THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in Earthasia International Holdings 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 registered institution in securities or other agent through whom the sale or the transfer was effected for transmission to the purchaser or transferee.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

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

Earthasia International Holdings Limited
泛亞環境國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 6128)

MAJOR TRANSACTION
AND
NOTICE OF EGM

Financial adviser to the Company

Gram Capital Limited
嘉林資本有限公司

A letter from the Board of the Company is set out from pages 6 to 31 of this circular. A notice convening the EGM to be held at 11/F., COFCO Tower, 262 Gloucester Road, Causeway Bay, Hong Kong on 11 January 2019 at 10:00 a.m. or any adjournment is set out from pages 151 to 153 of this circular. A form of proxy for use at the EGM is enclosed. Whether or not you are able to attend the EGM in person, you are requested to complete and return the accompanying form of proxy to the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited, Level 22, Hopewell Centre, 183 Queen's Road East, 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. Completion and return of the proxy form shall not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so desire.

This circular will remain on the "Latest Listed Company Information" page of the website of the Stock Exchange at http://www.hkexnews.hk and the Company's website at http://www.ea-dg.com for at least seven days from the date of its posting.

20 December 2018

CONTENTS

PAGE

DEFINITIONS 1

LETTER FROM THE BOARD 6

APPENDIX I — FINANCIAL INFORMATION OF THE GROUP 32

APPENDIX IIA — ACCOUNTANTS' REPORT OF THE TARGET GROUP 35

APPENDIX IIB — ACCOUNTANTS' REPORT OF THE BUSINESS 52

APPENDIX III — UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP 100

APPENDIX IV — MANAGEMENT DISCUSSION AND ANALYSIS ON THE TARGET GROUP AND THE BUSINESS 114

APPENDIX V — VALUATION REPORT OF THE TARGET GROUP 123

APPENDIX VI — GENERAL INFORMATION 142

NOTICE OF EGM 151

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

"Acquisition"	the acquisition of the Sale Shares pursuant to the Agreement
"Agreement"	the Original Agreement as amended by the Supplemental Agreement
"Annual Profit Notice"	the notice to be issued by the Purchaser to the Vendor within 1 month after the audited financial statements of the Target Group are issued containing information as to whether the profit guarantee of the financial year concerned has been met and, if not, the difference between the profit guarantee
"Aoxing Company"	黑龍江奧星能源科技有限公司 (Heilongjiang Aoxing Energy Technology Company Limited*), a company established in the PRC with limited liability
"Aoyu Company"	黑龍江省牡丹江農墾奧宇石墨深加工有限公司 (Heilongjiang Mudanjiang Agriculture Aoyu Graphite Deep Processing Company Limited*), a company established in the PRC with limited liability
"Aoyu Group Company"	奧宇石墨集團有限公司 (Aoyu Graphite Group Company Limited*), a company established in the PRC with limited liability
"associate(s)"	has the meaning ascribed thereto under the Listing Rules
"Board"	the board of Directors
"Business"	the business of processing and sale of graphite and graphene related products conducted with the relevant assets to be transferred in the Reorganisation
"Business Day(s)"	a day (other than a Saturday, Sunday or public holiday or a day on which a tropical cyclone warning signal 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 the licensed banks in Hong Kong are generally open for business throughout their normal business hours
"BVI"	the British Virgin Islands

"Company"	Earthasia International Holdings Limited (泛亞環境國際控股有限公司), an exempted company incorporated in the Cayman Islands with limited liability, the issued shares of which are listed on the Stock Exchange (stock code: 6128)
"Completion"	completion of the Acquisition
"Completion Date"	the fifth Business Days (or such later date as agreed by the Purchaser, the Vendor and the Guarantors in writing) after the date of fulfillment (or waiver) of all the conditions precedent as set out in the Agreement
"connected persons"	has the meaning ascribed thereto under the Listing Rules
"Consideration"	the consideration for the Acquisition in the amount of HK$692,000,000
"Consideration Share(s)"	the 48,000,000 new Shares to be issued by the Company to the Vendor pursuant to the Agreement
"Director(s)"	the director(s) of the Company
"EGM"	the extraordinary general meeting of the Company to be convened to consider and, if thought fit, approve the Agreement and the transactions contemplated thereunder and the Specific Mandate
"Enlarged Group"	the Group as enlarged by the Acquisition
"Group"	the Company and its subsidiaries
"Guarantor(s)"	Mr. Shen Taoyu, Mr. Yang Bo and Mr. Wu Wenbei, being the ultimate beneficial owners of the Vendor
"HK Company"	Allied Apex Limited, a company incorporated in Hong Kong with limited liability and is wholly owned by the Target Company
"HK$"	Hong Kong dollar, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Third Party(ies)"	third party(ies) and their ultimate beneficial owner(s) (if applicable) which are independent of and not connected with the Company and its connected persons
"Issue Price"	the issue price of HK$2.79 per Consideration Share

"Jixi Company"	黑龍江省牡丹江農墾淌奧石墨烯深加工有限公司 (Heilongjiang Mudanjiang Agriculture Tanao Graphene Deep Processing Company Limited*), a company established in the PRC with limited liability and is wholly owned by Shanghai Company
"Last Trading Day"	31 January 2018, being the last full trading day of the Shares on the Stock Exchange immediately prior to the entering into of the Original Agreement
"Latest Practicable Date"	14 December 2018, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"Listing Rules"	the Rules Governing the Listing of the Securities on the Stock Exchange
"Long Stop Date"	31 December 2018 (or such later date to be agreed between the Vendor and the Purchaser in writing)
"MOU"	the non-legally binding memorandum of understanding dated 9 August 2017 (as supplemented by the supplemental memorandum of understanding dated 27 December 2017) entered into between the Company and the Vendor
"Noteholder(s)"	holder(s) of the Promissory Note
"Original Agreement"	the agreement dated 31 January 2018 entered into among the Purchaser, the Vendor and the Guarantors in relation to the Acquisition
"PRC"	the People's Republic of China
"Profit Guarantee"	the profit guarantee on the audited consolidated net profit after tax of the Target Group for each of the three years ending 31 December 2019, 31 December 2020 and 31 December 2021 as more particularly set out in the sub-heading "Profit Guarantee" under the heading "THE ACQUISITION" of the "Letter from the Board" in this circular
"Promissory Note"	the 2% per annum interest 48 months maturity promissory note in the aggregate principal amount of HK$348,080,000 to be issued by the Company to the Vendor at Completion in partial settlement of the Consideration
"Purchaser"	Upworth Capital Limited, a company incorporated in Hong Kong with limited liability, which is a wholly-owned subsidiary of the Company

"Reorganisation"	the acquisition by Jixi Company from Aoyu Company all of Aoyu Company's business undertakings of processing graphite and graphene related products, including all its personnel, patent rights and existing but unfinished commercial contracts as more particularly set out in the sub-heading "Reorganisation" under the heading "INFORMATION OF THE TARGET GROUP" of the "Letter from the Board" in this circular
"RMB"	Renminbi, the lawful currency of the PRC
"Sale Shares"	the entire issued share capital of the Target Company
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Shanghai Company"	上海澳奥新材料科技有限公司 (Shanghai Tanao New Material Technology Company Limited*), a company established in the PRC with limited liability and is wholly owned by the HK Company
"Share(s)"	ordinary share(s) in the issued and unissued capital of the Company
"Shareholder(s)"	the holder(s) of Shares
"Specific Mandate"	the issue mandate to be granted to the Directors to allot and issue the Consideration Shares at the EGM
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"substantial shareholder(s)"	has the meaning ascribed thereto under the Listing Rules
"Supplemental Agreement"	the supplemental agreement dated 24 October 2018 entered into between the Vendor, the Purchaser and the Guarantors to amend certain terms and conditions of the Original Agreement
"Target Company"	Think High Global Limited, a company incorporated in the BVI with limited liability and is wholly owned by the Vendor
"Target Group"	the Target Company and its subsidiaries
"Trademark"	a China registered trademark whose registration number is 3750863
"Vendor"	Tycoon Partner Holdings Limited, an investment holding company incorporated in the BVI with limited liability.

