,050,405, which exceeds the general mandate pursuant to which the Outstanding Warrants were issued by 438,446 Consolidated Shares. Therefore, the Directors consider that it is necessary to obtain a specific mandate from the Shareholders to issue such additional Shares to be issued pursuant to the above adjustment, and any other future adjustments to such exercise price under the Terms and Conditions of the Warrants.

The above calculation is based on the assumption that none of the Outstanding Convertible Bonds and Outstanding Options are converted or exercised before the Record Date. Therefore, the above adjusted exercise price is for illustrative purposes only and may not be the actual adjustment. The actual adjustment is subject to the actual number of Rights Shares to be issued which in turn shall be affected by the participation rate in the Rights Issue of the Shares that might be issued as a result of the conversion or exercise of the Outstanding Convertible Bonds and the Outstanding Options, as the case may be, prior to the Record Date. As such, the number of additional Shares as a result of the Rights Issue cannot be fixed at this moment.

In the event that the specific mandate for the adjustment to the Outstanding Warrants is not approved by Shareholders at the EGM, the maximum number of Consolidated Shares that can be issued upon exercise of the Outstanding Warrants would be 3,611,959 Consolidated Shares (which is equal to the residual number of Consolidated Shares that may be utilized under the general mandate dated 7 May 2010). The adjustment to the Shares to be issued upon the exercise of the Outstanding Warrants will not be effected and the other terms of the Outstanding Warrants pursuant to the Terms and Conditions of the Warrants will continue to be in effect. The Existing Shares which had been previously issued as a result of the exercise of the warrants would not be affected.

A further announcement will be made by the Company in respect of such adjustments as and when appropriate.

**SPECIFIC MANDATE FOR ADJUSTMENT TO THE OUTSTANDING OPTIONS**

Pursuant to GEM Listing Rule 23.03(13), the Share Option Scheme of the Company includes provision for adjustment to the exercise price and the number of Shares to be issued upon the exercise of the share options of the Company in the event of certain corporate events, including but not limited to rights issue, that would give the holders of such options the same proportion of Shares as that to which they were entitled prior to such corporate events.

Similar to the adjustments to the Outstanding Warrants, the Directors propose to seek a specific mandate from the Shareholders to issue such additional Shares to be allotted and issued pursuant to the anti-dilution adjustment of the exercise price of the Outstanding Options as a result of the Rights Issue and the RCPS, and any other future adjustments to such exercise price under the terms of the Share Option Scheme. The Directors consider that the same adjustment factor applicable to the Outstanding Warrants shall also apply to the adjustment of the Outstanding Options. The following table sets out for illustrative purposes only the current exercise price and the Shares that will be allotted and issued upon exercise of the Outstanding Options and the effect of the proposed adjustment:

| Share option type | Date of grant | Outstanding Options as of Latest Practicable Date | Exercise Price per Existing Share | Adjusted Outstanding Options | Adjusted Exercise Price per Consolidated Share |
|---|---|---|---|---|---|
| 2002 | 27 March 2002 | 30,000 | HK$0.704 | 4,048 | HK$5.216 |
| 2006(a) | 24 March 2006 | 2,000,000 | HK$7.700 | 269,918 | HK$57.054 |
| 2006(b) | 26 April 2006 | 12,000,000 | HK$7.700 | 1,619,512 | HK$57.054 |
| 2007 | 29 January 2007 | 1,000,000 | HK$3.650 | 134,959 | HK$27.045 |
| 2008(a) | 11 February 2008 | 7,750,000 | HK$1.800 | 1,045,934 | HK$13.337 |
| 2008(b) | 29 December 2008 | 2,000,000 | HK$0.180 | 269,918 | HK$1.334 |
| 2010 | 7 October 2010 | 18,700,000 | HK$0.158 | 2,523,739 | HK$1.171 |
| TOTAL | | 43,480,000 | | 5,868,028 | |

Under the scenario above, the number of Consolidated Shares that will be issued upon the exercise of the Outstanding Options would be adjusted to 5,868,028, which represents an additional number of 1,520,028 Consolidated Shares as compared with the current maximum number of Shares that will be issued as a result of the exercise of all the Outstanding Options and adjusted for the effect of the Share Consolidation.

The adjustments to the Outstanding Options are in accordance with the terms of the Share Option Scheme and in compliance to the GEM Listing Rules.

The above calculation is based on the assumption that none of the Outstanding Convertible Bonds and Outstanding Warrants are converted or exercised before the Record Date. Therefore, the above adjusted exercise price is for illustrative purposes only and may not be the actual adjustment. The actual adjustment is subject to the actual number of Rights Shares to be issued which in turn shall be affected by the participation rate in the Rights Issue of the Shares that might be issued as a result of the conversion or exercise of the Outstanding Convertible Bonds and the Outstanding Warrants, as the case may be, prior to the Record Date. A further announcement will be made by the Company in respect of such adjustments as and when appropriate.

## WARNING OF THE RISKS OF DEALING IN THE SHARES, THE CONSOLIDATED SHARES AND THE NIL-PAID RIGHTS SHARES

Any Shareholders or other persons contemplating selling or purchasing the Rights Shares in their nil-paid form during the period from Thursday, 25 August 2011 to Wednesday, 31 August 2011 (both dates inclusive) who are in any doubt about their position are recommended to consult their professional advisers. Any Shareholders or other persons dealing in the Shares or the Adjusted Shares (as the case may be) up to the date on which all the conditions to which the Rights Issue is subject are fulfilled and/or the Latest Time for Termination (which is expected to be 4:00 p.m. on Thursday, 8 September 2011) and any persons dealing in the nil-paid Rights Shares during the above period will accordingly bear the risk that the Rights Issue may not become unconditional or may not proceed.

The Shareholders and potential investors of the Company should note that the Rights Issue is conditional upon the Share Consolidation becoming effective and the Underwriting Agreement having become unconditional and the Underwriter not having terminated the Underwriting Agreement in accordance with the terms thereof (a summary of which is set out in the sub-section headed “Termination of the Underwriting Agreement” above). Accordingly, the Rights Issue may or may not proceed.

The Shareholders and potential investors of the Company should therefore exercise extreme caution when dealing in the Shares, the Consolidated Shares or the Rights Shares in their nil-paid form, and if they are in any doubt about their position, they should consult their professional advisers.

## EGM

The notice convening the EGM is set out on pages 104 to 108 of this circular. The EGM will be held at Unit 502, 5th Floor, AXA Centre, 151 Gloucester Road, Wanchai, Hong Kong on Friday, 12 August 2011 at 2:30 p.m. for the purpose of considering and, if thought fit, to approve the Capital Reorganisation, the Rights Issue, the RCPS, the specific mandates for adjustment to the Outstanding Options and the Outstanding Warrants of the Company and the Capital Reduction.

A form of proxy for use at the EGM is enclosed. Whether or not you are able to attend the EGM in person, please complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the principal place of business of the Company at Unit 502, 5th Floor, AXA Centre, 151 Gloucester Road, Wanchai, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for the holding 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 and in such event the proxy shall be deemed to be revoked.

Subject to the Rights Issue being approved by the Independent Shareholders at the EGM by way of poll, the Prospectus Documents containing further information on the Rights Issue will be despatched to the Shareholders on or about Tuesday, 23 August 2011. Information in relation to the RCPS will also be included in the Prospectus Documents subject to the Shareholders approving the Capital Reorganization, the Rights Issue and the issue of the RCPS.

## RECOMMENDATION

An Independent Board Committee of the Company comprising the independent non-executive Directors has been established to make recommendations to the Independent Shareholders in respect of the Rights Issue and RCPS. Veda Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

Your attention is drawn to the letter from the Independent Board Committee on page 46 and the letter from Veda Capital set out on pages 47 to 72 of this circular. The Directors believe that the proposed resolutions in relation to the Capital Reorganisation and the Rights Issue are in the best interest of the Company and the Shareholders as a whole and, accordingly, the Directors recommend the Shareholders to vote in favour of the aforesaid resolutions to be proposed at the EGM.

## ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in Appendices I to IV to this circular.

Yours faithfully,
On behalf of the Board
**Crosby Capital Limited**
**Ulric Leung Yuk Lun**
*Executive Director*

*The following is the text of the letter of recommendation, prepared for the purpose of incorporation in this circular, from the Independent Board Committee to the Independent Shareholders regarding the Rights Issue:*

# CROSBY

**CROSBY CAPITAL LIMITED**

**(高誠資本有限公司)***

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 8088)**

21 July 2011

*To the Independent Shareholders*

Dear Sir or Madam,

## PROPOSED RIGHTS ISSUE ON THE BASIS OF ONE RIGHTS SHARE FOR EVERY ONE CONSOLIDATED SHARE HELD ON RECORD DATE WITH OPTION TO SUBSCRIBE FOR ONE REDEEMABLE CONVERTIBLE PREFERENCE SHARE FOR EVERY TWO RIGHTS SHARES SUBSCRIBED

We refer to the circular of the Company dated 21 July 2011 (the "Circular") of which this letter forms part. Unless the context specifies otherwise, capitalized terms used herein have the same meanings as defined in the Circular.

We have been appointed by the Board to advise the Independent Shareholders as to whether the terms of the Rights Issue are fair and reasonable insofar as the Independent Shareholders are concerned. Veda Capital has been appointed as the Independent Financial Adviser to advise you and us in this respect.

Having taken into account the principal reasons and factors considered by, and the advice of, Veda Capital as set out in its letter of advice to you and us on pages 47 to 72 of this circular, we are of the opinion that the Rights Issue, RCPS and the Underwriting Agreement are in the interests of the Company and the Shareholders as a whole and the terms of which are normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Rights Issue and the RCPS.

Yours faithfully,
For and on behalf of
**Independent Board Committee**
**Danial Yen Tzu Chen, Joseph Tong Tze Kay, David John Robinson Herratt**
*Independent Non-executive Directors*

* *for identification purpose only*

*The following is the full text of a letter of advice from Veda Capital to the Independent Board Committee and the Independent Shareholders in relation to the Rights Issue which has been prepared for the purpose of inclusion in the Circular.*

VEDA | CAPITAL
智略資本

**Veda Capital Limited**
Suite 3214, 32/F
COSCO Tower
183 Queen's Road Central
Hong Kong

21 July 2011

*To the Independent Board Committee and the Independent Shareholders of Crosby Capital Limited*

Dear Sirs,

**PROPOSED RIGHTS ISSUE ON THE BASIS OF ONE RIGHTS SHARE FOR EVERY ONE CONSOLIDATED SHARE HELD ON RECORD DATE WITH OPTION TO SUBSCRIBE FOR ONE REDEEMABLE CONVERTIBLE PREFERENCE SHARE FOR EVERY TWO RIGHTS SHARES SUBSCRIBED**

## INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in respect of the Rights Issue, details of which are set out in the section headed "Letter from the Board" (the "**Board Letter**") in the Company's circular dated 21 July 2011 (the "**Circular**") to the Shareholders, of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 2 June 2011, the Company announced, subject to the Share Consolidation becoming effective, the Company proposes to raise a minimum of approximately HK$39.25 million before expenses (assuming no Exercisable Outstanding Options, Outstanding Convertible Bonds and Outstanding Warrants are exercised before the Record Date) and a maximum of approximately HK$159.45 million before expenses (assuming all the Exercisable Outstanding Options, Outstanding Convertible Bonds and Outstanding Warrants are exercised in full before the Record Date) by way of the Rights Issue of not less than 49,059,798 Rights Shares and not more than 199,309,759 Rights Shares at the Subscription Price of HK$0.80 per Rights Share on the basis of one Rights Share for every one Consolidated Share held on the Record Date and payable in full on acceptance.

Subject to the Shareholders approving the Capital Reorganization, the Rights Issue and the issue of the RCPS, each Qualifying Shareholder and holder of nil-paid Rights Shares exercising its rights to subscribe for Rights Share(s) shall be granted an option (the

"**Option**") to subscribe for new RCPS(s) to be issued by the Company on the basis of one RCPS for every two Right Shares subscribed at the RCPS Subscription Price of US$2.00 per RCPS, of which US$0.10 per RCPS has to be paid upon subscription, with the payment of the remaining balance of US$1.90 per RCPS to be paid immediately prior to the conversion of the RCPS into ordinary shares of the Company. Holders of the RCPS will have the right, upon full payment of the RCPS Subscription Price for each RCPS, to convert the RCPS into Consolidated Shares at the RCPS Conversion Price of HK$1.23 each. It should be noted that in the event that the issuance of the RCPS does not become unconditional, the Rights Issue shall nevertheless proceed (provided that it becomes unconditional) without the Option.

The Rights Issue is only partially underwritten by the Underwriter as any new Shares that may be issued arising from the exercise or conversion of the Exercisable Outstanding Options, Outstanding Convertible Bonds and the Outstanding Warrants up until the Record Date (and therefore entitled to participate in the Rights Issue) will not be covered by the Underwriting Agreement. Pursuant to the Company's constitutional documents and the Companies Law, there are no requirements for minimum levels of subscription. Subject to fulfillment of the conditions precedent of the Rights Issue, the Rights Issue will proceed regardless of the ultimate subscription level.

The Rights Issue would increase the issued share capital of the Company by more than 50%. Therefore, under Rule 10.29(1) of the GEM Listing Rules, the Rights Issue must be made conditional on approval by the Shareholders in the EGM in which any controlling shareholders and their associates or, where there are no controlling shareholders, Directors (excluding the independent non-executive Directors) and the chief executive of the Company and their respective associates shall abstain from voting in favour. The Company has no controlling shareholder as at the Latest Practicable Date, therefore, the Directors (excluding the independent non-executive Directors) and their associates (including Mr. Johnny Chan Kok Chung, Crosby Management and Mr. Ulric Leung Yuk Lun, who are interested in an aggregate of 162,743,058 Existing Shares as at the Latest Practicable Date) are required to abstain from voting in favour of the Rights Issue at the EGM.

The Independent Board Committee, comprising all the independent non-executive Directors, has been established to make recommendations to the Independent Shareholders as to whether the Rights Issue (together with the Option) is fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole and to advise the Independent Shareholders on how to vote at the EGM.

Our role as the independent financial adviser is to give our independent opinion to the Independent Board Committee and Independent Shareholders as to (i) whether the Rights Issue (together with the Option) is fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Independent Shareholders as a whole; and (ii) advise the Independent Shareholders on how to vote on the resolution at EGM in relation to the Rights Issue (together with the Option).

## BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the accuracy of the statements, information, opinions and representations contained or referred to in the Circular and the information and representations provided to us by the Company, the Directors and the management of the Company. We have no reason to believe that any information and representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the information provided and the representations made to us untrue, inaccurate or misleading. We have assumed that all information, representations and opinions contained or referred to in the Circular, which have been provided by the Company, the Directors and the management of the Company and for which they are solely and wholly responsible, were true and accurate at the time when they were made and continue to be true as at the date of the EGM.

The Directors have jointly and severally accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed in the Circular, having made all reasonable enquiries, that to the best of their knowledge and belief, the information contained in the Circular is accurate and complete in all material aspects and not misleading and deceptive, and there are no other matters, the omission of which would make any statement in the Circular misleading. We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, or its subsidiaries or associated companies.

We have not considered the tax consequences on the Qualifying Shareholders arising from the subscription for, holding of or dealing in the Rights Shares or otherwise, since these are particular to their own circumstances. We will not accept responsibility for any tax effect on, or liabilities of, any person resulting from the subscription for, holding of or dealing in the Rights Shares or the exercise of any rights attaching thereto or otherwise. In particular, Qualifying Shareholders subject to overseas taxes or Hong Kong taxation on securities dealings should consider their own tax positions with regard to the Rights Issue and, if in any doubt, should consult their own professional advisers.

This letter is issued for the information for the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Rights Issue and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

## PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation in relation to the Rights Issue, we have considered the following principal factors and reasons.

### 1. Background information of the Company

The Group is engaged in the business of asset management and direct investment.

*(i) Financial year ended 31 December 2009*

According to the annual report 2009 of the Company ("**AR 2009**"), for the year ended 31 December 2009, the Group recorded revenue of approximately US$3.66 million, representing a decrease of approximately 89.08% from that for the year ended 31 December 2008 of approximately US$33.51 million. As set out in AR 2009, the decline in revenue was mainly due to the decrease in the service fees from all business segments following the financial crisis and the closure of Forsyth asset management business. The Group reported loss attributable to Shareholders of approximately US$16.04 million for the year ended 31 December 2009, representing a decrease in loss of approximately 74.04% from that for the year ended 31 December 2008 of approximately a loss of US$61.79 million. As advised by the Company, the decrease in loss was mainly attributable to the Group recorded gain of approximately US$3.07 million on financial assets at fair value for the year ended 31 December 2009 whilst it recorded loss of approximately US$33.49 million on financial assets at fair value for the year ended 31 December 2008.

As noted from AR 2009 that auditors of the Company, even though without qualifying its opinion, had expressed a material uncertainty concerning the going concern basis of the Group's accounts for the year ended 31 December 2009 due to the conditions that as at 31 December 2009, the Group's total liabilities exceeded its total assets by approximately US$10.50 million and the Group also incurred a loss attributable to the owners of the Company of approximately US$16.04 million for the year then ended.

*(ii) Financial year ended 31 December 2010*

According to the annual report 2010 ("**AR 2010**") for financial year ended 31 December 2010, the Group recorded revenue from continuing operations of approximately US$4.73 million, representing an increase of approximately 81.23% from that for financial year ended 31 December 2009 of approximately US$2.61 million (restated). As set out in AR 2010, the improvement in revenue was mainly attributable to about four months of fee revenues arising from Shikumen which started to be consolidated by the Group in September 2010. The Group reported loss attributable to owners from continuing operations of approximately US$4.11 million for financial year ended 31 December 2010, representing an improvement of approximately 65.95% from loss for financial year ended 31 December 2009 of approximately US$12.07 million (restated). As advised by the Company, the improvement was mainly due to (i) increase in revenue as contributed by Shikumen since its acquisition by the Group; (ii) the increase in other income due to the repurchase of the Previous Bonds and the release of excess provision in respect of legal proceedings brought by a client from the wealth management business upon settlement; (iii) the decrease in restructuring expenses which were previously incurred for the year ended 31 December 2009 arising from the provision of onerous contract for the discontinued operations; and (iv) decrease in impairment of loan receivable.

*(iii) Three months ended 31 March 2011*

According to the first quarter report 2011 ("**FQR 2011**") for three months ended 31 March 2011, the Group recorded revenue from continuing operations of approximately US$0.88 million, representing an increase of approximately 87.23% from the same period in the previous year of approximately US$0.47 million (restated). As set out in FQR 2011, the improvement in revenue was mainly contributed by Shikumen which started to be consolidated by the Group in September 2010. The Group reported loss attributable to owners from continuing operations of approximately US$1.80 million for three months ended 31 March 2011, representing an increase in loss of approximately 30.43% from the same period in the previous year of approximately US$1.38 million (restated). As advised by the Company, the increase in loss from continuing operation was mainly due to the net loss of US$0.4 million from Shikumen for the three months ended 31 March 2011.

**2. Reasons for the Rights Issue and the use of proceeds**

*(a) Use of proceeds under Scenario 1 where all Exercisable Outstanding Options, Outstanding Convertible Bonds and Outstanding Warrants remain unexercised or are not converted as at the Record Date:*

| | Estimated Net Proceeds | Use of Proceeds |
|---|---|---|
| Minimum net proceeds of the Rights Issue and from the initial RCPS subscription payment (as covered by the Underwriting Agreement and the undertaking of Crosby Management) | Approximately HK$41.48 million (including initial RCPS subscription payment by Crosby Management only)<br><br>Approximately HK$55.54 million if all Shareholders are Qualifying Shareholders and elect for the subscription of their RCPS | (i) general working capital for the day-to-day operation of the Group which includes investing in funds and participating in co-investments managed by the Group; and<br><br>(ii) expansion of the existing business of the Group including but not limited to expansion of the investment team and expansion of associated office space (by purchase or lease of new office premises). |

| | Estimated Net Proceeds | Use of Proceeds |
|---|---|---|
| If only Crosby Management pays up the balance of RCPS Subscription Price upon conversion of the RCPS into Consolidated Shares | Addition of approximately HK$96.33 million | (i) increase the scale of its investments in funds and co-investments managed by the Group;<br>(ii) to make acquisitions of new financial services businesses complementary to the Group's strategies, including but not limited to asset management firms; and<br>(iii) additional personnel and premises for such acquired businesses. |
| If all other Shareholders are Qualifying Shareholders and elect for the subscription of their RCPS and pay up the balance of the RCPS Subscription Price upon conversion of the RCPS | Addition of approximately HK$267.20 million | (i) utilize 33.3% of the additional proceeds for acquisition of new business;<br>(ii) 33.3% for expansion of the existing business of the Group; and<br>(iii) the remaining for general working capital for the day-to-day operation of the Group. |

*(b) Use of proceeds under Scenario 2 where all Exercisable Outstanding Options, Outstanding Convertible Bonds and Outstanding Warrants are exercised or converted in full before the Record Date:*

| | Estimated Net Proceeds | Use of Proceeds |
|---|---|---|
| Net proceeds of the Rights Issue and from the initial RCPS subscription payment assuming all the Shareholders are Qualifying Shareholders and participate in the Rights Issue | Approximately HK$156.61 million from the Rights Issue only<br><br>Approximately HK$234.34 million (Rights Issue together with the initial RCPS subscription payment by all Qualifying Shareholders) | (i) 50% of the proceeds as general working capital for the day-to-day operation which includes investing in funds and participating in co-investments managed by the Group and expansion of the existing business of the Group including but not limited to expansion of the investment team and expansion of associated office space (by purchase or lease of new office premises); and<br><br>(ii) 50% of the proceeds to make acquisitions of new financial services businesses complementary to the Group's strategies, including but not limited to asset management firms and additional personnel and premises for such acquired business. |
| If all the Qualifying Shareholders fully pay up the balance of the RCPS Subscription Price upon conversion of the RCPS into Consolidated Shares | Addition of approximately HK$1,476.89 million | (i) 30% of the additional proceeds for investing in funds and participating in co-investments managed by the Group;<br><br>(ii) 20% for expansion of the existing business of the Group;<br><br>(iii) 30% for acquisition of new business; and<br><br>(iv) 20% for general working capital, including redemption of the Outstanding Convertible Bonds (if any). |

In year 2010, the Group underwent a restructuring of its business and has acquired Shikumen so as to expand its asset management services. Currently, Shikumen has assets under management of approximately US$130 million. After the Group's restructuring, the Group wishes to utilize its resources more efficiently and the Directors consider that it is time to expand its existing business or invest in new investment business in the near future so as to strengthen the Group's income base and balance sheet. The Group intends to increase its assets under management in different asset classes either by launching new investment funds under its management or via acquisitions of other asset management firms. Under both Scenarios 1 and 2, as part of the above strategy to increase its assets under management, the Group may consider to invest as an anchor investor in future, subsequent follow-on funds of the BlackPine Private Equity Partners Fund which is currently managed by Shikumen, or such other new investment funds which may be launched and managed by the Group from time to time. As at the Latest Practicable Date, the Group has no concrete timetable for launching such follow-on funds and/or other new funds and the timing and scale of the launch of such follow-on funds and/or new funds is highly uncertain.

The risks for the Group associated with investing in funds are mainly the macroeconomic risks, business risks, market risks, regulatory risks and the liquidity risks of the funds and their underlying investment (the "**Major Risks**"). There is no guarantee that investments in such funds may necessarily generate gains or be able to preserve capital for the Group. However, managing these funds is expected to generate management fee income and, if profits are generated in these funds, performance fees for the Group.

The Group may also from time to time discuss with fund management companies with a view to invest in them in return for equity interests in the fund management companies or economic shares in their income. Investing in these fund management companies in return for equity or share of income will be affected by the management of these fund management companies, their ability to grow assets under management, as well as the performance of the funds managed by these companies. The Group will normally receive equity interests in the fund management companies and/or share a percentage of the fund management companies' management fees and/or performance fees (if any) as its return. However, where the funds managed by the fund management companies do not generate positive returns, the fund management companies may not be able to receive any performance fees. As such, there may not be any guarantee of profits or capital preservation for the Group's investments in these fund management companies. Given Shikumen's current assets under management has already reached approximately US$130 million, the Directors are of the view that the Group possesses the expertise and experience to expand its assets under management by launching and investing in new funds under its management and identifying suitable fund management companies as investment targets with the right balance of returns and risks. The Directors consider that managing and investing in new funds under the Group's management and investing in fund management companies (the "**Investments**") are in the ordinary course of business of the Group and in the interests of the Company and its shareholders as a whole.

However, the ability to finance the above plans will largely be dependent upon the timing of payment and the amount of the balance of the RCPS Subscription Price being paid to the Company upon conversion of the RCPS (the "**Uncertain Factor**"), which is uncertain as of the Latest Practicable Date. No definitive agreements have been entered into with any third parties and no definitive acquisition targets have been identified as of the Latest Practicable Date. In view of the uncertainty of the timing of the payment of the balance of the RCPS Subscription Price (if any), which spreads across a period of 5 years, it is difficult for the Company to enter into any agreements for any definite, substantive investment at this stage. The Company will make announcements of such plans when they materialise in accordance with the requirements of the GEM Listing Rules. The Rights Issue will give the Qualifying Shareholders an equal opportunity to maintain their respective pro rata shareholding interests in the Company and participate in the growth of the Company, whilst the RCPS provides Shareholders with an option of possible further investment in the Company at a discount to the closing price of the Existing Shares at the Last Trading Day while lowering the investment risk by having an option to redeem the RCPS on or before maturity (subject to exercise of the early redemption option). Hence, the Board considers that fund raising through the Rights Issue and RCPS is in the interest of the Company and the Shareholders as a whole.

As noted from AR 2010, the Group recorded cash and cash equivalents of approximately US$4.36 million, convertible bonds amounted to approximately US$15.79 million and note payable amounted to approximately US$3.37 million as at 31 December 2010 and the Group was in a net liabilities position of approximately US$14.96 million as at 31 December 2010. We noted from AR 2009, AR 2010 and FQR 2011 that the Group has been loss making for the five years ended 31 December 2010 and for the three months ended 31 March 2011. As noted from the Circular, the Outstanding Convertible Bonds amounted to approximately HK$250 million as at the Latest Practicable Date.

We noted from the Board Letter that the Company conducted various fundraisings (including issue of Existing Shares, unlisted warrants and Outstanding Convertible Bonds) in the past twelve months from the Last Trading Day. Aggregate net proceeds of approximately HK$263 million has been raised from such fundraisings as at the Latest Practicable Date and further net proceeds of approximately HK$4.5 million will be raised if the Outstanding Warrants have been exercised in full. As advised by the Company, over 90% of the net proceeds of approximately HK$263 million from the previous fundraising have been utilized for settlement of part of the consideration for acquiring Shikumen, repurchasing the old convertible bonds due 2011 of the Company, settling part of the consideration for acquiring an office unit and general working capital. Further advised by the Company, the net proceeds of approximately HK$4.5 million to be raised in the event the Outstanding Warrants have been exercised in full is intended to be used for general working and/or future development of the Group.

As noted from AR 2010, the highlight of the year was the acquisition of Shikumen, an asset management company based in Hong Kong with total assets under management encompassing both hedge funds and private equity funds of over US$120 million as of the date of AR 2010, and the disposal of the loss making merchant banking assets and the corporate finance and financial advisory services (together with the liabilities associated with such businesses) by the Group. The acquisition of Shikumen enables the Group to focus its resources on its asset management services (which includes funds and wealth management) and to add synergy to the Group in terms of funds portfolio and expertise and strengthen the asset management business of the Group. It is a milestone for the Group in repositioning itself as an asset management service group covering different asset classes. The immediate positive impact arising from the acquisition of Shikumen was seen in a significant improvement in the Group's revenues from continuing operations, which increased over 81% from US$2.6 million for the year ended 31 December 2009 to US$4.7 million for the year ended 31 December 2010 (the "**Positive Impact**"). The increase in revenue is mainly attributable to only about four months of fee revenues arising from Shikumen which started to be consolidated by the Group in September 2010. With the injection of the new Shikumen business, the disposal of the loss-making merchant banking assets and the successful completion of the refinancing of the US$75 million zero coupon convertible bonds, the Company believe the most difficult period of the Group is behind it and the Company will continue to control its costs and focus its resources to further strengthen and grow the Group's asset management businesses, both organically and through acquisitions when the appropriate opportunities arise.

In view of (i) the liquidity position of the Group as at 31 December 2010 and the nature of the business of an investment company, of which cash position is essential to provide financial flexibility to carry out its investment decision and hence, to maximise the benefits of the Shareholders and the Group; (ii) over 90% of the net proceeds from the previous fundraising has been utilised; (iii) given the persistent loss-making track records of the Company, it is unlikely to have cash inflow from operations to carry out its investment decision; (iv) it is the intention of the Company to expand the business by making investment in new funds and/or invest in new investment business in near future; (v) notwithstanding the net proceeds from the Rights Issue with Option ranged from approximately HK$41.48 million to approximately HK$1,476.89 million, size of the fund which depends on the Uncertain Factor is unable to be ascertained as at the Latest Practicable Date, in particular, given the RCPS Conversion Price is higher than the current adjusted market price of the Existing Shares (adjusted for the Share Consolidation) and the Outstanding Convertible Bonds, Outstanding Warrants and Exercisable Outstanding Options (altogether, "**Existing Convertible Securities**") are out of money as at the Latest Practicable Date, it is unlikely that the maximum amount of net proceeds would be raised; and (vi) the grant of the Option will provide incentive for the Shareholders to participate in the Rights Issue and may bring further cash inflow to the Company in the event that the Options have been exercised, we are of the view and concur with the view of the Directors that the Rights Issue (together with the Option) is fair and reasonable and is in the interests of the Company and the Independent Shareholders as a whole.

Having considered (i) the principal business of the Company; (ii) the Major Risks of the Company for its fund investment are not uncommon risk factors for investment management companies in the market; (iii) in order to procure third party investors to the fund managed by the Company, it is reasonable to show the Company's confidence in the fund by its capital commitment in the fund and by managing the fund, the Company may be able to receive the management fee income and, if any, performance fee income which would enhance the revenues of the Company; (iv) the Positive Impact on the revenue of the Group from Shikumen for the last financial year of the Company; (v) the Company has repositioned itself as an asset management service group covering different asset classes; (vi) it is the intention of the Company to expand the business by making investment in new funds and/or invest in new investment business in near future; and (vii) additional funds to be raised due to the subscription of Right Shares by the holders of Existing Convertible Securities after exercising or converting the Existing Convertible Securities and/or subscription and conversion of RCPS would enhance the financial flexibility on the allocation of capital on the general working capital, investment plan, expansion plan and potential acquisition plan (if any) of the Company, we are of the view that the use of proceeds under Scenario 1 and Scenario 2 are in line with the business strategy of the Company and the Investments are in the ordinary course of business of the Group. As such, we consider the use of proceeds (including the Investments) are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

We noted from the Board Letter, if all of the following events occur:

(i) all existing holders of the Existing Convertible Securities exercise their conversion rights before the Record Date and choose to participate in the Rights Issue (the "**First Event**");

(ii) all Shareholders (including those arising from (i) above) participate in the Rights Issue and elect to subscribe for the RCPS in full (the "**Second Event**"); and

(iii) all the holders of the RCPS pay up the residual consideration of the RCPS to convert them into Shares shortly thereafter (the "**Third Event**"),

the Company's cash might be increased by an aggregate sum of HK$1,711.23 million of proceeds from the Rights Issue and the subscription of the RCPS, resulting in a cash-to-total assets ratio of over 93% (with reference to the cash position of the Group as at 31 December 2010 and taking into account the issue of the Outstanding Convertible Bonds after 31 December 2010 and acquisition of property, details of which were set out in the circular of the Company dated 13 December 2010).

Under such circumstances, the Company may become a "cash company" as stipulated under Rule 19.82 of the GEM Listing Rules after the completion of the proposed Rights Issue and payment of RCPS Subscription Price. The cash level of the Company and the cash-to-total assets ratio will vary according to the level of acceptance of the Rights Issue and the subscription of the RCPS, the chance of conversion of the Company's existing convertible securities and the timing of the RCPS conversion. Shareholders and investors should also note that the Company may trigger suspension of trading in the Shares under Rule 19.82 of the GEM Listing Rules after completion of the Rights Issue even with a lower level of acceptance or conversion of existing convertible securities or RCPS as compared with the situation stipulated above depending on the then financial and operational conditions of the Company.

As advised by the Company, the Directors consider that it is not ascertainable whether all of the above conditions would occur. However, the Directors consider that it is unlikely all the holders of the Existing Convertible Securities will exercise their conversion rights before the Record Date as some of them may be "out of the money" as at the Record Date. The conversion price of the Outstanding Convertible Bonds is HK$0.17259 (subject to adjustments) per Existing Share, the exercise price of the Outstanding Warrants is HK$0.15 (subject to adjustments) per Existing Share and the exercise price for the Exercisable Outstanding Options ranges from HK$0.18 to HK$7.70 per Existing Share. The closing price of the Existing Shares was HK$0.089 per Existing Share as at the Latest Practicable Date. Therefore, the Outstanding Convertible Bonds, the Outstanding Warrants and the Exercisable Outstanding Options are all currently out of the money.