"%" or "per cent."	percentage or per centum

In the event of any inconsistency, the English text of this circular shall prevail over the Chinese text.

If there is any inconsistency between the Chinese names of the PRC entities mentioned in this circular and their English translations, the Chinese names shall prevail.

For the purpose of this circular and for illustrative purpose only, RMB is converted into HK$ at the rate of RMB1:HK$1.13. No representation is made that any amounts RMB has been or could be converted at the above rates or at any other rates.

* *For identification purposes only*

Earthasia International Holdings Limited
泛亞環境國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 6128)

Executive Directors:
Mr. Lau Hing Tat Patrick
Mr. Chan Yick Yan Andross
Mr. Tian Ming
Mr. Yang Liu
Mr. Qiu Bin

Non-executive Directors:
Mr. Ma Lida

Independent non-executive Directors:
Ms. Tam Ip Fong Sin
Mr. Wong Wang Tai
Mr. Wang Yuncai

Registered office:
Clifton House
75 Fort Street, PO Box 1350
Grand Cayman, KY1-1108
Cayman Islands

Principal place of business in Hong Kong:
11/F COFCO Tower
262 Gloucester Road
Causeway Bay
Hong Kong

20 December 2018

To the Shareholders

Dear Sir/ Madam,

MAJOR TRANSACTION

INTRODUCTION

Reference is made to the announcements of the Company dated 31 January 2018, 23 February 2018, 30 April 2018, 31 May 2018, 29 June 2018, 31 August 2018, 28 September 2018 and 24 October 2018 regarding the Acquisition.

On 31 January 2018 (after trading hours), the Purchaser, the Vendor and the Guarantors entered into the Agreement, pursuant to which the Purchaser has conditionally agreed to acquire for and the Vendor has conditionally agreed to dispose of the Sale Shares at the Consideration of HK$692,000,000.

On 24 October 2018 (after trading hours), the Purchaser, the Vendor and the Guarantors entered into the Supplemental Agreement to amend certain terms and conditions of the Original Agreement.

The purpose of this circular is to provide you with, among others, (i) further details of the Acquisition and the transactions contemplated thereunder; (ii) the valuation report of the Target Group; (iii) the financial and other information of the Group; (iv) the financial and other information of Target Group; (v) the pro forma financial information of the Enlarged Group; and (vi) the notice of the EGM.

THE ACQUISITION

Set out below are the principal terms of the Agreement:

Date

Original Agreement: 31 January 2018

Supplemental Agreement: 24 October 2018

Parties involved

(i) the Purchaser;

(ii) the Vendor; and

(iii) the Guarantors

The Vendor is owned as to 30%, 40% and 30% by Mr. Shen Taoyu ("**Mr. Shen**"), Mr. Yang Bo and Mr. Wu Wenbei (i.e. the Guarantors) respectively. The Vendor is an investment holding company.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, (i) the Vendor, the Guarantors and their respective associates are Independent Third Parties and do not hold any Shares or other convertible securities in the Company as at the Latest Practicable Date; and (ii) there was no previous transaction or business relationship among the Company, the Vendor, the Guarantors and/or their respective associates in the previous 12 months which would result in aggregation under Rule 14.22 of the Listing Rules.

Subject matter

Pursuant to the Agreement, the Purchaser has conditionally agreed to acquire for and the Vendor has conditionally agreed to dispose of the Sale Shares, representing the entire equity interest in the Target Company.

Consideration

The Consideration of HK$692,000,000 shall be payable by the Purchaser in the following manner:

(i) as to HK$50,000,000 of the Consideration (the "**Deposit**") shall be settled by the Purchaser by way of cash upon the entering into of the Agreement which shall be refundable pursuant to the terms and conditions of the Agreement; and

(ii) as to HK$642,000,000 of the Consideration shall be settled by the Purchaser upon Completion by way of (a) cash in the amount of HK$160,000,000 (the "**Remaining Cash Consideration**"); (b) procuring the Company to issue of 48,000,000 Consideration Shares at the Issue Price of HK$2.79 per Consideration Share to the Vendor; and (c) procuring the Company to issue of the Promissory Note in the principal amount of HK$348,080,000 to the Vendor.

The Consideration of HK$692,000,000 was arrived at after arm's length negotiations between the Vendor and the Purchaser after taking into account of the preliminary valuation of the Target Group of approximately HK$700,000,000 as at 31 October 2017 prepared by an independent valuer based on market approach. According to the valuation report of the Target Group as contained under Appendix V to this circular (the "**Valuation Report**"), the market value of 100% equity interest of the Target Company as at 31 October 2017 was HK$795,000,000 (the "**Valuation**"). The Valuation Report is prepared by an independent valuer, namely, CHFT Advisory and Appraisal Limited ("**CHFTAA**"), based on market approach.

The Directors considered CHFTAA's competence and independence before engaging CHFTAA as the independent valuer. In order to assess the competence of CHFTAA, the Directors noted that Ms. Stella Law, the director of CHFTAA, who is responsible for signing the Valuation Report, is a member of Royal Institution of Chartered Surveyors with 12 years' experience in the business valuation services to numerous Hong Kong listed and private companies in different industries. To the best knowledge of the Directors and having made all reasonable enquiries, CHFTAA is independent to the Group, the Vendor, the Target Group and their respective beneficial owners and associates.

The Directors understand from CHFTAA that as the graphene industry is emerging and there are limited comparable companies that can be founded for the purpose of the Valuation Report. Thus, some of comparable companies which have business other than processing and sale of graphite and graphene related products were selected. Nevertheless, CHFTAA did not rely solely on the Guideline Publicly-traded Comparable Method ("**GPCM**"). CHFTAA also considered and adopted the Comparable Transactions Method ("**CTM**") through searching for actual transactions that have taken place in the market to conclude the Valuation. The concluded value under CTM was higher than the concluded value under GPCM, which indicates the concluded value under GPCM is prudent.

As the Consideration of HK$692,000,000 represents a discount of approximately 12.96% to the Valuation of HK$795,000,000, the Directors consider the Consideration to be fair and reasonable.

The Group's cash and bank balances was approximately HK$97 million as at 30 June 2018. The Company intends to issue bonds with principal amount of approximately HK$200 million (the "**New Bonds**") to finance the Remaining Cash Consideration, business development and working capital of the Group. The Remaining Cash Consideration is expected to be financed by internal resources of the Group and part of the proceeds from the New Bonds.

The Company has been in negotiation with a referral agent for the possible issue of the New Bonds. The Company understood from the referral agent that it is confident in procuring sufficient subscribers to subscribe for the New Bonds in the principal amount of approximately HK$200 million by tranches. The Company expects the New Bonds to have a coupon rate of 6% to 6.5% per annum and a term of two years.

On 7 December 2018, the Board approved the proposed issue of the unlisted bonds (as part of the New Bonds) with an aggregate principal amount up to HK$110 million at the interest rate of 6% per annum and with a maturity of two years (the "**6% Bonds**"), the net proceeds of which will be used for financing the Remaining Cash Consideration. On the same date, the Company engaged a referral agent to refer subscribers for the 6% Bonds.

The Company expects to finance the Remaining Cash Consideration by (i) HK$50 million of the Group's cash and bank balances; and (ii) HK$110 million of the net proceeds from the 6% Bonds. Accordingly, the above finance cost is expected to be approximately HK$6.6 million per annum.

As the Promissory Note interest rate is 2% per annum, the finance cost associated with the Promissory Note is HK$6.96 million per annum.

Given the above, the total finance cost arising from the Consideration payment is expected to be approximately HK$13.56 million per annum.

As the Promissory Note will mature after 4 years from Completion, the Company intends to finance the repayment by (i) the Enlarged Group's internal resources to be accumulated from profit generation in future; and (ii) fund raising activities (including debt/equity financing, if necessary). Should the Company conduct any equity fund raising activities, it will comply with relevant provisions of the Listing Rules, in particular, Rule 7.27B of the Listing Rules which protects shareholders from substantial dilution effect.