The Directors also consider that the chance of all the RCPS holders exercising their rights to convert the RCPS into Shares at the same time resulting in a sudden inflow of a substantial amount of cash into the Company is low. The Directors do not envisage the full amount of HK$1,711.23 million would be paid to the Company simultaneously, as the majority of this amount, being HK$1,476.89 million, might only be paid to the Company upon conversion of all the RCPS over the course of a five year period.

Notwithstanding the above, the Directors propose to include certain restrictions in the terms of the RCPS to limit the conversion of the RCPS if the Directors envisage that such conversion would ultimately lead to the Shares being suspended for trading pursuant to Rule 19.82 of the GEM Listing Rules (the "**RCPS Conversion Restriction**"). Details of the RCPS Conversion Restriction have been set out in Appendix IV to the Circular.

In light of the abovementioned and the expansion of the Group's business, the Directors consider that it is unlikely that the Company will become a "cash company". We have reviewed the closing prices of the Existing Shares for the period from 2 June 2010, being the 12-month period prior to the Last Trading Day, up to and including the Latest Practicable Date (the "**Review Period**") and the exercise prices and the conversion prices of the Existing Convertible Securities. We noted that the Existing Convertible Securities are currently out of money and out of the 23,980,000 Exercisable Outstanding Options, 22,780,000 Exercisable Outstanding Options with exercise price higher than the highest closing price of the Existing Shares of approximately HK$0.225 on 8 November 2010 during the Review Period. In view of (i) the Existing Convertible Securities are currently out of money as compared with the closing price of the Existing Share of approximately HK$0.089 as at the Latest Practicable Date and approximately 95.00% of the Exercisable Outstanding Options are deeply out of money; (ii) the RCPS Conversion Price is at a premium to the adjusted closing price of the Existing Share of approximately HK$0.89 (adjusted for the Share Consolidation) as at the Latest Practicable Date; and (iii) the RCPS Conversion Restriction, we concur with the Directors that it is unlikely the First Event, the Second Event and the Third Event will all happen simultaneously.

**3. Principal terms of the Rights Issue**

*Subscription Price*

The Subscription Price of HK$0.80 per Rights Share is payable in full upon acceptance of the relevant offer of Rights Shares.

The Subscription Price represents:

(i) a discount of approximately 46.67% to the closing price of HK$1.50 per Consolidated Share, based on the closing price of HK$0.15 per Existing Share as quoted on the Stock Exchange on the Last Trading Date and adjusted for the effect of the Share Consolidation;

(ii) a discount of approximately 47.30% to the average closing prices of approximately HK$1.518 per Consolidated Share, based on the average closing price of approximately HK$0.1518 per Existing Share for the last 5 trading days as quoted on the Stock Exchange up to and including the Last Trading Date and adjusted for the effect of the Share Consolidation;

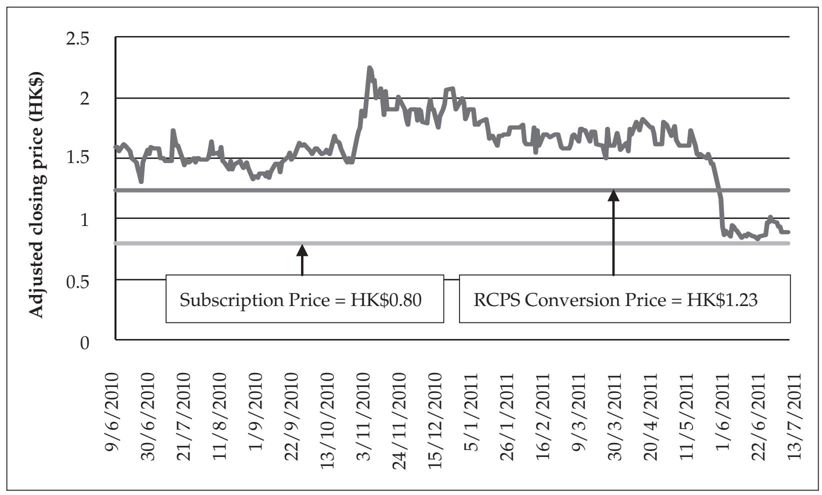
(iii) a discount of approximately 30.43% to the theoretical ex-entitlement price of approximately HK$1.15 per Consolidated Share, based on the closing price of HK$0.15 per Existing Share as quoted on the Stock Exchange on the Last Trading Date and adjusted for the effect of the Share Consolidation; and

(iv) a discount of approximately 10.11% to the closing price of HK$0.89 per Consolidated Share, based on the closing price of HK$0.089 per Existing Share as quoted on the Stock Exchange on the Latest Practicable Date and adjusted for the effect of the Share Consolidation.

As set out in the Board Letter, the Subscription Price was arrived at between the Company and the Underwriter with reference to the prevailing market price of the Existing Shares. The Directors consider that the discount of the Subscription Price to the market price is to make the Rights Issue more attractive to the Qualifying Shareholders. Each Qualifying Shareholder is entitled to subscribe for the Rights Shares at the same price in proportion to his/her/its existing shareholding in the Company. The Directors consider the terms of the Rights Issue, the Option and the Subscription Price, are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

(a) Historical closing prices

In order to assess the fairness and reasonableness of the Subscription Price, we have reviewed the trading price of the Existing Shares for the Review Period. The chart below illustrates the daily closing prices of the Existing Shares (adjusted with the Share Consolidation) versus the Subscription Price and the RCPS Conversion Price during the Review Period:




*Source: the website of the Stock Exchange*

During the Review Period, the highest adjusted closing price and the lowest adjusted closing price of the Existing Shares were HK$2.25 on 8 November 2010 and HK$0.83 on 29 June 2011 respectively. The Subscription Price represents a discount of approximately 3.61% to such lowest adjusted closing price of the Existing Shares during the Review Period and a discount of approximately 10.11% to the adjusted closing price of the Existing Shares of HK$0.89 on the Latest Practicable Date.

We note that it is a common market practice that, in order to enhance the attractiveness of a rights issue exercise and to encourage the existing shareholders to participate in a rights issue, the subscription price of a rights issue normally represents a discount to the prevailing market prices of the relevant shares. Hence, the fact that the Subscription Price is lower than the prevailing market prices of the Existing Shares (adjusted with Share Consolidation) is in line with general practice and is acceptable.

(b) Comparison with other rights issues

In assessing the fairness of the Subscription Price, we also consider a broader comparison of rights issues with maximum dilution equal to or more than 50% and proposed maximum fund size of not less than HK$30 million conducted by other companies listed on the Stock Exchange to provide a more general reference for the Subscription Price. We have identified rights issues (the "**Comparables**") announced by companies that are listed on the Main Board or the Growth Enterprise Market of the Stock Exchange from 2 March 2011 up to and including 2 June 2011, being the date of the Underwriting Agreement, for reference. As the terms of the Comparables are determined under similar market conditions and sentiments as the Rights Issue, we believe that the Comparables may reflect the recent trend of the rights issue transactions with maximum dilution equal to or more than 50% and proposed maximum fund size of not less than HK$30 million in the market and consider the Comparables are fair and representative samples. Details of the Comparables are summarised in the following table:

| Comparables (stock code) | Date of announcement | Proposed maximum gross proceeds | Basis of entitlement | Premium/ (discount) of subscription price over /(to)the closing price on the last trading day | Premium/ (discount) of subscription price over /(to)the theoretical ex-entitlement price | Maximum dilution | Underwriting commission |
|---|---|---|---|---|---|---|---|
| | | *(HK$' million)* | | *(%)* | *(%)* | *(%)* *(Note 1)* | *(%)* |
| Pacific Plywood Holdings Limited (767) | 8/3/2011 | 221.93 | 30 for 1 | (88.89) | (20.00) | 96.77 | 2.50 |
| Willie International Holdings Limited (273) | 8/4/2011 | 384.89 | 8 for 1 | (82.88) | (73.70) | 88.89 | 2.50 |
| Radford Capital Investment Limited (901) | 8/4/2011 | 200.37 | 4 for 1 | (55.13) | (19.72) | 80.00 | 2.50 |
| Polyard Petroleum International Group Limited (8011) | 12/4/2011 | 115.00 | 1 for 1 | (23.08) | (13.04) | 50.00 | not applicable |
| China Star Entertainment Limited (326) | 18/4/2011 | 421.03 | 3 for 1 (with one bonus warrant for every five rights shares taken up) *(Note 2)* | (54.55) | (23.08) | 78.26 *(Note 2)* | 2.50 |

| Comparables (stock code) | Date of announcement | Proposed maximum gross proceeds | Basis of entitlement | Premium/ (discount) of subscription price over /(to)the closing price on the last trading day | Premium/ (discount) of subscription price over /(to)the theoretical ex-entitlement price | Maximum dilution | Underwriting commission |
|---|---|---|---|---|---|---|---|
| | | *(HK$' million)* | | *(%)* | *(%)* | *(%)* *(Note 1)* | *(%)* |
| Bao Yuan Holdings Limited (692) | 18/4/2011 | 390.62 | 22 for 1 | (83.05) | (17.49) | 95.65 | 3.00 |
| 21 Holdings Limited (1003) | 6/5/2011 | 123.80 | 8 for 1 | (88.80) | (46.80) | 88.89 | 2.00 |
| Midas International Holdings Limited (1172) | 18/5/2011 | 127.10 | 1 for 1 | (45.40) | (29.30) | 50.00 | 1.00 |
| Emperor Capital Group Limited (717) | 2/6/2011 | 585.30 | 2 for 1 | (39.64) | (17.96) | 66.67 | 2.00 |
| Simsen International Corporation Limited (993) | 2/6/2011 | 839.43 | 20 for 1 (with one bonus warrant for every five rights shares taken up) *(Note 2)* | (87.12) | (25.00) | 95.99 *(Note 2)* | 2.50 |
| **Maximum** | | | | **(23.08)** | **13.04** | **96.77** | **3.00** |
| **Minimum** | | | | **(88.89)** | **(73.70)** | **50.00** | **1.00** |
| **Mean** | | | | **(64.85)** | **(28.61)** | **79.11** | **2.28** |
| **Company** | | **44.32 to 1,714.06** | **1 for 1 (with option to subscribe for one RCPS for every two Rights Shares)** *(Note 3)* | **(46.67)** | **(30.43)** | **88.01** *(Note 3)* | **2.50** |

*Source: website of the Stock Exchange*

*Notes:*

1. Maximum dilution effect of each rights issue is calculated as: ((number of rights shares and (if any) bonus shares to be issued under the basis of entitlement)/(number of existing shares held for the entitlement for the rights shares under the basis of entitlement + number of rights shares and (if any) bonus shares to be issued under the basis of entitlement))x100%, e.g. for a rights issue with basis of 1 rights shares for every share held, the maximum dilution effect is calculated as (1/(1+1))x100% = 50.00%.

2. The rights issue transactions of these Comparables involve bonus issue of warrants. The maximum dilution were calculated as: (shareholding of independent shareholders as at the latest practicable date of the respective circulars – minimum shareholding of independent shareholders upon completion of the rights issue (under the assumption that (i) no shareholders have taken up the rights shares except those who have provided undertaking of acceptance and (ii) the underwriter and for those who has provided undertaking of acceptance

have exercised the bonus warrants in full))/shareholding of independent shareholders as at the latest practicable date to the respective circulars. In case there are different scenarios due to the possible conversion of convertible securities, the higher value of maximum dilution will be chosen.

3. As advised by the Company, the conversion ratio of RCPS into Consolidated Shares is approximately 12.68 times, as such, shall Qualifying Shareholders subscribe the Rights Shares under the Rights Issue and elect to subscribe for the RCPS and convert the RCPS into Consolidated Shares (the "**RCPS Shares**"), the theoretical entitlement basis for the Rights Issue would be 7.34 Consolidated Shares (1 Rights Share and 6.34 RCPS Shares) for every 1 Consolidated Share held on the Record Date provided that Qualifying Shareholders are only entitled to subscribe for 1 RCPS for every subscription of 2 Rights Shares. The maximum dilution were calculated as: (shareholding of Independent Shareholders as at the Latest Practicable Date of the Circular – minimum shareholding of Independent Shareholders upon completion of the Rights Issue (under the assumption that (i) no Shareholders have taken up the rights shares except Crosby Management and (ii) the Underwriter and Crosby Management have converted the RCPS in full))/shareholding of Independent Shareholders as at the Latest Practicable Date of the Circular. In case there are different scenarios due to the possible conversion of convertible securities, the higher value of maximum dilution will be chosen.

As shown in the above table, the discounts represented by the subscription prices to the closing prices of shares of the Comparables on the last trading days prior to the release of the respective announcements ranged from approximately 23.08% to approximately 88.89% (the "**LTD Market Range**"). The discount of approximately 46.67% as represented by the Subscription Price to the adjusted closing price of the Existing Shares (adjusted for the Share Consolidation) on the Last Trading Day falls below the mean and within the LTD Market Range.

The discount represented by the subscription prices to the theoretical ex-entitlement prices of the shares of the Comparables ranged from approximately 13.04% to approximately 73.70% (the "**TEP Market Range**"). The discount of approximately 30.43% as represented by the Subscription Price to the theoretical ex-entitlement price falls within the TEP Market Range.

In general, we consider that it is common for the listed issuers in Hong Kong to issue rights shares at a discount to the market price in order to enhance the attractiveness of a rights issue transaction. Having considered that (i) the Subscription Price was determined after arm's length negotiations between the Company and the Underwriter; (ii) the discount represented by the Subscription Price to the adjusted closing price of the Existing Shares (adjusted for the Share Consolidation) on the Last Trading Day falls below the mean and within the LTD Market Range; (iii) the discount represented by the Subscription Price to the theoretical ex-entitlement price falls within the TEP Market Range; and (iv) all Qualifying Shareholders are offered an equal opportunity to subscribe for the Rights Shares, we consider the Subscription Price is fair and reasonable so far as the Independent Shareholders are concerned.

*The Option*

As set out in the Board Letter, subject to the Shareholders approving the Capital Reorganization, the Rights Issue and the issue of the RCPS, each Qualifying Shareholder and holder of nil-paid Rights Shares exercising its rights to subscribe for Rights Share(s) shall be granted an option to subscribe for new RCPS(s) to be issued by the Company on the basis of one RCPS for every two Rights Shares subscribed at the RCPS Subscription Price of US$2.00 per RCPS, of which US$0.10 per RCPS has to be paid upon subscription (which will be at the same time when the Qualifying Shareholder pays for its entitlement or excess application for the Rights Shares), with the payment of the remaining balance of US$1.90 per RCPS to be paid immediately prior to the conversion of the RCPS into ordinary shares of the Company. The Option is non-transferrable (except upon a transfer of the entitlement to the Rights Issue in accordance with the procedures for transferring nil-paid rights) and the Qualifying Shareholders cannot exercise the Option after the latest time for acceptance of the Rights Issue. Holders of the RCPS will have the right, upon full payment of the RCPS Subscription Price for each RCPS, to convert the RCPS into Consolidated Shares at the RCPS Conversion Price of HK$1.23 each.

It should be noted that in the event that the issuance of the RCPS does not become unconditional in accordance with the conditions precedent set out in the section headed "Conditions Precedent of the RCPS" in Board Letter, the Rights Issue shall nevertheless proceed (provided that it becomes unconditional) without the Option.

(a) The RCPS Conversion Price

The RCPS Conversion Price of HK$1.23 represents:

(i) a discount of approximately 18.00% to the closing price of HK$1.50 per Consolidated Share, based on the closing price of HK$0.15 per Existing Share as quoted on the Stock Exchange on the Last Trading Day and adjusted for the effect of the Share Consolidation;

(ii) a discount of approximately 18.97% to the average closing prices of approximately HK$1.518 per Consolidated Share, based on the average closing price of approximately HK$0.1518 per Existing Share for the last 5 trading days as quoted on the Stock Exchange up to and including the Last Trading Date and adjusted for the effect of the Share Consolidation;

(iii) a premium of approximately 6.96% over the theoretical ex-entitlement price of approximately HK$1.15 per Consolidated Share, based on the closing price of HK$0.15 per Existing Share as quoted on the Stock Exchange on the Last Trading Day and adjusted for the effect of the Share Consolidation;

(iv) the theoretical ex-rights entitlement price calculated based on the average closing price of HK$0.166 per Existing Share over a period of 30 consecutive trading days (15 April 2011 to 1 June 2011) on GEM immediately prior to the date of the Announcement and adjusted for the effect of the Share Consolidation; and

(v) a premium of approximately 38.20% over the closing price of HK$0.89 per Consolidated Share, based on the closing price of HK$0.089 per Existing Share as quoted on the Stock Exchange on the Latest Practicable Date and adjusted for the effect of the Share Consolidation.

The RCPS Conversion Price is higher than the Subscription Price and therefore, as comparing with the adjusted closing price of HK$1.5 per Existing Share (adjusted for the Share Consolidation) on the Last Trading Day, the RCPS Conversion Price represents a smaller discount than the Subscription Price. Having considered (i) we are of the view that the Subscription Price is fair and reasonable; (ii) given the holders of RCPS have an option to convert the RCPS into Consolidated Shares for a term of five years with 95% of the RCPS Subscription Price to be settled upon conversion whilst Qualifying Shareholders who have applied for the Rights Shares have to settle the Subscription Price in full upon submission of the application for Rights Issue, it is justifiable that the RCPS Conversion Price is higher than the Subscription Price; (iii) the RCPS Conversion Price represents the theoretical ex-rights entitlement price calculated based on the average closing price per Existing Share over a period of 30 consecutive trading days (15 April 2011 to 1 June 2011) immediately prior to the date of the Announcement and adjusted for the effect of the Share Consolidation (details of the calculation has been set out under the section headed "PRINCIPAL TERMS OF THE RCPS" in the Board Letter); and (iv) all Qualifying Shareholders who have applied for the Rights Shares have been offered the same opportunities to subscribe for the RCPS and have been offered the same RCPS Conversion Price, we consider the RCPS Conversion Price is fair and reasonable.

(b) Dividend

The RCPS shall not be entitled to any dividends. In view of the persistent loss making track record and net liabilities position of the Group as at 31 December 2010, we consider it is acceptable that the RCPS shall not be entitled to any dividends.

(c) Redemption

The RCPS are redeemable at the Redemption Amount on the Final Redemption Date. The Company may redeem the RCPS anytime after the date of issue (in whole or in part) provided that the closing market price of the Company's ordinary shares are at least 150% of the RCPS Conversion Price for 30 consecutive trading days.

The holders of the RCPS may request the Company to redeem the RCPS (in whole or in part) on or after the 3rd anniversary of the date of issuance of the RCPS upon serving a notice of redemption together with the share certificate evidencing the RCPS to be redeemed and the Company shall redeem the RCPS on the 14th day after the serving of the Put Redemption Notice by the holder of the RCPS.

Although the Company will only be allowed to early redeem the RCPS under the circumstances that (i) the closing market price of the Company's ordinary shares are at least 150% of the RCPS Conversion Price for 30 consecutive trading days; and (ii) the holders of the RCPS request the Company to redeem the RCPS (in whole or part) on or after the 3rd anniversary of the date of issuance of the RCPS, in view that the redemption price will be equal to the Initial RCPS Subscription Price, we consider the redemption is fair and reasonable.

(d) RCPS Conversion Restriction

The Company shall not be obligated to issue any conversion shares if (i) such conversion shall render the shares of the Company held in public hands being less than the minimum public float required under the GEM Listing Rules; and/or (ii) there is insufficient authorised share capital; and/or (iii) such conversion shall cause the holder(s) and the parties acting in concert with it to be interested in 30% (or such amount as may from time to time that may trigger a mandatory general offer or considered by the SFC as a change in control of the Company) or more of the then enlarged issued share capital of the Company at the date of the relevant conversion; and/or (iv) such conversion will lead to a breach of the applicable laws and regulations including, but not limited to, the GEM Listing Rules and the Takeovers Code; and/or (v) such conversion will be considered as capable of turning the Company into a cash company as defined in Rule 19.82 of the GEM Listing Rules. Further details of the enforcement of the RCPS Conversion Restriction have been set out in Appendix IV to the Circular.

In view that the RCPS Conversion Restriction will protect the Company from turning into a cash company as defined in Rule 19.82 of the GEM Listing Rules and avoid the Shares being suspended for trading, we consider the RCPS Conversion Restriction is fair and reasonable.

(e) RCPS Conversion Price Reset

At the end of each 6-month period after the initial issue date, the RCPS Conversion Price shall be adjusted downward only to 110% of the 1-month volume weighted average price of the ordinary shares of the Company prior to the date of each reset date, provided that the RCPS Conversion Price (initial or reset) shall not be in any event lower than the prevailing par value of the ordinary shares of the Company (the "**Downward Adjustment**").

We are aware that the Downward Adjustment may have a potential dilution effect on the shareholding of the Company, however, in view that (i) the Downward Adjustment would enhance the subscription of the RCPS and hence increase the net proceeds to the Company; (ii) with the Downward Adjustment mechanism, the holders of the RCPS may have less incentive to convert the RCPS into Consolidated Shares as they may intend to wait for the upcoming Downward Adjustment and hence, the Downward Adjustment would have an anti-dilution impact; (iii) the RCPS Conversion Price under the Downward Adjustment mechanism is still at a premium over the 1-month volume weighted average price of the Shares; and (iv) all Qualifying Shareholders who have applied for the Rights Shares have been offered the same opportunities to subscribe for the RCPS and have been offered the same terms of the RCPS including the Downward Adjustment for the RCPS Conversion Price, we consider the Downward Adjustment is acceptable.

In light of the above, we consider the terms of the RCPS is fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

*Underwriting Commission*

The Company will pay the Underwriter underwriting commission of 2.5% of the aggregate Subscription Price of the Rights Shares underwritten by the Underwriter. In view that the underwriting commission of 2.5% falls within the range of commission of the Comparables from 1.0% to 3.0%, we consider the underwriting commission of 2.5% is in line with the market and is fair and reasonable so far as the Independent Shareholders are concerned.

*Application for excess Rights Shares*

As set out in the Board Letter, Qualifying Shareholders may apply by using the EAF for any unsold entitlement of the Excluded Overseas Shareholders together with any Rights Shares provisionally allotted but not taken up by the Qualifying Shareholders or by transferees of nil-paid Rights Shares. Subject to the Shareholders approving the Capital Reorganization, the Rights Issue and the issue of the RCPS, the EAF forms will include the application for RCPS and the Qualifying Shareholders may elect simultaneously to subscribe for such number of RCPS attached to the excess Rights Shares they apply for in the same forms.

The Company will allocate excess Rights Shares to the Qualifying Shareholders at its discretion on a fair and equitable basis on the following principles:

(1) preference will be given to applications for less than a board lot of Rights Shares where they appear to the Directors that such applications are made to top up odd-lot holdings to whole-lot holdings and not made with intention to abuse this mechanism;

(2) subject to the availability of excess Rights Shares after allocation under principle (1) above, any further remaining excess Rights Shares will be allocated to applicants in proportion to the number of excess Rights Shares being applied for under each application.

After reviewing the circulars of the Comparables, we noted that the above practices in not uncommon in the market and hence, we are of the view that the excess application arrangement is fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

**4. Risk associated with the Rights Issue**

Shareholders should note that, as stated in the Board Letter, the Rights Issue is conditional upon, among other things, the Underwriting Agreement having become unconditional and the Underwriting Agreement not being terminated in accordance with the terms thereof (a summary of which is set out in the sub-paragraph headed "Termination of the Underwriting Agreement" in the Board Letter). As such, the Rights Issue may or may not proceed. The Shareholders and potential investors should exercise caution when dealing in the Shares, and if they are in any doubt about their position, they should consult their professional advisers.

**5. Alternatives to the Rights Issue**

Comparing the Rights Issue to other methods of fund raisings such as placement of new Shares or other convertible securities and bank borrowing and taking into account that (i) debt financing and bank borrowing will incur interest burden to the Company; (ii) any placing of new Shares without first offering the existing Shareholders the opportunity to participate in the Company's equity raising exercise would result in dilution of shareholding of and per Share value to the existing Shareholders; (iii) the Rights Issue will enable the Shareholders to maintain their proportionate interests in the Company should they so wish, and should the Shareholders decide not to take up their entitlements under the Rights Issue, they can sell the nil-paid Rights Shares in the market for economic benefit; and (iv) the Option would enhance the attractiveness of the Rights Issue, we concur with the view of the Directors that fund raising by way of the Rights Issue with the Option is fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

Having considered (i) debt financing may incur interest burden to the Company; (ii) the grant of Option, subject to Shareholders' approval, would be offered to all Qualifying Shareholders who have participated in the Rights Issue and would enhance the attractiveness of the Rights Issue; and (iii) all Qualifying Shareholders are offered an equal opportunity to participate in the Rights Issue and to take up their entitlement in full at the same price to maintain their respective shareholdings in the Company, we consider that the Rights Issue (together with the Option) is an equitable means to raise capital for the Company under the existing circumstances.

**6. Potential dilution**

As the Rights Issue is offered to all Qualifying Shareholders on the same basis, Qualifying Shareholders will be able to maintain their interests in the same level or more in the Company if they take up their allotments under the Rights Issue in full. Any existing Independent Shareholders who choose not to take up in full their assured entitlements under the Rights Issue will have their shareholdings in the Company diluted by approximately 88.01% in maximum upon completion of the Rights Issue by assuming (i) none of the Qualifying Shareholders (except Crosby Management) have taken up the Rights Shares; and (ii) only Crosby Management and the Underwriter have exercised the Option and convert the RCPS into Consolidated Shares (details of the calculation mechanism of such maximum dilution has been set out in note 3 to the Comparable table under the above subsection headed "(b) Comparison with other rights issues" under the section headed "**3. Principal terms of the Rights Issue**").

In all cases of rights issues, the dilution on the shareholding of those qualifying shareholders who do not take up in full their assured entitlements under the rights issues is inevitable. In fact, the dilution magnitude of any rights issues depends mainly on the extent of the basis of entitlement under such exercises since the higher the offering ratio of new shares to existing shares is, the greater the dilution on the shareholding would be.

Having considered:

(i) the liquidity position of the Group as at 31 December 2010 and the nature of the business of an investment company, of which cash position is essential to provide financial flexibility to carry out its investment decision to maximise the benefits of the Shareholders and the Group;

(ii) over 90% of the net proceeds from the previous fundraising has been utilised;

(iii) given the persistent loss-making track records of the Company, it is unlikely to have cash inflow from operations to carry out its investment decision;

(iv) it is the intention of the Company to expand the business by making investment in new funds and/or invest in new investment business in near future;

(v) the grant of the Option will provide incentive for the Shareholders to participate in the Rights Issue and may bring further cash inflow to the Company in the event that the Options have been exercised;

(vi) the discount represented by the Subscription Price to the adjusted closing price of the Existing Shares (adjusted for the Share Consolidation) on the Last Trading Day falls below the mean and within the LTD Market Range;

(vii) the discount represented by the Subscription Price to the theoretical ex-entitlement price falls within the TEP Market Range; and

(viii) the inherent dilutive nature of Rights Issue in general;

we consider the potential dilution effect on the shareholding which may only happen to the Qualifying Shareholders who decide not to accept the Rights Issue is acceptable.

**7. Financial effects of the Rights Issue**

*(a) Net tangible assets*

According to the statement of unaudited pro forma financial information of the Group as set out in Appendix II to the Circular, the adjusted consolidated net tangible liabilities of the Group attributable to Shareholders was approximately US$21.06 million as at 31 December 2010. Assuming all the Existing Convertible Securities remain unexercised (the "**Scenario A**"), the unaudited pro forma adjusted consolidated net tangible liabilities of the Group attributable to Shareholders would decrease to approximately US$16.27 million immediately after the Rights Issue as a result of the inflow of the estimated net proceeds of approximately US$4.79 million from the Rights Issue.

According to the notes to the statement of unaudited pro forma financial information of the Group as set out in Appendix II to the Circular and as advised by the Company, by assuming all the Exercisable Outstanding Options, Outstanding Convertible Bonds and Outstanding Warrants have been issued and exercised in full on or before 31 December 2010 (the "**Scenario B**"), the Company would report on an adjusted consolidated net tangible assets of the Group attributable to Shareholders of approximately US$29.33 million as at 31 December 2010. Under Scenario B, the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to Shareholders would increase to approximately US$49.51 million immediately after the Rights Issue with Option as a result of the inflow of the estimated net proceeds of approximately US$20.18 million from the Rights Issue.

Also set out in the statement of the unaudited pro forma financial information of the Group, under Scenario A, upon completion of the Right issue, the unaudited pro forma adjusted consolidated net tangible liabilities would decrease to approximately US$0.17 per Consolidated Share (based on

98,119,596 Consolidated Shares) from the adjusted consolidated net liabilities of approximately US$0.43 per Consolidated Share as at 31 December 2010 prior to the Rights Issue.

As set out in the notes to the statement of the unaudited pro forma financial information of the Group and as advised by the Company, under Scenario B, upon completion of the Rights Issue, the unaudited pro forma adjusted consolidated net tangible assets would decrease to approximately US$0.12 per Consolidated Share (based on 398,619,518 Consolidated Shares) from the adjusted consolidated net assets of approximately US$0.15 per Consolidated Share (based on 199,309,759 Consolidated Shares) as at 31 December 2010 prior to the Rights Issue.

Having considered (i) the enhancement on the financial position of the Company under Scenario A; and (ii) the benefits of the Rights Issue as mentioned under the above section headed "2. Reasons for the Rights Issue and the use of proceeds", we consider the decrease in net tangible assets per Consolidated Share under Scenario B is acceptable.

*(b) Working capital*

Upon completion of the Rights Issue, the cash and bank balance of the Group will be increased as a result of the net proceeds from the Rights Issue. Accordingly, the working capital of the Group will be improved as a result of the Rights Issue.

**RECOMMENDATION**

Taking into consideration of the above mentioned principal factors and reasons, we consider that the terms of the Rights Issue (together with the Option) is (i) fair and reasonable so far as the Independent Shareholders are concerned; and (ii) in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the relevant resolution to be proposed at the EGM to approve the Rights Issue (together with the Option).

Yours faithfully,
For and on behalf of
**Veda Capital Limited**

**Hans Wong**
*Chairman*

**Julisa Fong**
*Managing Director*

## A. THREE-YEAR FINANCIAL INFORMATION

Financial information with respect to the profits and losses, financial record and position, set out as a comparative table and the latest published audited balance sheets together with the notes on the annual accounts of the Group for each of the three years ended 31 December 2008, 2009 and 2010 are disclosed in pages 33 to 122 of annual report 2008, pages 31 to 122 of annual report 2009 and pages 27 to 116 of annual report 2010 of the Company respectively, which are published on both the website of the Stock Exchange (www.hkex.com.hk) and the website of the Company (www.crosbycapitallimited.com).

## B. INDEBTEDNESS

As at the close of business on 31 May 2011, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had outstanding indebtedness of HK$289.9 million (approximately US$37.2 million) in principal amount, comprising (i) the outstanding principal amount of Outstanding Convertible Bonds of HK$250 million (approximately US$32.1 million); (ii) the outstanding principal amount of unsecured redeemable promissory note of HK$10 million (approximately US$1.3 million) issued on 13 September 2010 in relation to the acquisition of Shikumen; and (iii) the outstanding principal amount of a mortgage bank loan of HK$29.9 million (approximately US$3.8 million). The mortgage bank loan was secured by the Group's new office premises with net carrying amount of approximately HK$77.2 million (approximately US$9.9 million) as at 31 May 2011, guarantees of unlimited amount and HK$30 million (approximately US$3.8 million) by the Company and Shikumen respectively. The carrying amounts of Outstanding Convertible Bonds, unsecured redeemable promissory note and mortgage bank loan amounted to HK$197.1 million (approximately US$25.3 million), HK$9.2 million (approximately US$1.2 million) and HK$29.9 million (approximately US$3.8 million) respectively as at 31 May 2011.

As at the close of business on 31 May 2011, the Group also had liabilities of (i) up to US$0.2 million, being the accrued capital expenditure in respect of the fit-out of the new office premises; and (ii) up to US$0.5 million, being the provision for the potential litigation of Crosby Wealth Management (Hong Kong) Limited, a wholly owned subsidiary, as mentioned in Appendix III to this circular after taking into account the insurance coverage under the Group's professional liability insurance.

Save as aforesaid or as otherwise disclosed herein, apart from intra-group liabilities and normal trade payables, the Group did not have, as at the close of business on 31 May 2011, any further significant liabilities including debt securities issued and outstanding, or authorised or otherwise created but unissued, or term loans or bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, obligations under hire purchase contracts or finance leases, guarantees, or other material contingent liabilities.