The Company is aware of that it will incur significant amount of newly issued debt as a result of the Acquisition. The aggregated principal amount of the 6% Bonds and the Promissory Note far exceeds (i) the Group's cash and bank balances of approximately HK$97 million as at 30 June 2018; (ii) the Group's profit of approximately HK$1.20 million for the six months ended 30 June 2018 ("**1H2018**"); and (iii) the Business' profit and total comprehensive income of approximately RMB24 million for year ended 31 December 2017 ("**FY2017**").

Nevertheless, the Company considers that it is not unusual for a company to have short to long term debts exceeding its cash position and annual profit. As long as the company's financial position is sound and its business operations are sustainable, the Company can refinance its debts when they fall due.

In the case of the Group, although the Group's revenue and gross profit decreased from the year ended 31 December 2015 to FY2017 and the Group also recorded loss attributable to owners of the Company in the financial year ended 31 December 2016 ("**FY2016**") and FY2017, the Group's revenue for 1H2018 increased significantly by approximately 65% as compared to those of the six months ended 30 June 2017 ("**1H2017**"). The Group's gross profit in 1H2018 also increased by approximately 119% as compared to those of 1H2017 and exceeded the Group's gross profit of FY2017. The Group's revenue improvement contributed to the Group's turnaround from its loss position in 1H2017 to profit-making in 1H2018.

In addition, based on the accountant report on the Business as contained under Appendix IIB to this circular, the Business recorded profit and total comprehensive income of approximately RMB31 million, RMB23 million and RMB24 million for each of the three years ended 31 December 2017 respectively.

Given the above, the Company considers that: (i) the future profit of the Enlarged Group can finance partial repayment of the New Bonds and the Promissory Note; and (ii) there is no difficulty for the Group to refinance the outstanding New Bonds and Promissory Note when they fall due.

Conditions precedent

Completion is conditional upon each of the following being satisfied (or, where applicable, waived by the Purchaser):

(a) the Reorganisation by the Target Group having been completed to the satisfaction of the Purchaser;

(b) the Purchaser having obtained a due diligence report/legal opinion (in such form and substance satisfactory to the Purchaser) from a qualified PRC legal adviser appointed by the Purchaser, confirming, among other things, the legality of the Reorganisation, the assets to be transferred in the Reorganisation, the Agreement and the Acquisition in respect of the PRC laws, and the confirmation in respect of the due incorporation of Shanghai Company and Jixi Company and their operations;

(c) the Purchaser having obtained from a qualified accounting firm appointed by the Purchaser an accountant report of the Target Group for the period from 1 June 2017 to 31 December 2017 and the six months ended 30 June 2018 and an accountant report of the relevant assets to be transferred in the Reorganisation (as the Business) for the years of 2015, 2016, 2017 and the six months ended 30 June 2018, issued in compliance with the Listing Rules (in such form and substance satisfactory to the Purchaser);

(d) the Purchaser having obtained a valuation report (in such form and substance satisfactory to the Purchaser) issued by a qualified valuer appointed by the Purchaser on the Target Group including the assets to be transferred in the Reorganisation, stating, among other things, the valuation of the Target Group being not less than HK$692,000,000;

(e) the Target Group having obtained all relevant licences and consent or renewals thereof in relation to its business and such licenses being valid and subsisting; for the licences which validity period will expire soon, the Target Group having submitted application for renewal/extension within the time limit stipulated under the relevant law or regulations;

(f) the Purchaser, its agents or professional advisers being satisfied with the results of the review (in relation to legal, accounting, finance, operation or any other matters, which, in the Purchaser's opinion, are important) of the Target Company and the results of such review being satisfactory to the Purchaser;

(g) the Vendor having obtained all necessary approvals, confirmations, waivers or consents in respect of the Agreement and all transactions contemplated thereunder under applicable laws and regulations from the relevant authorities having jurisdiction over the Shanghai Company and Jixi Company or other relevant third parties (if so required by the relevant legislations);

(h) the Shareholders having approved at the EGM the Acquisition and the transactions contemplated thereunder in accordance with the articles of associations of the Company and the Listing Rules;

(i) Permission having been obtained from the Stock Exchange for the listing of and the dealing in the Consideration Shares;

(j) the Purchaser being satisfied, from the date of signing the Original Agreement and at any time before Completion, that the representations, warranties and undertakings given under the Agreement by Vendor in respect of the Target Group remain true, accurate, not misleading or being breached in any material changes;

(k) the Purchaser not having discovered or known that from the date of signing of the Original Agreement and up to Completion, there being any abnormal operations or any material adverse change in the business circumstances (including assets, financial and legal status), operations, performance or assets, or any undisclosed material potential risks in the Target Group; and

(l) there having been no material adverse change in respect of legal, regulation, policy or other applicable regulatory requirements on the Vendor, the Purchaser and the Target Group.

If the above conditions have not been satisfied (or as the case may be, waived by the Purchaser in respect of the above conditions save and except for conditions (a), (b), (d), (e), (g), (h), (i) and (l) which are not capable for being waived) on or before the Long Stop Date, or such later date as the Vendor and the Purchaser may agree in writing, the Agreement shall cease and determine and neither party shall have any obligations and liabilities towards each other thereunder save for any antecedent breaches of the terms thereof. The Company has no intention to waive conditions (c), (f), (j) and (k).

None of the above conditions precedent has been fulfilled as at the Latest Practicable Date.

Completion

Upon compliance with or fulfilment (or waiver) of all the conditions set out under the paragraph headed "Conditions precedent" above, Completion shall take place on the Completion Date, or such later date as the Vendor and the Purchaser may agree in writing.

Consideration Shares

As at the Lastest Practicable Date, the Company has 434,290,000 Shares in issue. The 48,000,000 Consideration Shares represent approximately 11.05% of the existing issued share capital of the Company and approximately 9.95% of the issued share capital of the Company as enlarged by the allotment and issuance of the Consideration Shares (assuming that there is no other change in the issued share capital of the Company). The allotment and issue of Consideration Shares will not result in a change of control of the Company.

The Consideration Shares shall be allotted and issued pursuant to the Specific Mandate, and shall rank *pari passu* with the Shares in issue on the date of allotment and issuance including the rights to all dividends, distributions and other payments made or to be made for which the record date falls or after the date of such allotment and issuance.

Application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares.

Issue Price

The Issue Price of HK$2.79 per Consideration Share represents:

(i) a discount of approximately 22.28% to the closing price of HK$3.59 per Share as quoted on the Stock Exchange on the Last Trading Day;

(ii) a discount of approximately 21.50% to the average closing prices of HK$3.55 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;

(iii) a discount of approximately 21.50% to the average closing prices of HK$3.55 per Share as quoted on the Stock Exchange for the last 10 consecutive trading days up to and including the Last Trading Day; and

(iv) a discount of approximately 30.77% to the closing price of HK$4.03 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The Issue Price was determined after arm's length negotiations between the Vendor and the Purchaser with reference to the prevailing market price of the Share prior to entering into of the Original Agreement. Having considered (i) the loss making position of the Group for the year ended 31 December 2016 and the six months ended 30 June 2017; (ii) the Issue Price is within the lowest and highest range of the Shares closing price from 3 January 2017 to 31 January 2018 (being the date of Original Agreement) (i.e. HK$0.95 to HK$4.78) and (iii) the prevailing comparable acquisition transactions involving issue of consideration shares under specific mandate by Hong Kong listed companies prior to the date of the Original Agreement, under which the premium/(discount) as represented by the issue price to the share closing price on the last trading day/agreement date ranged from approximately 22.55% to (59.72)%, the Board considered that (a) the discount to the Share closing price on the Last Trading Day as represented by the Issue Price to be justifiable; and (b) the Issue Price is fair and reasonable and on normal commercial terms.