## C. WORKING CAPITAL

The Directors are of the opinion that, after taking into account the estimated minimum amount of net proceeds from the Rights Issue (and the option to subscribe for RCPS) of approximately HK$41.48 million, the existing cash and bank balances and other internal resources available, the Group has sufficient working capital for its present requirements and for at least the next twelve months from the date of publication of this circular in the absence of unforeseen circumstances.

## D. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2010, being the date to which the latest published audited consolidated financial statements of the Group were made up.

## E. BUSINESS REVIEW FOR THE THREE MONTHS ENDED 31 MARCH 2011 AS PUBLISHED IN QUARTERLY RESULTS

Following the completion of the acquisition of Shikumen, the Group's asset management activities now revolve around its long established Asian based business in Hong Kong managing various Greater China focused private equity funds, as well as the newly added hedge fund and private equity fund management businesses under Shikumen. One notable achievement was the commencement of the fund raising exercise for BlackPine Private Equity Partners Fund, a new private equity fund managed by Shikumen, and at the same time combining the expertise of the personnel of both Shikumen and the existing asset management team of the Group led to an initial closing of US$80 million in January 2011. BlackPine is expecting to have a final closing at the end of 2011.

The Group also continued to provide wealth management services through Crosby Wealth Management (Hong Kong) Limited, which experienced modest and sustained growth from the recovery of the China/Hong Kong investment markets.

During the first quarter of 2011, the Company successfully completed the placing of HK$90 million Tranche 2 Convertible Bonds. Part of the proceeds was then used to complete the acquisition of the Group's new office premise in AXA Centre, Wanchai, Hong Kong. The fund investment teams of the Group are now integrated in the same office which is expected to improve the efficiency of our operations.

## FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Group reported a reduced loss attributable to owners for the first quarter of 2011 of US$1.8 million when compared to that of a loss of US$3.2 million same quarter last year.

Revenue from continuing operations have increased to US$0.9 million for the first quarter of 2011 when compared to US$0.5 million same quarter last year. Shikumen, a wholly owned subsidiary acquired in September 2010, was the major contributor to the increase in the revenue of the Group for the quarter. The operating expenses (i.e. administrative expenses, excluding amortisation of intangible assets, and other operating expenses) from continuing operations for the first quarter of 2011 totaled US$2.1 million. Excluding those of Shikumen of US$0.6 million, they have been managed and controlled at a level of US$1.5 million for the quarter as compared to that of US$1.8 million same quarter last year.

With the injection of the new Shikumen business, the disposal of the loss-making merchant banking assets and the successful completion of the refinancing of the Previous Bonds, the Group believes the most difficult period has passed. The Group will continue to control its costs and focus its resources to further strengthen and grow the Group's asset management businesses, both organically and through acquisitions when the appropriate opportunities arise.

## A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE (LIABILITIES)/ASSETS OF THE GROUP

The unaudited pro forma statement of adjusted consolidated net tangible (liabilities)/assets (the "Unaudited Pro Forma Financial Information") of the Group has been prepared in accordance with paragraph 31 of Chapter 7 of the Rules Governing the Listing of Securities on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and on the basis as set out in the notes below for the purpose to illustrate the effect of the proposed capital reorganization, the proposed rights issue on the basis of one Rights Share for every one Consolidated Share held on the Record Date (the "Rights Issue"), with option to subscribe redeemable convertible preference shares on the basis of one redeemable convertible preference share for every two Rights Shares subscribed on the Record Date (the "RCPS"), adjustment to the outstanding warrants and outstanding options and the proposed capital reduction as if it had taken place on 31 December 2010.

The Unaudited Pro Forma Financial Information of the Group has been prepared for illustrative purposes only, and because of its hypothetical nature, it may not give a true picture of the consolidated net tangible (liabilities)/assets of the Group following the proposed capital reorganization, the proposed rights issue with option to subscribe for redeemable convertible preference shares, adjustment to the outstanding warrants and outstanding options and the proposed capital reduction completed as at 31 December 2010 or at any future date.

| | Audited consolidated net liabilities of the Group attributable to the owners of the Company as at 31 December 2010 | Adjustment for goodwill and intangible assets | Estimated receipt from exercise of Outstanding Options, net of estimated expenses | Conversion of convertible bonds | Estimated receipt from exercise of Outstanding Warrants, net of estimated expenses | Adjusted consolidated net tangible (liabilities)/ assets of the Group attributable to the owners of the Company as at 31 December 2010 | Estimated net proceeds from the Rights Issue | Unaudited pro forma adjusted consolidated net tangible (liabilities)/ assets of the Group immediately after the Rights Issue with option to subscribe for the RCPS | Adjusted consolidated net tangible (liabilities)/ assets per share attributable to the owners of the Company as at 31 December 2010 but prior to the completion of Rights Issue with option to subscribe for the RCPS | Unaudited pro forma adjusted consolidated net tangible (liabilities)/ assets per share attributable to the owners of the Company immediately after the completion of Rights Issue with option to subscribe for the RCPS |
|---|---|---|---|---|---|---|---|---|---|---|
| | *US$'000* | *US$'000* | *US$'000* | *US$'000* | *US$'000* | *US$'000* | *US$'000* | *US$'000* | *US$* | *US$* |
| | *(Note 1)* | *(Note 2)* | | | | | | | | |
| Based on the minimum of 49,059,798 Rights Shares to be issued at Subscription Price of HK$0.80 per Rights Share | (16,365) | (4,699) | – | – | – | (21,064) | 4,785 | (16,279) | (0.43) | (0.17) |
| | | | | | | | *(Note 4)* | | *(Note 5)* | *(Note 6)* |
| Based on the maximum of 146,853,053 Rights Shares to be issued at Subscription Price of HK$0.80 per Rights Share | (16,365) | (4,699) | 15,392 | 22,168 | 577 | 17,073 | 14,806 | 31,879 | 0.12 | 0.11 |
| | | | *(Note 7)* | *(Note 8)* | *(Note 9)* | | *(Notes 10 and 13)* | | *(Note 11)* | *(Note 12)* |

*Notes:*

1. The audited consolidated net liabilities of the Group attributable to the owners of the Company as at 31 December 2010 is extracted from the published annual report of the Group for the year ended 31 December 2010.

2. Extracted from the published annual report of the Group for the year ended 31 December 2010, an adjustment of approximately US$4,699,000 represents the deduction of the Group's audited consolidated intangible assets and goodwill of approximately US$1,388,000 and US$3,311,000 respectively.

3. No adjustment has been made to reflect any trading results or other transactions of the Group entered into subsequent to 31 December 2010.

4. The estimated net proceeds from the Rights Issue of approximately HK$37.32 million (approximately US$4,785,000) are based on the minimum number of 49,059,798 Rights Shares to be issued at the Subscription Price of HK$0.80 per Rights Share and after deduction of the fair value of the loan commitment of approximately US$5,000 embedded to the Rights Shares, which is in the form of an option to subscribe for the RCPS, and the estimated related expenses, include among others, underwriting commission, financial advisory fee and other professional fees, totalling approximately HK$2,830,000 (approximately US$363,000), approximately HK$1,887,000 (approximately US$242,000) of which are directly attributable to the Rights Issue. Such related expenses will be subject to further changes upon completion of Rights Issue. It is assumed that no Exercisable Outstanding Options, Outstanding Convertible Bonds and Outstanding Warrants of the Company will be exercised on or before the Record Date.

5. The number of shares used for the calculation of adjusted consolidated net tangible liabilities per share attributable to the owners of the Company as at 31 December 2010 but prior to the completion of Rights Issue with option to subscribe for the RCPS is based on 49,059,798 Consolidated Shares deemed to be in issue as at 31 December 2010 after adjusting for the effect of the proposed Capital Reorganization. The number of shares in issue of the Company as at 31 December 2010 of 490,597,984 shares has been adjusted for the effect of the proposed Capital Reorganization to 49,059,798 Consolidated Shares.

6. The number of shares used for the calculation of unaudited pro forma adjusted consolidated net tangible liabilities per share attributable to owners of the Company immediately after the completion of Rights Issue with option to subscribe for RCPS (based on the minimum number of Rights Shares to be issued) is based on 98,119,596 shares, which is calculated as follows:

   (i) 49,059,798 Consolidated Shares in issue as at 31 December 2010 (Note 5); and

   (ii) 49,059,798 Rights Shares (Note 4).

7. As at 31 December 2010, the Company had 20,880,000 Exercisable Outstanding Options eligible for exercise. Upon full exercise of the subscription rights attaching to the 20,880,000 Exercisable Outstanding Options, 20,880,000 Existing Shares or 2,088,000 Consolidated Shares upon the Share Consolidation becoming effective, would be issued. Assuming full exercise of the subscription rights attaching to the 20,880,000 Exercisable Outstanding Options on or before the Record Date, the estimated receipt, net of estimated expenses which are deemed to be immaterial, would be approximately HK$120,057,000 (approximately US$15,392,000). It is assumed that there is no anti-dilutive adjustment to any of the Outstanding Options, Outstanding Warrants and Tranche 1 Convertible Bonds upon the exercise of Outstanding Options and Outstanding Warrants and the conversion of Tranche 1 Convertible Bonds.

8. As at 31 December 2010, the Company had Outstanding Convertible Bonds of an aggregate amount of HK$160 million (i.e. the Tranche 1 Convertible Bonds). Upon full exercise of the conversion rights attaching to Tranche 1 Convertible Bonds at the conversion price of HK$0.17259 per share (subject to further adjustment), 927,052,552 Existing Shares, or 92,705,255 Consolidated Shares upon the Share Consolidation becoming effective, would be issued. The Tranche 2

Convertible Bonds were not yet issued as at 31 December 2010. Assuming full exercise of the conversion rights attaching to the outstanding Tranche 1 Convertible Bonds on or before the Record Date, the consolidated net tangible assets of the Group attributable to the owners of the Company would have been adjusted for the derecognition of the net carrying amounts of liability component of the Tranche 1 Convertible Bonds and the embedded derivative recognised as financial liabilities at fair value through profit or loss amounting to approximately US$15,793,000 and US$6,375,000 respectively as at 31 December 2010 as extracted from the published annual report of the Group for the year ended 31 December 2010, net of estimated expenses which are deemed to be immaterial.

9. As at 31 December 2010, the Company had Outstanding Warrants to subscribe for 30,000,000 Existing Shares or 3,000,000 Consolidated Shares upon the Share Consolidation becoming effective, would be issued. Assuming full exercise of the subscription rights attaching to the Outstanding Warrants on or before the Record Date, the estimated net proceeds of HK$4,500,000 (approximately US$577,000) from the exercise of the Outstanding Warrants are based on 30,000,000 Existing Shares, before adjusting for the effect of the proposed Capital Reorganization, to be issued at an exercise price of HK$0.15 per share after deduction of the estimated related expenses which are deemed to be immaterial.

10. The estimated net proceeds from the Rights Issue of approximately HK$115.49 million (approximately US$14,806,000) are based on the maximum number of 146,853,053 Rights Shares to be issued upon the events set out in Notes 7,8 and 9 above occurred at the Subscription Price of HK$0.80 per Rights Share and after deduction of the fair value of the loan commitment of approximately US$14,000 embedded to the Rights Shares, which is in the form of an option to subscribe for the RCPS, and the estimated related expenses, include among others, underwriting commission, financial advisory fee and other professional fees, totalling approximately HK$2,830,000 (approximately US$363,000), approximately HK$1,887,000 (approximately US$242,000) of which are directly attributable to the Rights Issue. Such related expenses will be subject to further changes upon completion of Rights Issue. It is assumed that all Exercisable Outstanding Options, Tranche 1 Convertible Bonds and Outstanding Warrants of the Company will be exercised on or before the Record Date, which is further explained in note 11(ii), (iii) and (iv).

11. The number of shares used for the calculation of adjusted consolidated net tangible assets per share attributable to the owners of the Company as at 31 December 2010 but prior to the completion of Rights Issue with option to subscribe for RCPS is based on 146,853,053 Consolidated Shares calculated as the summation of the following:

(i) 49,059,798 Consolidated Shares in issue as at 31 December 2010 (Note 5);

(ii) 2,088,000 Consolidated Shares in issue assuming exercise of Outstanding Share Options as at 31 December 2010 (Note 7);

(iii) 92,705,255 Consolidated Shares in issue assuming exercise of subscription rights of the Tranche 1 Convertible Bonds as at 31 December 2010 (Note 8);

(iv) 3,000,000 Consolidated Shares in issue assuming exercise of the Outstanding Warrants as at 31 December 2010 (Note 9).

12. The number of shares used for the calculation of unaudited pro forma adjusted consolidated net tangible assets per share attributable to owners of the Company immediately after the completion of Rights Issue with option to subscribe for RCPS (based on the maximum number of Rights Shares to be issued) is based on 293,706,106 Consolidated Shares calculated as follows:

(i) 49,059,798 Consolidated Shares in issue as at 31 December 2010 (Note 5);

(ii) 146,853,053 Rights Shares (Note 10);

(iii) 97,793,255 Consolidated Shares issued under Notes 7, 8 and 9.

13. Subsequent to 31 December 2010, the balance of the Exercisable Outstanding Options, being 3,100,000 Outstanding Options were vested and the Tranche 2 Convertible Bonds with principal amount of HK$90 million were issued. Assuming they were all exercised, 3,100,000 Existing Shares or 310,000 Consolidated Shares would be issued pursuant to the 3,100,000 Outstanding Options and 521,467,060 Existing Shares, or 52,146,706 Consolidated Shares would be issued upon exercise of the subscription rights under the Tranche 2 Convertible Bonds at the conversion price of HK$0.17259 per share (subject to adjustment). The consolidated net tangible assets of the Group attributable to the owners of the Company as at 31 December 2010 would have been increased by the estimated receipt from exercise of the 3,100,000 Outstanding Options, net of estimated expenses which are deemed to be immaterial, of approximately HK$5,580,000 (approximately US$715,000), the fair values of the liability component of Tranche 2 Convertible Bonds and the embedded derivative recognised as financial liabilities at fair value through profit or loss amounting to approximately US$8,581,000 and US$2,957,000 respectively, being their respective fair values upon initial recognition at the completion date of the Tranche 2 Convertible Bonds on 30 March 2011. The estimated net proceeds from the Rights Issue will be increased by HK$41.93 million (approximately US$5,375,000) which are based on the additional 52,456,706 Rights Shares to be issued at the Subscription Price of HK$0.80 per Rights Share and after deduction of the fair value of further loan commitment of approximately US$5,000 embedded to the additional Rights Shares, which is in the form of an option to subscribe for the RCPS, and any further estimated related expenses which are deemed to be immaterial. The unaudited pro forma adjusted consolidated net tangible assets per share attributable to the owners of the Company immediately after the completion of Rights Issue with option to subscribe for the RCPS will be US$0.12.

14. Pursuant to the announcement of the Company dated 2 June 2011, a Capital Reorganization was proposed whereby every 10 issued shares of US$0.01 each in the Company would be consolidated into one consolidated share of US$0.10 and the paid-up capital of the Consolidated Shares would be reduced from US$0.10 each to US$0.01 each by cancelling US$0.09 of the paid-up capital on each issued Consolidated Share. The proposed share capital reduction does not affect the unaudited pro forma adjusted consolidated net tangible (liabilities)/assets of the Group.

## B. ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE (LIABILITIES)/ASSETS OF THE GROUP

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Hong Kong

Dear Sirs

We report on the unaudited pro forma financial information of Crosby Capital Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), set out in section A of Appendix II to the Company's circular dated 21 July 2011 (the "Circular") in connection with the proposed capital reorganization, the proposed rights issue on the basis of one rights share for every one consolidated share held on the Record Date (as defined in the Circular) with option to subscribe for one redeemable convertible preference share for every two rights shares subscribed, adjustment to the outstanding warrants and outstanding options and the proposed capital reduction (the "Proposed Rights Issue"), which has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the Proposed Rights Issue might have affected the financial information presented, for inclusion in section A of Appendix II to the Circular. The basis of preparation of the unaudited pro forma financial information is set out in the section headed "Unaudited Pro Forma Financial Information of the Group" in section A of Appendix II to the Circular.

**Respective Responsibilities of Directors of the Company and Reporting Accountants**

It is the responsibility solely of the directors of the Company to prepare 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 Rules") and 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 (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 7.31(7) of the GEM 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.

**Basis of Opinion**

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that 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 Rules.

Our work did not constitute an audit or review made in accordance with Hong Kong Standards on Auditing or Hong Kong Standards on Review Engagements issued by the HKICPA, and accordingly, we did not express any such assurance on the unaudited pro forma financial information.