The Promissory Note

Set out below are the principal terms of the Promissory Note:

Issuer:	the Company
Noteholder:	the Vendor
Principal amount:	HK$348,080,000 subject to downward adjustment in the event the Profits Guarantee cannot be achieved
Interest rate:	2% per annum on the outstanding principal amount of the Promissory Note at each interest payment date subject to any adjustment to the principal amount of the Promissory Note pursuant to the Profit Guarantee. Interest payment dates shall be (i) on the 3rd Business Day after the issuance of the Annual Profit Notice of the previous financial year; and (ii) the maturity date. The interest rate was determined after arm's length negotiation between the Purchaser and the Vendor. As at 30 June 2018, the effective interest rates of the Group's interest bearing other borrowings ranged from 4.75% to 9.13%. Accordingly, the Directors consider the interest rate of the Promissory Note of 2% is fair and reasonable.
Maturity date:	the fourth anniversary of the date of the Promissory Note
Repayment:	The Promissory Note shall be due and repayable to the Noteholder on the maturity date
Transferability:	Provided that the Noteholder must obtain the written consent of the Company, the Promissory Note may be assigned or transferred to any third party. Such written consent shall not be unreasonably withheld by the Company, save and except where such transfer, in the view of the Company, shall be prejudicial to the Company's rights to adjust the principal amount of the Promissory Note pursuant to the Profit Guarantee.

Subject to the Company's right to adjust the outstanding principal of the Promissory Note downward, the Noteholder may transfer or assign the amount of outstanding principal of the Promissory Note as follows:-

Period	Maximum amount of outstanding principal of the Promissory Note that may be transferred or assigned (before any downward adjustment of the outstanding principal)
From the issuance of the 2019 Annual Profit Notice but before the issuance of the 2020 Annual Profit Notice	HK$208,080,000
From the issuance of the 2020 Annual Profit Notice but before the issuance of the 2021 Annual Profit Notice	HK$278,080,000
From the issuance of the 2021 Annual Profit Notice to 4 p.m. on the maturity date	HK$348,080,000

The Promissory Note shall not be transferred to a connected person of the Company unless with the prior consent of the Company and in compliance of the Listing Rules.

Profit Guarantee

The Vendor guarantees to the Company that the audited consolidated profit after tax (according to Hong Kong Financial Reporting Standards) of the Target Group for each of the three years ending 31 December 2021 (the "**Guaranteed Period**") shall not be less than the amount set out under the table below (each the "**Guaranteed Profit**"):

Guaranteed Period	Guaranteed Profit
For the year ending 31 December 2019	HK$35,000,000
For the year ending 31 December 2020	HK$35,000,000
For the year ending 31 December 2021	HK$35,000,000

Should the actual audited consolidated profit after tax of the Target Group (the "**Actual Profit**") for any of the Guaranteed Period be less than the relevant Guaranteed Profit for more than 5%, the Consideration will be adjusted downward by way of reducing twice the difference between the Actual Profit and the Guaranteed Profit from the principal amount of the Promissory Note. Nevertheless, the maximum amount of reduction is HK$70,000,000 (the "**Maximum Reduction Amount**") for each of the Guaranteed Period.

The Maximum Reduction Amount of HK$70,000,000 for each of the Guaranteed Period represents two times of the Guaranteed Profit for each of the Guaranteed Period, which was determined after arm's length negotiation between the Purchaser and the Vendor. The reduction arrangement was determined after arm's length negotiation between the Purchaser and the Vendor as a sweetener to the Agreement terms. The Guaranteed Profit does not correlate to the Consideration.

The Maximum Reduction Amount is the maximum amount that the Vendor is willing to bear. From the Company's perspective, the total Maximum Reduction Amount for the entire Guaranteed Period (i.e. the three years ending 31 December 2021) of HK$210 million represents approximately 30.35% of the Consideration. The total Maximum Reduction Amount is acceptable as it can substantially reduce the Group's exposure in the Acquisition.

As aforementioned, the Business recorded profit and total comprehensive income of approximately RMB31 million, RMB23 million and RMB24 million for three years ended 31 December 2017 respectively. The graphene industry is a development focus of the PRC government. With reference to the《中國製造2025》(Made in China 2025*) which outlines the PRC government's action plan for the manufacturing industry from 2015 to 2025 published by the State Council of the PRC on 8 May 2015, the PRC government will firmly promote the development and breakthrough of new materials. The PRC government will enhance the planning and development of superconducting materials including graphene to speed up the upgrade of basic materials. The Ministry of Industry and Information Technology, National Development and Reform Commission and Ministry of Science and Technology of the PRC also jointly published the《三部門關於加快石墨烯產業創新發展的若干意見》(Certain Opinions on Accelerating the Development of Grapheme Industry Innovation issued by three government authorities*) on 30 November 2015 to (i) guide the innovative development of the graphene industry, (ii) promote the upgrade and reform of the traditional industries, (iii) support the growth of innovative industries, and (iv) drive the upgrade of materials. The《三部門關於加快石墨烯產業創新發展的若干意見》(Certain Opinions on Accelerating the Development of Grapheme Industry Innovation issued by three government authorities*) outlines the PRC government's targets, principles and suggested measures to develop the graphene industry.

Given the positive outlook of the graphene industry, the Vendor is confident that the Target Group can achieve the Guaranteed Profit which represents a growth of approximately 29% as compared to the Business' profit and total comprehensive income of approximately RMB24 million for FY2017. With reference to the accountants' report of the Business as contained in Appendix IIB to this circular, Aoyu Company is qualified as a "High and New Technology Enterprise" in the PRC and was entitled and subject to a preferential tax of 15%. There is no assurance that the Target Group as newly established entities, to which the Business will be transferred upon completion of the Reorganisation, will be entitled to the preferential tax rate of 15%. The Vendor had taken into account the aforesaid factor when considering the Profit Guarantee.

Non-competition undertaking

The Vendor and Guarantors undertake to the Company that the Vendor, the Guarantors and their respective associates and Aoyu Company shall not: (i) directly or indirectly engage or involve in any business or activities which may compete with the Target Group; and (ii) own any interest in, obtain the controlling rights of any entity, corporation and organization which compete with the Target Group, or to serve as senior management or core technical persons of such entity, corporation and organization.

If the Vendor, Guarantors and/or their respective associates breach the above non-competition undertaking, such parties will jointly and severally indemnify all economic loss of the Target Group caused by such breach.

Guarantee

Under the Agreement, the Guarantors jointly and severally guarantee to the Purchaser the due and punctual performance of the Vendor of its obligations under the Agreement to return the Deposit to the Purchaser should the Conditions Precedents are not fulfilled (or, if applicable, waived) on or before the Long Stop Date.

INFORMATION ON AOYU COMPANY AND AOYU GROUP COMPANY

Aoyu Company is owned as to 51% by Mr. Liu Lin and 49% by Mr. Yang Bo, both being Independent Third Parties. Aoyu Group Company is owned as to approximately 11% by Mr. Jiang Quanku, 81% by Mr. Liu Jinzhu and 8% by Ms. Liu Chunyan, all being Independent Third Parties.

Aoyu Group Company had been the controlling shareholder of Aoyu Company from March 2010 to May 2013. After several transfers of equity interests in Aoyu Company, Aoyu Company is owned as to 51% by Mr. Liu Lin and 49% by Mr. Yang Bo as at the date of the Agreement.

According to the website of Aoyu Group Company (www.aoyugroup.cn), Aoyu Group Company is engaged in, among other things, manufacturing of graphite and graphene related products. Aoyu Group Company has registered the Trademark in the PRC. Aoyu Group Company been awarded various honors, including: one of the worlds' top 500 China brand enterprises engaging in the mining business; national model enterprise in enterprise restructuring; AAA enterprise in China's market quality, service and reputation; Heilongjian province enterprise with integrity; top ten leading brand enterprises in China Graphite industry; enterprise with quality, service and reputation; enterprise with green technology; top ten in China non-metal industry.