The unaudited pro forma financial information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not give any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 31 December 2010 or any future date.

**Opinion**

In our opinion:

a. the unaudited pro forma financial information has been properly compiled by the directors of the Company 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 Rules.

**BDO Limited**
*Certified Public Accountants*
**Yu Tsui Fong**
Practising Certificate no. P05440

Hong Kong, 21 July 2011

## 1. 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 issuer. The directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

## 2. SHARE CAPITAL

The authorised and issued share capital of the Company immediately following the completion of the Rights Issue (assuming the Capital Reorganisation becomes effective on the Latest Practicable Date and no further issue of Shares from the Latest Practicable Date to the Record Date) were as follows:

| | | |
|---|---|---|
| *Authorised:* | | *US$* |
| 2,000,000,000 | Consolidated Shares of US$0.1 each | 200,000,000.00 |
| *Issued and to be issued:* | | |
| 49,059,798 | Consolidated Shares in issue as at the Latest Practicable Date | 4,905,980.00 |
| 49,059,798 | Rights Shares to be allotted and issued under the Rights Issue | 4,905,980.00 |
| 98,119,596 | Consolidated Shares in issue immediately after completion of the Right Issue | 9,811,960.00 |

All the Rights Shares to be issued will, when issued and fully paid, rank pari passu with the Consolidated Shares in issue as at the date of allotment and issue of the Rights Shares in all respects. Holders of fully-paid Rights Shares will be entitled to receive all future dividends and distributions which may be declared, made or paid after the date of allotment and issue of the fully-paid Rights Shares. The Rights Shares to be issued will be listed on the Stock Exchange.

No part of the share capital or any other securities of the Company is listed or dealt on/in any stock exchange other than the Stock Exchange and no application is being made or is currently proposed or sought for the Shares, the Consolidated Shares, Rights Shares or any other securities of the Company to be listed or dealt on/in any other stock exchange.

As at the Latest Practicable Date, the Company had Outstanding Convertible Bonds, Outstanding Options, and Outstanding Warrants in issue which confer right to convert or exchange into or subscribe for the Existing Shares.

Dealings in the Shares and the Consolidated Shares may be settled through CCASS and you should consult your stockbroker or other registered dealer of securities, bank manager, solicitors, professional accountant or other professional adviser for details of these settlement arrangements and how such arrangements may affect your rights and interest.

As at the Latest Practicable Date, there is no arrangement under which future dividends are waived or agreed to be waived.

**3. DISCLOSURE OF INTERESTS**

**(a) Director's interests and short positions in the securities of the Company and its associated corporations**

As at the Latest Practicable Date, the interests or short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 to Rule 5.67 of the GEM Listing Rules relating to securities transactions by Directors, were as follows:

*(i) Interests in the ordinary shares of the Company*

| Name of Directors | Personal Interest | Family Interest | Aggregate long position in Existing Shares of the Company | Percentage which the aggregate long position in Existing Shares represents to the total Existing Shares of the Company in issue |
|---|---|---|---|---|
| | | | | % |
| Johnny Chan Kok Chung | 15,155,320 | 477,738 *(Note)* | 15,633,058 | 3.19 |
| Ulric Leung Yuk Lun | 17,110,000 | – | 17,110,000 | 3.49 |
| Joseph Tong Tze Kay | 500,000 | – | 500,000 | 0.10 |
| Daniel Yen Tzu Chen | 200,000 | – | 200,000 | 0.04 |

*Note*: Yuda Udomritthiruj was benefically interested in 477,738 Existing Shares. Yuda Udomritthiruj, an employee of a subsidiary of the Company, is the wife of Johnny Chan Kok Chung (a Director) and, accordingly, Mr. Chan is deemed to have interests in her Shares.

*(ii) Interests in the underlying shares of the Company*

The interests in the underlying shares of the Company arise from Outstanding Options granted to the Directors under the Company's share option scheme and the Outstanding Convertible Bonds due in 2015 which is held by a Director, details of which are provided below:

(a) Outstanding Options

| Name of Directors | Date of grant | Exercise price | Aggregate long position in underlying shares | Percentage which the aggregate long position in underlying shares of the Company represents to the total Existing Share capital of the Company in issue |
|---|---|---|---|---|
| | | | | % |
| Johnny Chan Kok Chung | 26 April 2006 | HK$7.70 | 6,000,000 | |
| | 11 February 2008 | HK$1.80 | 3,000,000 | |
| | 7 October 2010 | HK$0.158 | 2,800,000 | |
| | | | 11,800,000 | 2.41 |
| Jeffrey Lau Chun Hung | 7 October 2010 | HK$0.158 | 3,000,000 | 0.61 |
| Ulric Leung Yuk Lun | 7 October 2010 | HK$0.158 | 1,500,000 | 0.31 |
| Ahmad S. Al-Khaled | 24 March 2006 | HK$7.70 | 500,000 | |
| | 29 January 2007 | HK$3.65 | 250,000 | |
| | 11 February 2008 | HK$1.80 | 500,000 | |
| | 29 December 2008 | HK$0.18 | 500,000 | |
| | | | 1,750,000 | 0.36 |
| Daniel Yen Tzu Chen | 24 March 2006 | HK$7.70 | 500,000 | |
| | 29 January 2007 | HK$3.65 | 250,000 | |
| | 11 February 2008 | HK$1.80 | 500,000 | |
| | 29 December 2008 | HK$0.18 | 500,000 | |
| | | | 1,750,000 | 0.36 |
| Joseph Tong Tze Kay | 24 March 2006 | HK$7.70 | 500,000 | |
| | 29 January 2007 | HK$3.65 | 250,000 | |
| | 11 February 2008 | HK$1.80 | 500,000 | |
| | 29 December 2008 | HK$0.18 | 500,000 | |
| | | | 1,750,000 | 0.36 |

(b) Outstanding Convertible Bonds

| Name of Director | Conversion Price | Aggregate long position in underlying shares | Percentage which the aggregate long position in underlying shares of the Company represents to the total Existing Share capital of the Company in issue |
|---|---|---|---|
| | | | % |
| Ulric Leung Yuk Lun | HK$0.17259 | 28,970,392 | 5.91 |

*(iii) Short positions*

None of the Directors held short positions in the Existing Shares and underlying shares of the Company or any associated corporation.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interests and short positions in the Existing Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provision of the SFO), or which were recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 to Rule 5.67 of the GEM Listing Rules relating to securities transactions by Directors.

**(b) Persons who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO and substantial Shareholders' interests**

So far as is known to the Directors, as at the Latest Practicable Date, the following person (not being Directors or chief executive of the Company) had, or was deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

*(i) Interests in the ordinary shares and underlying shares of the Company*

| Name | Aggregate long position in Existing Shares | Aggregate long position in underlying shares of the Company | The total long position in Existing Shares and underlying shares to the total Existing Share capital of the Company in issue |
|---|---|---|---|
| | | | % |
| Nelson Tang Yu Ming *(Note 1 and 2)* | 130,000,000 | 958,990,243 | 221.97 |
| Crosby Management *(Note 1)* | 130,000,000 | 954,390,243 | 221.03 |
| Dr. Yeung Sau Shing, Albert *(Note 3 and 4)* | – | 719,830,848 | 146.73 |
| Luk Siu Man, Semon *(Note 3 and 4)* | – | 719,830,848 | 146.73 |
| Emperor Securities Limited *(Note 4)* | – | 360,597,984 | 73.50 |
| Emperor Capital Group Limited *(Note 4)* | – | 360,597,984 | 73.50 |
| Million Way Holdings Limited *(Note 4)* | – | 360,597,984 | 73.50 |
| STC International Limited *(Note 4)* | – | 360,597,984 | 73.50 |
| Main Wealth Enterprises Limited *(Note 5)* | 15,000,000 | 243,351,295 | 52.66 |
| Lau Kit Mei *(Note 5)* | 15,000,000 | 243,351,295 | 52.66 |
| Greyhound International Limited *(Note 6)* | – | 246,763,138 | 50.03 |
| Wu Ting Fai, James *(Note 6)* | – | 246,763,138 | 50.03 |
| Sodikin *(Note 7)* | 15,000,000 | 225,969,059 | 49.12 |

| Name | Aggregate long position in Existing Shares | Aggregate long position in underlying shares of the Company | The total long position in Existing Shares and underlying shares to the total Existing Share capital of the Company in issue |
|---|---|---|---|
| | | | % |
| Sun Hung Kai Strategic Capital Limited ("SHK Strategic") *(Note 8)* | – | 86,911,176 | 17.72 |
| Shipshape Investments Limited ("Shipshape") *(Note 8)* | – | 86,911,176 | 17.72 |
| Sun Hung Kai & Co. Limited ("SHK & Co.") *(Note 9)* | – | 86,911,176 | 17.72 |
| AP Emerald Limited ("AP Emerald") *(Note 9)* | – | 86,911,176 | 17.72 |
| AP Jade Limited ("AP Jade") *(Note 9)* | – | 86,911,176 | 17.72 |
| Allied Properties (H.K.) Limited ("APL") *(Note 9)* | – | 86,911,176 | 17.72 |
| Allied Group Limited ("AGL") *(Note 9)* | – | 86,911,176 | 17.72 |
| Lee Seng Huang *(Note 10)* | – | 86,911,176 | 17.72 |
| Lee Seng Hui *(Note 10)* | – | 86,911,176 | 17.72 |
| Lee Su Hwei *(Note10)* | – | 86,911,176 | 17.72 |
| Ng Chun Fai Frank *(Note 11)* | – | 42,058,549 | 8.57 |
| TBV Holdings Limited *(Note 12)* | 34,176,940 | – | 6.97 |

*Notes:*

1. Crosby Management held 130,000,000 Existing Share. Crosby Management was beneficially owned as to 96.7% by Nelson Tang Yu Ming who is entitled to exercise more than 30% of the voting power at the general meetings of Crosby Management and, accordingly, he is deemed to be interested in 130,000,000 Existing Share owned by Crosby Management. Crosby Management has undertaken to subscribe for its entitlement of 13,000,000 Rights Shares and also undertaken to exercise its option to subscribe for 6,500,000 RCPS, to which it is entitled under the Rights Issue.

2. Nelson Tang Yu Ming was granted 4,600,000 options to subscribe for underlying shares at an exercise price of HK$0.158 on 7 October 2010.

3. Dr. Yeung Sau Shing, Albert is deemed to be interested in the Outstanding Convertible Bonds in a principal sum of HK$62 million at the initial conversion price of HK$0.18 per share by virtue of his direct interest in the entire share capital of Win World Profits Limited. Ms. Luk Siu Man, Semon, as the spouse of Dr. Yeung Sau Shing, Albert, is deemed to be interested in the 344,444,444 underlying shares for the purposes of the SFO. Following the reset of conversion price to HK$0.17259 per share on 4 April 2011, 359,232,864 underlying shares will be allotted and issued upon the aforesaid full conversion.

4. Emperor Securities Limited is deemed to be interested in these underlying shares by virtue of the Underwriting Agreement dated 2 June 2011 entered into between the Company and the Underwriter in relation to the Rights Issue. Emperor Securities Limited is an indirect wholly-owned subsidiary of Emperor Capital Group Limited, the shares of which are listed on the Stock Exchange. 47.90% of the shares of Emperor Capital Group Limited are held by Win Move Group Limited. The entire issued share capital of Win Move Group Limited is held by Million Way Holdings Limited, which in turn is held by STC International Limited on trust for The Albert Yeung Discretionary Trust ("AY Trust"). Dr. Yeung Sau Shing, Albert, as founder of the AY Trust, and Ms. Luk Siu Man, Semon, as the spouse of Dr. Yeung Sau Shing, Albert, are deemed to be interested in the 36,059,798 Rights Shares for the purposes of the SFO.

5. Main Wealth Enterprises Limited owns 248,333,333 underlying shares, out of which 233,333,333 will be allotted and issued upon the full conversion of Outstanding Convertible Bonds for a total principal sum of HK$42 million at the initial conversion price of HK$0.18 per share; and 15,000,000 Existing Shares were allotted and issued as a result of its exercise of the subscription rights attached to certain warrants of the Company at an exercise price of HK$0.15 per share. Lau Kit Mei is deemed to be interested in these shares through her 100% interests in Main Wealth Enterprises Limited. Following the reset of conversion price to HK$0.17259 per share on 4 April 2011, 243,351,295 underlying shares will be allotted and issued upon the aforesaid full conversion, representing 52.66% of the total Existing Share capital of the Company in issue.

6. Greyhound International Limited owns 237,222,222 underlying shares, out of which 222,222,222 will be allotted and issued upon the full conversion of Tranche 1 Convertible Bonds for a principal sum of HK$40 million at the initial conversion price of HK$0.18 per share, and 15,000,000 shares will be allotted and issued upon its exercise of the subscription rights attached to certain warrants of the Company at the initial exercise price of HK$0.15 per share. Wu Ting Fai, James is deemed to be interested in these shares through his 100% interests in Greyhound International Limited. Following the reset of conversion price to HK$0.17259 per share on 4 April 2011, 231,763,138 underlying shares will be allotted and issued upon the aforesaid full conversion, representing 50.03% of the total Existing Share capital of the Company in issue.

7. Sodikin owns 231,666,666 underlying shares, out of which 216,666,666 will be allotted and issued upon the full conversion of Tranche 1 Convertible Bonds for a principal sum of HK$39 million at the initial conversion price of HK$0.18 per share, and 15,000,000 Existing Shares were allotted and issued as a result of its exercise of the subscription rights attached to certain warrants of the Company at an exercise price of HK$0.15 per share. Following the reset of conversion price to HK$0.17259 per share on 4 April 2011, 225,969,059 underlying shares will be allotted and issued upon the aforesaid full conversion, representing 49.12% of the total Existing Share capital of the Company in issue.

8. SHK Strategic is a wholly-owned subsidiary of Shipshape which in turn is wholly owned by SHK & Co. Therefore SHK & Co. and Shipshape are deemed to have an interest in the underlying shares in which SHK Strategic is interested. SHK Strategic owns Tranche 1 Convertible Bonds for a principal sum of HK$15 million convertible into 83,333,333 underlying shares at the initial conversion price of HK$0.18 per share, which was reset to HK$0.17259 per share on 4 April 2011 and 86,911,176 underlying shares will be allotted and issued upon the aforesaid full conversion, representing 17.72% of the total Existing Share capital of the Company in issue.

9. SHK & Co. is a 62.47% owned subsidiary of AP Emerald. AP Emerald is wholly owned by AP Jade which in turn is a wholly owned subsidiary of APL. APL is a 72.32% owned subsidiary of AGL. Accordingly, AGL, APL, AP Jade and AP Emerald are deemed to have an interest in the underlying shares in which SHK & Co. is interested.

10. Lee Su Hwei, Lee Seng Huang and Lee Seng Hui are trustees of Lee and Lee Trust ("LLT") which owns 53.01% interests in AGL. Accordingly, Lee Su Hwei, Lee Seng Huang, Lee Seng Hui and LLT are deemed to have an interest in the said underlying shares in which AGL is interested.

11. Ng Chun Fai Frank owns 40,388,888 underlying shares, out of which 38,888,888 will be allotted and issued upon the full conversion of Tranche 1 Convertible Bonds for a principal sum of HK$7 million at the initial conversion price of HK$0.18 per share, and 1,500,000 underlying shares will be allotted and issued upon exercise of the subscription rights attached to the options of the Company granted on 7 October 2010 with an exercise price of HK$0.158. Following the reset of conversion price to HK$0.17259 per share on 4 April 2011, 40,558,549 underlying shares will be allotted and issued upon the aforesaid full conversion, representing 8.27% of the total Existing Share capital of the Company in issue.

12. TBV Holdings Limited is a company wholly-owned by the Kuwait Fund for Arab Economic Development, a development finance agency owned by the government of Kuwait.

*(ii) Short positions*

No person held short positions in the Shares and underlying Shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

Save as disclosed above, as at the Latest Practicable Date, the Directors of the Company were not aware of any other person who had or deemed to have interests or short position in the Existing Shares and underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who was 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 any member of the Group or as recorded in the register required to be kept under section 336 of the SFO.

## 3. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had service contract with any member of the Group which is not determinable by the employer within one year without payment of compensation, other than statutory compensation.

## 4. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors, management Shareholders (as defined in the GEM Listing Rules) or substantial Shareholders or any of their respective associates had an interest in a business which competes or may compete with the business of the Group or had any other conflict of interest which any such person has or may have with the Group.

## 5. LITIGATION

The Group has received a number of complaints against its wealth management business relating to issues arising from the global financial crisis in 2007 and 2008. In particular, Crosby Wealth Management (Hong Kong) Limited ("**CWM HK**"), a subsidiary of the Company, received a writ of summons (the "**Writ**") issued in the High Court in Hong Kong by Verlon Investment Inc., a client of CWM HK, dated 21 October 2010, claiming for alleged losses arising from its investments in accumulators in 2007. CWM HK has engaged legal counsel's advice and has filed a defence to the claims. The Directors considered that it is still an early stage for assessing the probable outcome of the litigation. Having consulted the legal counsel, the Directors are of view that as at the Latest Practicable Date, the Group has not recognized any contingent liabilities in relation to the litigation since it is still in an early stage.

Furthermore, the Group's asset management and wealth management operations are covered under the professional liability insurance taken out by the Group for claims that are made against the Group for any actual or alleged wrongful professional act, subject to the insurer reviewing information of each claim and confirming the amount covered. The Group's insurer has been informed of all of the claims, including those stated in the Writ, referred to above.

Save as disclosed above, none of the members of the Group was engaged in any litigation, arbitration, or claim of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened by or against any member of the Group.

## 6. INTERESTS IN CONTRACTS AND ASSETS

As of the Latest Practicable Date, none of the Directors had any direct or indirect interests in any assets which had been acquired or disposed of by or leased to, or which are proposed to be acquired or disposed of by or leased to, the Company or any of its subsidiaries during the period since 31 December 2010, the date to which the latest published audited financial statements of the Group were made up.

There had been no contract or arrangement of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which any of the Directors had a material interest, whether directly or indirectly, subsisted as at the Latest Practicable Date.

## 7. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by members of the Group within the two years immediately preceding the Latest Practicable Date which are or may be material:

(a) the sale and purchase agreement dated 24 June 2010 entered into between Shikumen, the Company, Mr. Nelson Tang Yu Ming and Mr. Jeffrey Lau Chun Hung in relation to the acquisition of Shikumen for a consideration of HK$46.9 million;

(b) the agreement dated 24 June 2010 entered into between ECK Partners Holdings Limited ("ECK Partners") and the Company in relation to the disposal of certain sale assets by the Company for a consideration of US$27,111;

(c) the agreement dated 24 June 2010 entered into between Crosby Asset Management Inc. ("CAM") and the Company in respect of the sale of various businesses of CAM to the Company for a consideration of US$948,666;

(d) the placing agreement dated 24 June 2010 entered into between the Company and the Placing Agent in relation to the placing of the zero couple convertible bonds with an aggregate principal amount of HK$250 million;

(e) the conditional deed of settlement dated 21 September 2010 entered into between the Company and the holders of all the outstanding of a US$75 million zero coupon convertible bonds of the Company due March 2011 issued in March 2006 in relation to the repurchase of such bonds;

(f) the agreement dated 6 October 2010 entered into between ECK Partners and the Company in respect of the sale of various investments to ECK Partners for a consideration of US$197,340;

(g) the assignment dated 31 December 2010 entered into among Upper City Limited, Online Business Investment Limited and Crosby Capital (Hong Kong) Limited ("CCHK"), a wholly owned subsidiary of the Company in relation to the acquisition of property at Unit 502, 5th Floor, AXA Centre, 151 Gloucester Road, Wanchai, Hong Kong (the "Property") at a consideration of HK$74 million;

(h) the agreement dated 23 December 2010 entered into between the Company and ECK Partners in relation to the disposal of the entire interest in CAM held by the Company to ECK Partners at a consideration of US$929,644;

(i) the mortgage deed dated 31 March 2011 entered into between Hang Seng Bank Limited (the "Bank") and CCHK in relation to the mortgage or charge over the Property in respect of the bank loan of principal amount of HK$30 million (approximately US$3.8 million) (the "Mortgage Bank Loan") granted by the Bank;

(j) the two guarantees dated 24 March 2011 entered into between the Bank and the Company as well as between the Bank and Shikumen in relation to the corporate guarantees of unlimited amount and HK$30 million (approximately US$3.8 million) respectively in respect of the Mortgage Bank Loan;

(k) the assignment dated 31 May 2011 entered into between City Plan Limited and CCHK in relation the acquisition of two car parking spaces on 3rd Floor, AXA Centre, 151 Gloucester Road, Wanchai, Hong Kong at a consideration of HK$2.2 million;

(l) the underwriting agreement dated 2 June 2011 entered into between the Company and Emperor Securities Limited in relation to the Rights Issue; and

(m) the irrevocable undertaking dated 2 June 2011 made by Crosby Management Holdings Limited in relation to the undertaking to procure 13,000,000 Rights Shares and to subscribe for 6,500,000 RCPS.

## 8. CORPORATION INFORMATION

| | |
|---|---|
| Registered Office | Cricket Square<br>Hutchins Drive<br>P.O. Box 2681<br>Grand Cayman KY1-1111<br>Cayman Islands |
| Head Office and Principal Place of Business in Hong Kong | Unit 502 5th Floor<br>AXA Centre<br>151 Gloucester Road<br>Wanchai Hong Kong |
| Share Registrar and Transfer Office | Computershare Hong Kong Investor Services Limited<br>46th Floor<br>Hopewell Centre<br>183 Queen's Road East<br>Wanchai Hong Kong |
| Authorised Representatives | Mr. Johnny Chan Kok Chung and Ms. Winnie Sin Wing Hung |
| Compliance Officer | Mr. Johnny Chan Kok Chung<br>18th Floor<br>Fairmont House<br>8 Cotton Tree Drive<br>Central Hong Kong |
| Company Secretary | Ms. Winnie Sin Wing Hung<br>Unit 502 5th Floor<br>AXA Centre<br>151 Gloucester Road<br>Wanchai Hong Kong |
| Legal Advisers to the Company | *As to Hong Kong law*<br>J. S. Gale & Co.<br>2410 Dah Sing Financial Centre<br>108 Gloucester Road<br>Wanchai Hong Kong |

| | |
|---|---|
| | *As to Cayman Islands law*<br>Conyers Dill & Pearman<br>2901 One Exchange Square<br>8 Connaught Place<br>Central Hong Kong |
| Auditors | BDO Limited<br>*Certified Public Accountants*<br>25th Floor<br>Wing On Centre<br>111 Connaught Road<br>Central Hong Kong |
| Principal Bankers | The Hong Kong and Shanghai Banking Corporation Limited<br>Hang Seng Bank Limited<br>DBS Bank (Hong Kong) Limited<br>The Bank of East Asia Limited |
| Financial Adviser to the Company | Emperor Capital Limited<br>28th Floor Emperor Group Centre<br>288 Hennessy Road<br>Wanchai Hong Kong |
| Independent Financial Adviser to Independent Board Committee and the Independent Shareholders | Veda Capital Limited<br>Suite 3214 32nd Floor<br>COSCO Tower<br>183 Queen's Road Central<br>Hong Kong |
| Underwriters | Emperor Securities Limited<br>23rd-24th Floor Emperor Group Centre<br>288 Hennessy Road<br>Wanchai Hong Kong |
| Audit Committee | Mr. Joseph Tong Tze Kay<br>Mr. Daniel Yen Tzu Chen<br>Mr. David John Robinson Herratt |

## DIRECTORS

### Particulars of Directors

| Name | Address |
|---|---|
| **Executive Directors** | |
| Mr. Johnny Chan Kok Chung | 18th Floor<br>Fairmont House<br>8 Cotton Tree Drive<br>Central Hong Kong |
| Mr. Ulric Leung Yuk Lun | Unit 502 5th Floor<br>AXA Centre<br>151 Gloucester Road<br>Wanchai Hong Kong |
| Mr. Jeffrey Lau Chun Hung | Unit 502 5th Floor<br>AXA Centre<br>151 Gloucester Road<br>Wanchai Hong Kong |
| **Non-executive Director** | |
| Mr. Ahmad S. Al-Khaled | House No. 13-A Block No. 1<br>Abdulrahman Al-Dakhil Street<br>Rawda Kuwait |
| **Independent non-executive Directors** | |
| Mr. Daniel Yen Tzu Chen | 9 Ardmore Park #24-03<br>Singapore 259955 |
| Mr. Joseph Tong Tze Kay | A32 Europa Garden<br>48 Kwu Tung Road<br>Sheung Shui<br>N.T. Hong Kong |
| Mr. David John Robinson Herratt | 2nd Floor 36 Kennedy Road<br>Hong Kong |

**Executive Directors:**

**Johnny Chan Kok Chung**, aged 51, one of the co-founders and joined the Board since incorporation of the Company. He is the Chairman of Crosby Asset Management (Hong Kong) Limited and Crosby Wealth Management (Hong Kong) Limited, the subsidiaries of the Company. He oversees the development of Crosby's asset and wealth management businesses in Asia. He is the Chief Investment Officer of Softech Investment Management Company Limited, a subsidiary of the Company being the manager of the Hong Kong Government Applied Research Fund and acts in the same capacity in Crosby Asset Management (Hong Kong) Limited, as the manager of the Crosby ChinaChips Fund and the JAIC Crosby Fund.

Johnny has over 25 years of experience in investment management and investment banking. He acted as the Chairman of the Hong Kong Venture Capital and Private Equity Association from June 2007 to June 2011 and has acted as the President since July 2011. He served as a panel member on the HKSAR Government Small Entrepreneur Research Assistance Programme (SERAP) between 2001-2006. Since April 2008, he has served as a member of the Hong Kong Trade Development Council's Financial Services Advisory Committee. He has an MBA in International Business and a BA degree in Economics. He also holds a post-graduate diploma from the Securities Institute of Australia and is an Associate of the Securities Institute of Australia.

**Ulric Leung Yuk Lun**, aged 47, joined the Board in October 2010 and appointed as the Group Chief Financial Officer following the acquisition of Shikumen Capital Management (HK) Limited by the Company. He has been the Managing Director and Chief Financial Officer of Shikumen Capital Management (HK) Limited since 2007. He graduated from the Chinese University of Hong Kong in 1986 with a Bachelor's Degree in Business Administration (Hons). He is a member of the Hong Kong Institute of Certified Public Accountants, a CFA charterholder and a Chartered Alternative Investments Analyst.

Ulric has 20 years' experience in the financial markets. Prior to joining Shikumen Capital Management (HK) Limited, he had been the Chief Financial Officer of SAIL Advisors Limited, an investment manager of alternative assets. He had also worked previously with Deutsche Bank, NatWest, Lehman Brothers and Ernst & Young. He has also been a non-executive director of China 3D Digital Entertainment Limited (formerly known as Dragonlott Entertainment Group Limited), a company listed on GEM of the Stock Exchange of Hong Kong, from March 2010 to November 2010.

**Jeffrey Lau Chun Hung,** aged 35, joined the Company in March 2011 as an Executive Director. He received a Bachelor of Arts (Magna Cum Laude) from Harvard University and a Master of Business Administration from Harvard Business School. He is co-founder and Managing Director of Shikumen, a wholly-owned subsidiary of the Company, in which capacity he oversees investments, operations and strategy. Prior to Shikumen, Mr. Lau has worked at Och-Ziff Capital Management Group in New York and Hong Kong, at The Blackstone Group in New York and at Morgan Stanley in Hong Kong, Los Angeles and New York.

**Non-executive Director:**

**Ahmad S. Al-Khaled**, aged 45, joined the Board in November 2000. He is the Chief Operating Officer of TBV Holdings Limited, a global Venture Capital firm that invests in private and publicly held companies in high growth sectors. He is also the Assistant Deputy Director and Head of Investment Funds Division at the Kuwait Fund for Arab Economic Development which he joined in 1995. His responsibility is to lead a team of investment professionals in strategizing, analysing, investing and monitoring a portfolio of investment funds that include hedge funds, long only equity, fixed income, private equity and real estate funds.

**Independent non-executive Directors:**

**Daniel Yen Tzu Chen**, aged 55, joined the Board in December 2002. He currently serves on the board of Hudson Holding Pte Ltd., a property and investment holding company based in Singapore. He is also a managing director and Founder of P.T. Universal Sejati, an Indonesian trading company that deals in commodity metals, chemicals, machinery and mining products. Daniel has an accounting and business background and has over 25 years experience throughout the Southeast Asian region particularly in Indonesia and Singapore.

**Joseph Tong Tze Kay**, aged 48, joined the Board in August 2004 with a financial and business background including senior positions with Universal Music Limited, Softbank China Venture Investments Limited and Nomura China Investments Limited. Joseph is a member of the American Institute of Certified Public Accountants and the Hong Kong Institute of Certified Public Accountants and has degree in Accounting and Statistics from the University of Southampton, England. He has been an independent non-executive director of NetEase.com, Inc., listed on NASDAQ, since March 2003.

**David John Robinson Herratt**, aged 60, joined the Board in October 2010 and has over 30 years of experience in the insurance industry in Europe, the Middle East and Asia. He is currently Chief Executive Officer of Swiss Insurance Partners (Hong Kong) Limited, a registered HKCIB insurance broker firm, and consultant and advisor for Asia of Hampden Agencies Limited which is regulated by Lloyd's of London and United Kingdom Financial Services Authority. Prior to that, he was the Chief Executive of William Russell (Far East) Limited in Hong Kong. He has also held executive positions with Lloyd's of London, Thomas Miller Risk Management in the United Kingdom, ONIC General Insurance Company in Oman, CLP Power in Hong Kong and the Skandia Group. He is a Fellow of the Chartered Insurance Institute (FCII) and a Fellow of the Institute of Risk Management (FIRM).

## 9. EXPERTS AND CONSENTS

The following is the qualification of the experts who have given their opinion or advice which are contained in this circular:

| Name | Qualification |
|---|---|
| Veda Capital | a corporation licensed to carry on business in type 6 (advising on corporate finance) regulated activity under the SFO |
| BDO Limited | Certified Public Accountants |

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion therein of its reports or opinions and references to its name in the form and context in which they appear.

As at the Latest Practicable Date, none of the above experts had any shareholding in any member of the Group and did not have any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, none of the above experts had any direct or indirect interests in any assets which had been, since 31 December 2010 (being the date to which the latest published audited consolidated financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to, any member of the Group.

## 10. AUDIT COMMITTEE

The Company established an Audit Committee on 31 March 2000 with the written terms of reference. The terms of reference are available on the Company's website (www.crosbycapitallimited.com). The Audit Committee comprises three Independent Non-Executive Directors, Joseph Tong Tze Kay (Chairman), David John Robinson Herratt and Daniel Yen Tzu Chen. The duties of the Audit Committee include: managing the relationship with the Group's external auditors, reviewing the financial information on the Company, and overseeing the Company's financial reporting process and internal control systems. The Audit Committee reports its work, findings and recommendations to the Board after each meeting. The biography of the members of Audit Committee are set out on page 97 of this circular.

## 11. MISCELLANEOUS

(a) The company secretary of the Company is Winnie Sin Wing Hung, who is a member of the Institute of Chartered Accountants in England and Wales and is also a member of the Hong Kong Institute of Certified Public Accountants.

(b) The compliance officer of the Company is Johnny Chan Kok Chung, who holds a post-graduate diploma from the Securities Institute of Australia and is an associate of the Securities Institute of Australia. He also has an MBA in International Business and a BA degree in Economics.

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

## 12. EXPENSES

The expenses in connection with the Rights Issue with option to subscribe for RCPS, including the underwriting commission, financial advisory fees, printing, registration, translation, legal and accounting fees, are estimated to be approximately HK$2.83 million (approximately US$363,000) which is not materially different under both Scenario 1 and 2 since the majority of expenses (including professional fees and underwriting commission) are fixed costs in nature and will be payable by the Company.

## 13. DOCUMENTS FOR INSPECTION

Copies of the following documents are available for inspection at the principal place of business of the Company in Hong Kong at Unit 502, 5th Floor, AXA Centre, 151 Gloucester Road, Wanchai, Hong Kong during normal business hours on any business day from, the date of this circular up to and including the date of the EGM:

(a) the memorandum and articles of association of the Company;

(b) the annual reports of the Company for the three financial years ended 31 December 2008, 2009 and 2010 and the first quarterly report of the Company for the three months ended 31 March 2011;

(c) the letter of advice from Veda Capital, the text of which is set out on pages 47 to 72 of this circular;

(d) the letter of recommendation from the Independent Board Committee, the text of which is set out on page 46 of this circular;

(e) the written consents as referred to in the paragraph headed "Expert and Consents" in this appendix;

(f) the letter of the unaudited pro forma financial information of the Group issued by BDO Limited set out in Appendix II of this circular;

(g) the material contracts as referred to under the paragraph "Material contracts" in this appendix;

(h) the full terms of the RCPS (subject to amendment); and

(i) this circular.