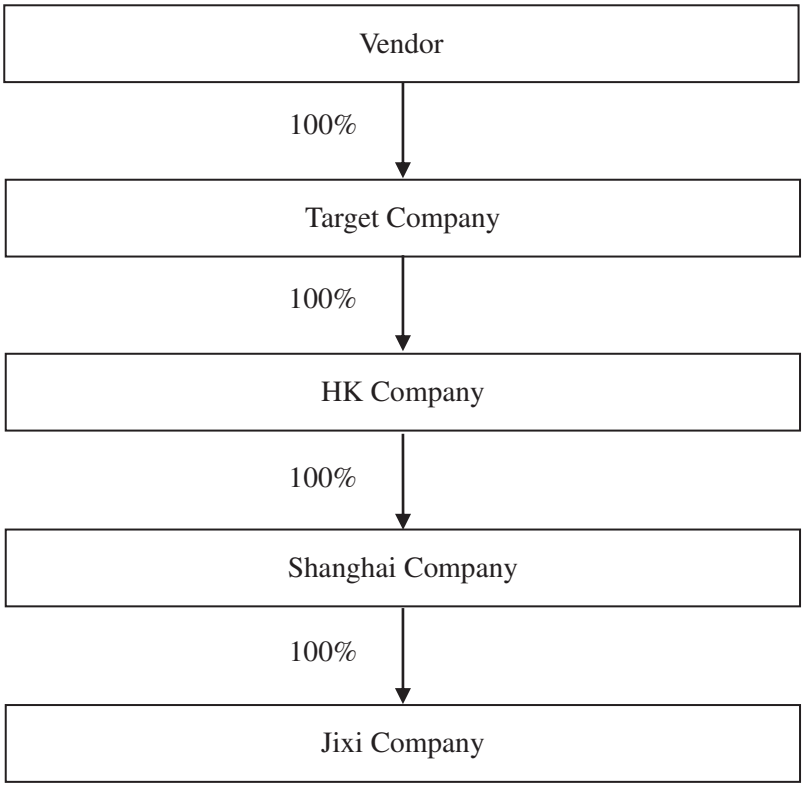
Aoyu Company is principally engaged in, among other things, processing and sale of graphite and graphene related products. Aoyu Company is using the Trademark with the authorization of Aoyu Group Company. Aoyu Company also has other businesses such as trading of natural graphite flakes and manufacturing and sale of refractory bricks which the Company does not intend to engage in. Besides, the Company has no intention to acquire the equipment and production facilities of Aoyu Company.

In light of the above, the Reorganisation serves the purpose of carving out such non-required businesses and assets and retaining the business of processing and sale of graphene and related products in the PRC for the Acquisition.

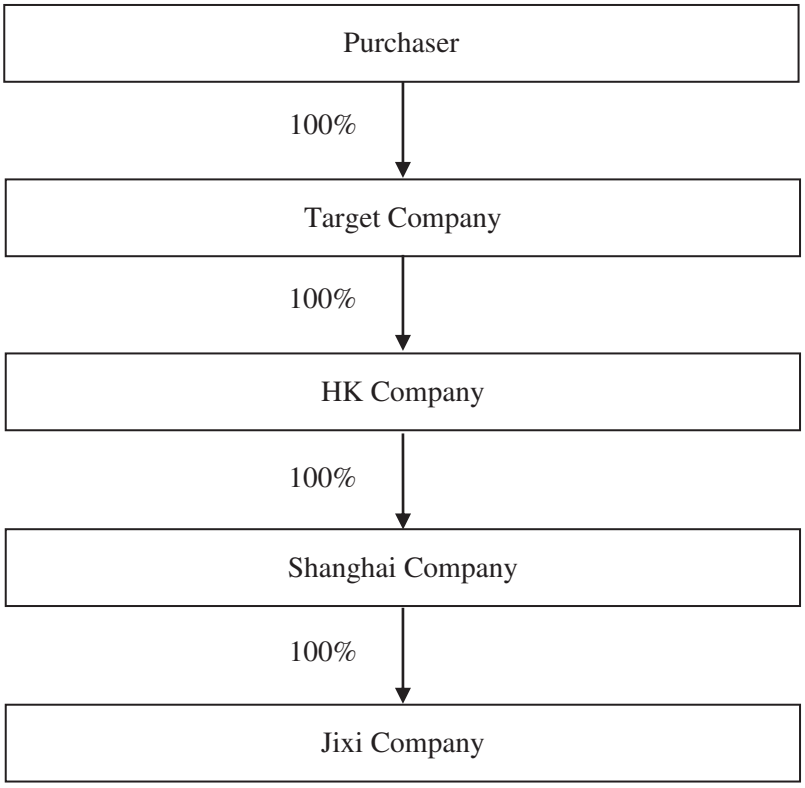
INFORMATION ON THE TARGET GROUP

Shareholding structure of the Target Group

Set out below is the shareholding structure of the Target Group as at the Latest Practicable Date:



Set out below is the shareholding structure of the Target Group immediately after Completion:



Target Company

The Target Company is an investment holding company established in the BVI with limited liability on 1 June 2017. As at the Latest Practicable Date, apart from its 100% equity interest in the HK Company, the Target Company does not have any business operation.

HK Company

HK Company is an investment holding company established in Hong Kong with limited liability on 31 March 2017. As at the Latest Practicable Date, apart from its 100% equity interest in Shanghai Company, HK Company does not have any business operation.

Shanghai Company

Shanghai Company is a wholly foreign owned enterprise and was established in the PRC on 24 October 2017. As at the Latest Practicable Date, apart from its 100% equity interest in Jixi Company, Shanghai Company does not have any business operation.

Jixi Company

Jixi Company is a company established in the PRC with limited liability on 11 January 2018. Jixi Company is undergoing the Reorganisation.

Reorganisation

Under the Reorganisation, Jixi Company shall acquire from Aoyu Company all of Aoyu Company's business undertakings of processing and sale of graphite and graphene related products, including all its personnel, patent rights and existing but unfinished commercial contracts, including the entering of the following deeds and contracts:

1. a termination agreement between Aoxing Company and Aoyu Company to terminate the patent licensing contract dated 10 April 2013 made between them;

2. an assignment of patent by Aoyu Company to Jixi Company to absolutely assign 16 patents owned by Aoyu Company relating to the process of graphene and related products to Jixi Company and submission for the application of the assignment to the relevant government authority;

3. a trademark licence agreement (the "**Trademark Licence Agreement**") between Aoyu Group Company and Jixi Company to license the Trademark to be used by Jixi Company as long as the Trademark registration is valid and completion of the necessary registration of such licence with the relevant government authority;

4. (i) deeds of novation relating to one procurement contract and three sales contracts amongst Jixi Company, Aoyu Company and the relevant third party supplier(s) and customer(s) of those contracts; and (ii) framework agreements to be executed by the existing customers and suppliers of Aoyu Company and Jixi Company in relation to the procurement and supply of products by Jixi Company;

5. the labour contracts of all existing employees of Aoyu Company to be employed by Jixi Company having been duly executed and are subsisting;

6. Jixi Company having completed the application for change of construction unit of environmental impact assessment project and obtained the environmental impact approval documents from the relevant environmental protection department;

7. a deed of novation amongst Jixi Company, Aoyu Company and 國家石墨產品質量監督檢驗中心 (National Graphite Product Quality Supervision and Inspection Center*) (the "**National Center**") relating to the cooperation agreement dated 20 March 2017 between Aoyu Company and the National Center;

8. a lease agreement between Jixi Company and Aoyu Company relating to the leasing of machinery and factory for a term of 15 years (Jixi Company shall have the right to extend the leasing term every 10 years); and

9. Aoyu Company having obtained a letter of consent issued by the 雞西農商銀行恒山支行 (Jixi Rural Commercial Bank Hengshan Branch*) over the transfer of the assets and contractual rights under the Reorganisation.

In 2010, Aoyu Group Company established Aoyu Company as the operating entity of the factory to be rented by Jixi Company under the Reorganisation, which is located at 8510 Farm, Jidong County, Jixi, Heilongjiang, PRC (the "**Site**"). Accordingly, relevant environmental impact assessment applications were filed by and granted to both Aoyu Group Company and Aoyu Company.

On 14 May 2012 and 29 March 2017, 黑龍江省環境保護廳墾區環境保護局 (Reclamation Area Environmental Protection Department of Environmental Protection Department, Heilongjiang Province*) (the "**HLJ Environmental Protection Department**") granted relevant environmental acceptance and approval in respect of the Site to Aoyu Group Company and Aoyu Company. As part of the Reorganisation, Aoyu Company shall lease its equipment and factory and machinery relating to graphene-processing to Jixi Company, and the related businesses will also be transferred to Jixi Company. Accordingly, Jixi Company will be the operating entity of the said factory and have to complete the application for change of construction unit of environmental impact assessment project and obtain the environmental impact approval documents from HLJ Environmental Protection Department.

On 20 March 2017, the National Center and Aoyu Company signed an co-operation agreement (the "**Co-operation Agreement**"), pursuant to which the parties shall jointly research and develop graphite new materials, new technologies and processes, the results of the joint scientific research are shared by both parties, and the laboratories and production lines built and set up by both parties are shared by both parties. Under the Reorganisation, Aoyu Company's research and development function will be transferred to Jixi Company. Therefore, Jixi Company shall be required to sign a deed of novation relating to the Cooperation Agreement with Aoyu Company and National Center, and all the rights and obligations of Aoyu Company under the Cooperation Agreement shall be assigned to Jixi Company.

On 10 May 2017, Aoyu Company and 雞西農商銀行恒山支行 (Jixi Rural Commercial Bank Hengshan Branch*) (the "**Jixi Bank**") entered into a loan agreement which stipulated that Jixi Bank shall provide Aoyu Company with a loan of RMB30 million for the period from 10 May 2017 to 8 May 2020. Pursuant to the loan agreement, Aoyu Company shall notify the Jixi Bank in writing in advance of certain actions (which include the transfer of the principal asset), and Aoyu Company can implement such actions with the consent of the Jixi Bank. To avoid potential disputes, Aoyu Company should obtain consent from the Jixi Bank before transferring the relevant assets to Jixi Company.

Upon completion of the Reorganisation, the Jixi Company will be principally engaged in processing and sale of graphene and related products in the PRC. Jixi Company will (i) procure raw materials from the suppliers transferred from Aoyu Company; (ii) process graphene and related products using the equipment and production facilities rented from Aoyu Company; and (iii) sell products to the customers transferred from Aoyu Company.

Jixi Company will adopt the Trademark for its business operation. Jixi Company will also expand its suppliers and customers network.

The patent licensing contract between Aoxing Company and Aoyu Company was expired in April 2018. Other agreements and documents for the Reorganisation are being prepared for execution. The Reorganisation is expected to be completed around two months after the Agreement and the transactions contemplated thereunder being approved at the EGM.

Financial information of the Target Group

Set out below is the consolidated financial information of the Target Group for the period from 1 June 2017 (being the date of incorporation of the Target Company) to 31 December 2017 and the six months ended 30 June 2018 prepared in accordance with Hong Kong Financial Reporting Standards as extracted from Appendix IIA to this circular:

	For the period from 1 June 2017 (being the date of incorporation of the Target Company) to 31 December 2017	**For the six months ended 30 June 2018**
	HK$'000	*HK$'000*
Loss before tax	54	—
Loss after tax	54	—

	As at 31 December 2017	**As at 30 June 2018**
	HK$	*HK$*
Net assets	8	8

Set out below is the financial information of the Business for the three years ended 31 December 2017 and the six months ended 30 June 2018 prepared in accordance with Hong Kong Financial Reporting Standards as extracted from Appendix IIB to this circular:

	For the year ended 31 December 2015	**For the year ended 31 December 2016**	**For the year ended 31 December 2017**	**For the six months ended 30 June 2018**
	RMB'million	*RMB'million*	*RMB'million*	*RMB'million*
Profit before tax	37	27	28	17
Profit after tax	31	23	24	15

	As at 31 December 2015 *RMB'million*	As at 31 December 2016 *RMB'million*	As at 31 December 2017 *RMB'million*	As at 30 June 2018 *RMB'million*
Net assets	119	142	103	102

BUSINESS MODEL OF THE TARGET GROUP

Upon completion of the Reorganisation, the Jixi Company will be principally engaged in processing and sale of graphene related products in the PRC.

Human resources

As part of the Reorganisation, Jixi Company will employ all of the existing employees (around 140) of Aoyu Company (the "**Employees**"). Jixi Company will proceed with the aforesaid employment after the Agreement and the transactions contemplated thereunder being approved at the EGM. The Company does not foresee any obstacle on the aforesaid employment. Such employees include senior management and staff of all departments which are required for the business operation of Jixi Company (including sales, research, warehouse, manufacturing, maintenance, etc.). With the aforesaid Employees who have sufficient experience and expertise to manage Jixi Company's business operation, Jixi Company can commence operation immediately after the Reorganisation.

Detailed biography of two key management are set out below:

*Mr. Wang Jingzhu (王井柱) ("**Mr. Wang**") — General Manager*

Mr. Wang, being the General Manager, is responsible for the overall operational supervision. Mr. Wang has been engaging in the graphite industry for more than 10 years, during which he gained extensive experience in production. He participated in the establishment of Aoyu Company, as well as the set-up of production lines of spherical graphite, expanded graphite and graphite sheet in Aoyu Company. Owing to his comprehensive knowledge to production techniques and production facilities of products such as natural flake graphite, spherical graphite and expanded graphite, he was able to supervise the installation, adjustment and testing of production lines of different graphite products. Meanwhile, he also took part in the application of different patents and the documentation of the workflow of production techniques and production guidance.

*Mr. Luan Xiaole (欒曉樂) ("**Mr. Luan**") — Deputy Factory Director (副廠長)*

Mr. Luan, being the Deputy Factory Director (副廠長), is responsible for production, research and development, sales and marketing function. Mr. Luan joined Aoyu Company in 2010. Since then he took part in the preparation of the feasibility study report, the environmental impact assessment report and the safety assessment report in the early stage of the establishment of the Aoyu Company, as well as the installation, adjustment and testing of production lines. With his continuous efforts, Mr. Luan acquired extensive knowledge of production and inspection techniques. He participated in the application of over 10 patents, and the documentation of production techniques workflow and production guidance.

Other than the Employees who have sufficient experience and expertise to manage Jixi Company's business operation, the Company intends to engage (i) a general manager (graphene business) who will be responsible for managing and supervising the business of the Target Group; (ii) two consultants to assist the Board to manage the business of the Target Group. The aforesaid general manager (graphene business) and consultants have extensive experience in graphite and graphene industry as set out below:

*Ms. Zhou Jing (周靜) ("**Ms. Zhou**") — General Manager (graphene business)*

Ms. Zhou obtained (i) bachelor's degree in biological science at 煙台師範學院 (Yantai Teachers College*) in 2005; and (ii) master's degree in science technological philosophy at 北京理工大學 (Beijing Institute of Technology) in 2007. From 2007 to 2011, Ms. Zhou worked for 北京城市系統工程研究中心(Beijing City System Engineering Research Center*) and was responsible for government project management. From 2011 to 2014, Ms. Zhou worked for北京納通科技集團有限公司 (Beijing Naton Technology Group Co., Ltd.*) and was responsible for the management of research and development. From 2014 to present, Ms. Zhou has been (i) the industry research director of 銀基烯碳新材料股份有限公司 (Ingenious Ene-Carbon New Materials Group Co., Ltd.*) ("**Ingenious**"), during which she was responsible for the graphene business of the group including the production operation and research and development management of various types of new carbon-based materials, and promotion of related businesses; and (ii) the general manager of Ingenious' wholly-owned subsidiary, namely, 北京烯碳石墨科技研究院有限公司 (Beijing Graphene Institute Company Limited*), during which she was responsible for the cooperation in scientific research of the company, planning of promotion matters and leading the industry research related work. Ms. Zhou has also been the secretary general of 中關村石墨烯產業聯盟 (Z-park Graphene Industry Alliance*), an innovative industry alliance jointly established by renowned universities, research institutions, key applications and investment enterprises which promote the development of the graphene industry in the PRC.