The principal terms of the RCPS are set out below:

The full terms of the RCPS (subject to amendment) are set out in a draft which is available on the Company's website at www.crosbycapitallimited.com and by inspection at the Company's office at Unit 502, 5th Floor, AXA Centre, 151 Gloucester Road, Wanchai, Hong Kong.

The Directors may make modifications to the wordings of the full terms of the RCPS, provided that such amendments shall not be inconsistent with the meaning of the principal terms set out below. The final terms of the RCPS will be produced by the Chairman to the EGM and will be adopted by Shareholders in that form.

| | |
|---|---|
| **Par Value:** | US$0.10 each |
| **RCPS Subscription Price:** | US$2.00 per RCPS, of which US$0.10 per RCPS to be paid on subscription ("**Initial RCPS Subscription Price**"), with the remaining balance of US$1.90 per RCPS to be paid immediately prior to the conversion of the RCPS into ordinary shares of the Company (that is, Consolidated Shares). |
| **Ranking on Winding Up:** | The RCPS shall rank pari passu with other Shares on a winding up of the Company. The entitlement of the holders of the RCPS on a winding up shall be calculated on an as-if-converted basis, and on the basis that the only amount falling to be converted shall be the amount actually paid up on the RCPS at the commencement of the winding up. Thus, the holders of the RCPS shall be under no obligation to pay the balance of the RCPS Subscription Price to the Company on a winding up. |
| **Dividend:** | The RCPS shall not be entitled to any dividends. |
| **Redemption:** | The RCPS are redeemable at the Redemption Amount on the Final Redemption Date. |
| **Redemption Amount:** | means an amount equal to the Initial RCPS Subscription Price of such number of RCPS so redeemed. |
| **Final Redemption Date:** | Five years from the date of issuance of the RCPS. |
| **Company's early Redemption option:** | the Company may redeem the RCPS anytime after the date of issue (in whole or in part) and prior to the Final Redemption Date provided that the closing market price of the Company's ordinary shares are at least 150% of the Conversion Price for 30 consecutive GEM trading days. |

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| **RCPS's holders' early redemption option:** | the holders of the RCPS may request the Company to redeem the RCPS (in whole or in part) on or after the 3rd anniversary of the date of issuance of the RCPS upon serving a notice of redemption ("**Put Redemption Notice**") together with the share certificate evidencing the RCPS to be redeemed and the Company shall redeem the RCPS on the 14th day after the serving of the Put Redemption Notice by the holder of the RCPS. |
| **Purchases:** | The Company or any of its subsidiaries may at any time and from time to time purchase RCPS at any price in the open market or otherwise. Any RCPS purchased by the Company or its subsidiaries shall forthwith be cancelled. |
| **Conversion Right:** | The RCPS may be convertible into ordinary shares of the Company at the discretion of the holders of the RCPS after the date of issue up to 7 days prior to the Final Redemption Date (as set out above) ("Conversion Period"). The RCPS can only be converted upon full payment of the RCPS Subscription Price. |
| **Conversion Restrictions:** | The Company shall not be obligated to issue any conversion shares if (i) such conversion shall render the shares of the Company held in public hands being less than the minimum public float required under the GEM Listing Rules; and/or (ii) there is insufficient authorised share capital; and/or (iii) such conversion shall cause the holder(s) and the parties acting in concert with it to be interested in 30% (or such amount as may from time to time that may trigger a mandatory general offer or considered by the SFC as a change in control of the Company) or more of the then enlarged issued share capital of the Company at the date of the relevant conversion; and/or (iv) such conversion will lead to a breach of the applicable laws and regulations including, but not limited to, the GEM Listing Rules and the Takeovers Code; and/or (v) such conversion will be considered as capable of turning the Company into a cash company as defined in Rule 19.82 of the GEM Listing Rules. |

In relation to (v) above, the Directors shall be entitled to postpone such conversion for up to 30 days from the date of the notice of conversion submitted by the converting RCPS holder, if the Directors ascertain that the cash-to-total assets ratio of the Company (with reference to the latest published consolidated balance sheet of the Company and adjusted by any completed transaction which had been announced) shall exceed 80% after such conversion.

If, after 30 days:

(a) the Directors are still of the view that the cash-to-total assets ratio of the Company would still exceed 80%, the conversion will not proceed (without prejudice to the right of such RCPS holder to convert at any later date within the Conversion Period, subject to this same limitation). The Directors shall notify such converting RCPS holder and the Company shall return the payment which was lodged by the RCPS holder with his notice of conversion in respect of the RCPS Subscription Price to such converting RCPS holder by cheque within 7 days after the notification by the Company that the conversion will not proceed; or

(b) the directors are of the view that the cash-to-total assets ratio of the Company shall not exceed 80%, the conversion shall proceed and the Conversion Day shall fall on the 3rd day after the notification by the Company that the conversion will proceed (or the next Business Day if such day is not a Business Day).

Each holder of the RCPS exercising its conversion right thereunder shall comply with all applicable provisions of the Takeovers Code.

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| **RCPS Conversion Price:** | The RCPS Conversion Price is HK$1.23 per Consolidated Share subject to customary adjustment provisions in accordance with the terms of the RCPS, including but not limited to, rights issues, dividend distributions, bonus issues, asset distributions, consolidation, sub-division or reclassification of shares in the capital of the Company, capitalization of profits or reserves or the occurrence of certain other analogous events that would result in a dilution or concentration of the rights of holders of the Shares.<br><br>An exchange rate of HK$7.80 per US$1 shall be used in determining the conversion amount in HK$ terms. |
| **RCPS Conversion Price Reset:** | At the end of each 6-month period after the initial issue date, the RCPS Conversion Price shall be adjusted downward only to 110% of the 1-month volume weighted average price of the ordinary shares of the Company prior to the date of each reset date, provided that the RCPS Conversion Price (initial or reset) shall not be in any event lower than the prevailing par value of the ordinary shares of the Company. |
| **Voting:** | The RCPS shall not carry any voting rights prior to conversion into ordinary shares of the Company. |
| **Transferability:** | The RCPS, once issued, are transferable without restriction. The Company will inform the Stock Exchange upon the Company becoming aware that any of the RCPS has been or is to be transferred to any connected person of the Company (as defined in the GEM Listing Rules) and will comply with the applicable GEM Listing Rules. |
| **Certificated Form:** | The RCPS shall be issued in certificated form. |
| **Listing:** | The RCPS will not be listed in any stock exchange. The Company will apply to the Stock Exchange for the listing of and permission to deal in the Consolidated Shares upon conversion of the RCPS. |

# CROSBY

## CROSBY CAPITAL LIMITED
## (高誠資本有限公司)*

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 8088)**

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting (the "**Meeting**") of Crosby Capital Limited (the "**Company**") will be held at Unit 502, 5th Floor, AXA Centre, 151 Gloucester Road, Wanchai, Hong Kong on 12 August 2011 at 2:30 p.m., for the purpose of considering and, if thought fit, passing, with or without amendments, the following resolutions:

**ORDINARY RESOLUTIONS**

1. "**THAT** conditional upon and subject to the fulfillment of all the conditions set out in the section headed "Conditions of the Share Consolidation" in the circular of the Company dated 21 July 2011 (the "**Circular**", a copy of which has been tabled at the meeting marked "A" and initialed by the chairman of the Meeting for the purpose of identification), with effect from the first business day immediately after the date of passing this resolution:

   (a) every ten (10) issued and unissued shares of US$0.01 each in the share capital of the Company be consolidated into one (1) share of US$0.10 each (the "**Consolidated Share**") in the share capital of the Company (the "**Share Consolidation**"), provided that any fractional Consolidated Shares resulting from the Share Consolidation shall not be issued by the Company to the shareholder(s) of the Company (the "**Shareholder(s)**") concerned, but all fractional entitlements to the Consolidated Shares shall be aggregated and sold for the benefit of the Company in such manner and on such terms as the directors of the Company (the "**Directors**") may think fit; and

   (b) the Directors be and are hereby authorised to do all things and acts and sign all documents which they consider necessary, desirable, or expedient in connection with the implementation of the Share Consolidation."

2. "**THAT** subject to and conditional upon the passing of Ordinary Resolution 1:

   (a) the authorised but unissued share capital of the Company be diminished by cancelling 100,000 convertible redeemable preference shares of US$0.01 each; and

* *for identification purpose only*

(b) the authorised share capital of the Company be increased from US$40,000,000 divided into 400,000,000 Consolidated Shares of US$0.10 each to US$200,000,000 divided into 2,000,000,000 Consolidated Shares of US$0.10 each by the creation of an additional 1,600,000,000 Consolidated Shares of US$0.10 each; and

(c) the authorised share capital of the Company of US$200,000,000 divided into 2,000,000,000 Consolidated Shares be redesignated and reclassified into (i) 1,900,000,000 Consolidated Shares of US$0.10 each and (ii) 100,000,000 non-voting redeemable convertible preference shares of US$0.10 each (the "**RCPS**"), with the RCPS having the rights and restrictions as set out in the document entitled "Terms of Non-voting Redeemable Convertible Preference Shares" tabled at the meeting marked "B" and initialed by the chairman of the Meeting for the purpose of identification."

3. "**THAT** subject to and conditional upon (i) the Share Consolidation as referred to in Ordinary Resolution 1 being approved; and (ii) the fulfillment of the conditions in the underwriting agreement dated 2 June 2011 entered into between Emperor Securities Limited (the "**Underwriter**") and the Company (the "**Underwriting Agreement**"), a copy of which has been tabled at the meeting marked "C" and initialed by the chairman of the Meeting for the purpose of identification:

(a) the allotment and issue by way of rights issue (the "**Rights Issue**") of not less than 49,059,798 Consolidated Shares (the "**Rights Shares**") to the Shareholders at a subscription price of HK$0.80 per Rights Share on the basis of one Rights Share for every one Consolidated Share then held by the Shareholders (the "**Qualifying Shareholders**") whose names appear on the register of members of the Company at the close of business on 18 August 2011 or such other date as may be agreed between the Company and the Underwriter (the "**Record Date**"), other than those Shareholders (the "**Excluded Shareholders**") whose addresses as shown on the register of members of the Company are outside Hong Kong on the Record Date and who the Directors, after making enquiries as required under the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited, consider it necessary or expedient on account of either the legal restrictions under the laws of the relevant regulatory body or stock exchange in that place not to offer the Rights Shares to such Shareholders, and on the terms and conditions as set out in the Circular and such other terms and conditions as may be determined by the Directors, be and is hereby approved;

(b) the Underwriting Agreement be and is hereby approved, confirmed and ratified and any Director be and is hereby authorised to do such acts or execute such documents which may be necessary, desirable or expedient in his opinion to carry into effect or to give effect to the terms of the Underwriting Agreement; and

(c) the Directors be and are hereby authorised to allot and issue the Rights Shares pursuant to and in connection with the Rights Issue and to do all such acts and things and execute all such documents which in their opinion may be necessary, desirable or expedient to carry out or give effect to or in connection with the Rights Issue or any transactions contemplated thereby."

4. "**THAT** subject to and conditional upon (i) the passing of the Ordinary Resolutions 1, 2 and 3; and (ii) the fulfillment of all the conditions set out in the section headed "Conditions Precedent of the RCPS" in the Circular:

(a) the grant of an option to subscribe for the new RCPS to Qualifying Shareholders or holders of nil-paid Rights Shares on the basis of one RCPS for every two Rights Shares subscribed at a subscription price of US$2.00 per RCPS, of which US$0.10 per RCPS is to be paid upon subscription (which will be at the same time when the Qualifying Shareholder pays for its entitlement or excess application for the Rights Shares), with the remaining balance of US$1.90 per RCPS to be paid immediately prior to the conversion of the RCPS into ordinary shares of the Company and on the terms and conditions as set out in the Circular and such other terms and conditions as may be determined by the Directors, be and is hereby approved; and

(b) subject to paragraph (a) above, the issue and allotment of the RCPS, pursuant to and in connection with such option to subscribe for the RCPS, with the RCPS having the rights and restrictions as set out in the document entitled "Terms of Non-voting Redeemable Convertible Preference Shares" tabled at the meeting marked "B" and initialed by the chairman of the Meeting for the purpose of identification, be and is hereby approved;

(c) subject to paragraph (b) above, the issue and allotment of all shares of the Company (the "**Conversion Shares**") which may fall to be issued as a result of the conversion of the RCPS, be and is hereby approved;

(d) subject to paragraph (c) above, the issue and allotment of all additional Conversion Shares of the Company which may fall to be issued at any time as a result of any adjustment to be made to the conversion price pursuant to the terms of the RCPS, be and is hereby approved;

(e) the Directors be and are hereby authorised to do all such acts and things and execute all such documents which in their opinion may be necessary, desirable or expedient in connection to the implementation of this resolution."

5. "**THAT** subject to and conditional upon the passing of the Ordinary Resolutions 1 and 3:

   (a) the issue and allotment of all additional shares of the Company which may fall to be issued as a result of the adjustment to be made to the exercise price of the warrants issued by the Company on 4 October 2010 which arise from the issue of the Rights Shares and/or the RCPS and/or as a result of any future adjustments to such exercise price under the terms of such warrants, be and is hereby approved; and

   (b) the Directors be and are hereby authorised to do all things and acts and to effect all necessary actions as they may consider necessary, desirable, or expedient in order to effect, implement and complete any and all of the foregoing part of this resolution."

6. "**THAT** subject to and conditional upon the passing of the Ordinary Resolutions 1 and 3:

   (a) the issue and allotment of all additional shares of the Company which may fall to be issued as a result of the adjustment to be made to the exercise price of the employee share options issued by the Company pursuant to the Share Option Scheme adopted by the Company on 27 March 2002 which arise from the issue of the Rights Shares and/or the RCPS and/or as a result of any future adjustments to such exercise price under the terms of the Employee Share Scheme, be and is hereby approved;

   (b) the Directors be and are hereby authorised to do all things and acts and to effect all necessary actions as they may consider necessary, desirable, or expedient in order to effect, implement and complete any and all of the foregoing part of this resolution."

**SPECIAL RESOLUTION**

7. "**THAT** subject to and conditional upon (i) the passing of the Ordinary Resolutions 1 and 2; and (ii) the fulfillment of all the conditions set out in the section headed "Conditions of the Capital Reduction" in the Circular:

   (a) the par value of each issued Consolidated Share and RCPS be reduced from US$0.10 to US$0.01 by cancelling US$0.09 of the paid-up capital on each issued Consolidated Share and RCPS such that the nominal value of each issued Consolidated Share and RCPS be reduced from US$0.10 to US$0.01 so as to form a new share (the "**Adjusted Share**") with a nominal value of US$0.01 each (the "**Capital Reduction**");

(b) immediately following the Capital Reduction, each authorised but unissued Consolidated Share and RCPS of par value of US$0.10 be subdivided into 10 new Adjusted Shares of US$0.01 each (such that the authorised share capital of the Company shall become US$200,000,000 divided into 20,000,000,000 Adjusted Shares of US$0.01 each) comprising (i) 19,000,000,000 ordinary shares of US$0.01 each and (ii) 1,000,000,000 RCPS of US$0.01 each;

(c) the credit arising from the Capital Reduction along with the entire amount standing to the credit of the share premium account of the Company be set off against the accumulated losses of the Company and otherwise be applied in any manner permitted by the laws of Cayman Islands and the Articles of Association of the Company; and

(d) the Directors be and are hereby authorised to do all things and acts, and sign all documents which they consider necessary, desirable or expedient in connection with the implementation of this resolution."

By Order of the Board
**Crosby Capital Limited**
**Ulric Leung Yuk Lun**
*Executive Director*

Hong Kong, 21 July 2011

*Notes:*

1. A form of proxy for use at the meeting is enclosed herewith.

2. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under its seal or under the hand of any officer, attorney or other person authorised to sign the same.

3. Any shareholder of the Company entitled to attend and vote at the meeting convened by the above notice shall be entitled to appoint one or more than one proxy to attend and vote instead of him. A proxy needs not be a shareholder of the Company.

4. In order to be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power of attorney or authority, must be deposited at the principal place of business of the Company at Unit 502, 5th Floor, AXA Centre, 151 Gloucester Road, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding of the above meeting or any adjournment thereof.

5. Completion and return of the form of proxy will not preclude a shareholder of the Company from attending and voting in person at the meeting convened or at any adjourned meeting and in such event, the form of proxy will be deemed to be revoked.

6. Where there are joint holders of any share of the Company, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he/she were solely entitled thereto, but if more than one of such joint holders are present at the meeting, the most senior shall alone be entitled to vote, whether in person or by proxy. For this purpose, seniority shall be determined by the order in which the names stand on the register of members of the Company in respect of the joint holding.