*Dr. Guo Mingming (郭鳴明) ("**Dr. Guo**") — Consultant*

Dr. Guo, obtained bachelor's degree in chemistry (macromolecular) in 1982 and master's degree in chemistry (macromolecular) in 1985 at the Nanjing University and his PhD degree in macromolecular science at the Fudan University in 1987. Dr. Guo has more than 30 years of experience in research and commercializing macromolecular materials. Dr. Guo has also been conducting research on graphene since 2010. Dr. Guo held various positions at a number of universities in PRC, Germany and the United States of America from 1987 to 2018. In 2012, he was recruited by Organization Department of the Communist Party of PRC under 海外高層次人才引進計

畫 (Recruitment Program of Global Experts*). He is the chief expert of the Sinopec Beijing Research Institute of Chemical Industry. Dr. Guo is also experienced and engaging in various graphene research and development. At present, Dr. Guo is a professor of 西南大學化學化工學院 (Chemistry & Chemical Engineering College of Southwest University*), a doctoral advisor of 北京化工大學 (Beijing University of Chemical Technology) and the chief expert of 中石化北京化工研究院 (SINOPEC Beijing Research Institute of Chemical Industry).

*Ms. Han Yufeng (韓玉鳳) ("**Ms. Han**") - Consultant*

Ms. Han obtained bachelor's degree in law at中國人民解放軍南京陸軍指揮學院 (People's Liberation Army Nanjing Army Command College*) and master's degree in business administration at the City University of Macau. She was a senior management of Aoyu Group Company and has approximately 30 years of experience in graphite related field. Ms. Han also holds positions in a number of professional associations, including 中國非金屬礦工業協會石墨專委會 (Graphite Committee of China Non-metallic Mineral Industry Association*), 國家低碳研究中心 (China Low-carbon Research Institute*), 黑龍江省石墨產業協會 (Heilongjiang Province Graphite Industry Association*), 中國石墨產業技術創新戰略聯盟 (China Innovation Alliance of the Graphene Industry*) and 中國石墨產品標準化技術委員會 (China Graphite Product Standardization Technology Committee*).

Given the above, the Board is confident to manage the Target Group's business.

Procurement

Jixi Company will purchase raw materials (mainly graphite flakes) from suppliers in Heilongjiang which are mainly mining (natural graphite) and natural graphite trading companies.

The Target Group has no current intention to purchase raw materials from Aoyu Company and/or Aoyu Group Company upon Completion.

Major products and production process

Products of Jixi Company include:

(i) Spherical graphite: Spherical graphite is processed from graphite flakes that have undergone the crushing, reshaping, and purifying processes. It can be used as the material for lithium-ion battery anode, conductive agents, synthetic diamond, etc.

(ii) High-purity graphite: High-purity graphite is a higher grade graphite flake that contains higher purity of carbon content with minimal impurities. It can be used as advanced refractory materials, advanced coatings, industrial lead, electric carbon brush, electrodes, military materials, crucible containers and sintering molds.

(iii) Micronised (micro-powder) graphite: Micronised (micro-powder) graphite is a bi-products in the process of crushing graphite flakes and is mainly used in pencil lead, printing ink, lubricant additives, and lubricants for seeding machines.

After receiving orders from customers, Jixi Company shall check its inventory and set out its production plan.

The production will be carried out according to the production plan. Subject to different type of products, production processes include crushing, reshaping, purifying, drying and filtering. Upon completion of production, products will be packaged.

Equipment and factory

Equipment and factory required for the above production process will be rented from Aoyu Company. The factory is located at 8510 Farm, Jidong County, Jixi, Heilongjiang, PRC (i.e. the Site), with a total gross floor area of approximately 6,000 sq.m..

A lease agreement between Jixi Company and Aoyu Company relating to the leasing of machinery and factory (the "**Lease**") for a term of 15 years (Jixi Company shall have the right to extend the leasing term every 10 years).

The rental fee under the aforesaid lease agreement will be determined with reference to the fair rent opinion (i.e. valuer's opinion on the fair value of rental fee) to be prepared by an independent valuer engaged by the Company. The estimated annual rental fee will be determined by dividing the fair value of the subject equipment and factory by lease term (i.e. 15 years, which is the expected remaining life of the subject equipment and factory). The independent valuer appointed by the Company adopted cost approach to determine the fair value of subject equipment and factory. In particular, replacement cost method was adopted, which is a generally accepted method for property, plant and equipment valuation. The Board considers the aforesaid basis to be fair and reasonable. The rental fee is estimated to be RMB6.69 million per annum, subject to final negotiation.

Under the lease agreement to be entered into between Jixi Company and Aoyu Company relating to the Lease, Aoyu Company will be responsible for the maintenance of the equipment and factory. Aoyu Company will also check the factory semi-annually and conduct necessary maintenance.

Under the proposed leasing terms, Jixi Company shall have the sole discretion to (i) terminate the Lease anytime by giving 6-month notice; or (ii) terminate the lease of any machinery anytime by giving 6-month notice. Should Jixi Company terminate the lease of any machinery, the rental fee will be reduced in proportion to the machinery ceased to be leased. For avoidance of doubt, Aoyu Company shall have no rights to terminate any part of the Lease.

The Group has no intention to acquire the existing equipment and production facilities of Aoyu Company given that: (i) acquisition of the equipment and production facilities of Aoyu Company would significantly increase the consideration; and (ii) as the graphene industry and its technology are developing, there may be more advanced technology and equipment available in future. The Enlarged Group will have the flexibility to purchase new equipment in future when it thinks fit.

The ownership of such equipment and factory will be not be transferred to Jixi Company under the Reorganisation. In future, when the equipment is required (i) to be upgraded for processing new products with more advanced technology; (ii) for replacement due to aging, the Target Group will consider to purchase new equipment from suitable suppliers.

The Target Group can also lease other factory and purchase new equipment for its production if the Lease cannot be continued for any reason. The Company considers that there is no complicated requirement on the factory for Jixi Company's operation. In addition, there are two graphite industrial parks in Jixi, namely, 雞西(恒山)石墨產業園 (Jixi Hengshan Graphite Industrial Park*) and 雞西(麻山)石墨產業園 (Jixi Mashan Graphite Industrial Park*) which were established for the development of graphite related businesses. Therefore, the Company does not expect difficulty for the Target Group to find alternative factory for leasing.

Sales and marketing

As aforementioned, major products of Jixi Company include spherical graphite, high-purity graphite and micronised (micro-powder) graphite.

Jixi Company will sell the above products to customers in various locations of the PRC. Target customers include wholesaler, traders, lithium battery manufacturers, etc. Aoyu Company has over 30 active customers for the year ended 31 December 2017. Under the Reorganisation, Aoyu Company will transfer its customers to Jixi Company.

The Company has no current intention to sell products to Aoyu Company and/or Aoyu Group Company upon Completion and does not expect Jixi Company to derive any of its turnover and net profit from transactions with connected persons of the Enlarged Group.

Research and development

The research and development department of Jixi Company (the "**R&D Department**") will continue the research and development of graphene carbon nanotubes which can be used in the fields of composite materials, electronics, transmitting components, energy, measuring instruments and biomedical.

Graphene carbon nanotubes possess unique metal and semiconductor conductivity, high mechanical strength, hydrogen storage capacity, adsorption capacity, and strong microwave absorption capacity. Therefore, it is considered as the new prevailing material to be used in the field of nano-technology.

In addition, the R&D Department will also research for technology to improve production efficiency and quality of existing products.

Patents

After the Reorganisation, the Target Group shall obtain the patents on graphene and related products production. In connection with the transfer of the relevant patents, Aoyu Company and Jixi Company shall enter into the assignment of patent to transfer all patents relating to graphene production (16 in total) to Jixi Company and shall apply to the relevant government authority for registration of the assignments. Upon completion of the assignment registration procedures, Jixi Company will obtain the relevant patents and patent application claims. According to the PRC legal opinion from the Company's PRC legal adviser, there is no legal obstacle to the aforesaid agreements between Aoyu Company and Jixi Company and in registration of the assignment of patents within reasonable expectation.

Trademark

The Trademark Licence Agreement will be entered between Aoyu Group Company and Jixi Company to license the Trademark to be used by Jixi Company as long as the Trademark registration is valid and completion of the necessary registration of such licence with the relevant government authority. No consideration is required for the aforesaid trademark licence agreement.

The Board considers that the Trademark does not represent unique products. The Trademark only adds value to branding of Jixi Company's products. When the customers are familiarized with the newly established Jixi Company and satisfied with Jixi Company's products quality, they do not need to identify Jixi Company's products with the Trademark.

The Trademark Licence Agreement

Set out below are the principal terms of the Trademark Licence Agreement:

Parties:	(i) Aoyu Group Company (as licensor); and (ii) Jixi Company (as licensee)
Subject matter:	Aoyu Group Company shall license the Trademark to Jixi Company for general use on its relevant products. Aoyu Group Company shall provide the Trademark to Jixi Company.
Trademark:	 Registration number — 3750863 Class — 1 Place of registration — PRC Expiry date — 20 August 2025 (can be extended within the 12-month period before expiry by making application to Trademark Office of The State Administration For Industry & Commerce of the PRC)

Term:	As long as the Trademark registration is valid.
Consideration:	Nil
Restriction:	Jixi Company shall not change the characters, figurative elements or the combinations of the Trademark and may not sub-license the use of the Trademark to any third party without the authorization of Aoyu Group Company.

REASONS FOR THE ACQUISITION

The Group is principally engaged in the provision of a wide range of landscape architecture services covering landscape assessment, planning, design and other related advisory services.

Apart from the Group's existing principal business, the Group is exploring other potential investment opportunities which can increase Shareholders' values.

In January 2017, Mr. Qiu Bin (an executive Director) introduced Mr. Shen to Mr. Chan Yick Yan Andross ("**Mr. Chan**") (an executive Director) in Shanghai. In mid-2017, Mr. Chan expressed the Group's intention to explore other potential investment opportunities to Mr. Shen. Subsequently, Mr. Shen, together with Ms. Han, introduced the graphene-processing business to Mr. Chan.

Around end of July 2017, Mr. Chan proposed the Acquisition to the Board. After consideration, the Company entered into the MOU with the Vendor on 9 August 2017.

After performing further due diligence and assessment on the Business, the Purchaser entered into the Original Agreement with the Vendor and the Guarantors to proceed with the Acquisition.

Graphene is known as the thinnest materials in the world but 200 times stronger than steel. Graphene is a superb electrical and thermal conductor.

With reference to the 《中國石墨資源調查報告》 (China Graphite Resources Research Report*) published by Geological Survey of the PRC in 2016, the PRC contains second largest amount of graphite resource among countries, representing around 33% of the graphite in the world. In 2016, the "13th Five-Year-Plan" National Strategic Emerging Industry Plan stated the Chinese government will support the application of graphite to achieve industrial scale through increased funding and the establishment of innovation alliances and specialized industry bases.

The BCC Research (www.bccresearch.com), an experienced market information provider which was founded in 1971 and produces market research reports and forecasts in the advanced materials and plastics market, sees a bright future for graphene. They predict that the global market size of graphene will be worth almost US$195 million by 2018 and reach US$1.3 billion by 2023, with a five-year compound annual growth rate (CAGR) of approximately 46.1% from 2018 to 2023.

Despite the fact that (i) the Business is completely different from the Group's existing businesses; (ii) the executive Directors do not have experience in the Business; (iii) the Company will finance a substantial part of the Consideration by debt financing, the Board consider that the Acquisition is in the interest of the Company and the Shareholders as a whole and the terms of the Agreement are fair and reasonable and on normal commercial terms after considering the factors below:

(i) The Business was profitable for the three years ended 31 December 2017 and 1H2018.

(ii) Given the Group's losses recorded for the two years ended 31 December 2017, it is in the interest of the Company to acquire a profitable business for the purpose of improving its financial position.

(iii) the Acquisition would enable the Group to expand its revenue source to the graphene processing business and diversify the Group's revenue base.

(iv) The Group shall have sufficient qualified and experienced management to manage the Business as demonstrated under the section headed "BUSINESS MODEL OF THE TARGET GROUP" above.

(v) It is common for an enterprise to seek debt financing to support a feasible project.

(vi) The future prospects of the Business is encouraging.

Currently, the Board does not have any intention, arrangement, agreement, understanding or negotiation (concluded or otherwise) on any disposal, termination or scaling-down of the Group's existing business.

CHANGES IN THE SHAREHOLDING STRUCTURE OF THE COMPANY

For illustrative purpose only, set out below is a summary of the shareholdings in the Company (i) as at the Latest Practicable Date; (ii) immediately after the allotment and issue of the Consideration Shares, assuming there is no other change in the shareholding structure of the Company before the issue of the Consideration Shares:

Name of Shareholders	**As at the Latest Practicable Date**		**Immediately after the issue of Consideration Shares**	
	Approximate		*Approximate*	
	No. of Shares	*%*	*No. of Shares*	*%*
Mr. Chan *(Note 1)*	98,210,887	22.62	98,210,887	20.36
Mr. Lau Hing Tat Patrick *(Note 2)*	52,991,444	12.20	52,991,444	10.99
PBLA Limited	75,223,669	17.32	75,223,669	15.60
Mr. Gao Xin	47,996,000	11.05	47,996,000	9.95
Mr. Tian Ming	3,930,000	0.90	3,930,000	0.81
Mr. Ma Lida	1,000,000	0.23	1,000,000	0.21
The Vendor	—		48,000,000	9.95
Other non-public Shareholders	9,575,275	2.21	9,575,275	1.99
Other public Shareholders	145,362,725	33.47	145,362,725	30.14
Total	**434,290,000**	**100**	**482,290,000**	**100**

Notes:

1. As at the Latest Practicable Date, Mr. Chan holds 4,204,000 Shares by himself and 94,006,887 Shares through CYY Holdings Limited, a company incorporated in the British Virgin Islands. Mr. Chan is the beneficial owner of the entire issued capital of CYY Holdings Limited.

2. As at the Latest Practicable Date, Mr. Lau Hing Tak Patrick ("**Mr. Lau**") holds 5,008,000 Shares by himself and 46,003,444 Shares through LSBJ Holdings Limited, a company incorporated in the British Virgin Islands. Mr. Lau is the beneficial owner of the entire issued capital of LSBJ Holdings Limited. Besides, Mr. Lau's wife, Ms. Keung Wai Fong Tracy, also holds 1,980,000 shares of the Company. Under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), Mr. Lau, being the spouse of Ms. Keung, is deemed to be interested in all the shares that Ms. Keung is interested in, and vice versa.

FINANCIAL EFFECT OF THE ACQUISITION

Upon the Completion, the Target Company will become a wholly-owned subsidiary of the Company and the profit and loss and assets and liabilities of the Target Company will be consolidated to the financial statements of the Group. The unaudited pro forma financial information of the Enlarged Group is set out in Appendix III to this circular (the "**Pro Forma FI**").

As extracted from the interim report of the Company for 1H2018 (the "**2018 Interim Report**"), the consolidated total assets and total liabilities of the Group were approximately HK$348 million and HK$196 million respectively as at 30 June 2018. With reference to the Pro Forma FI, the Enlarged Group's total assets and total liabilities would be approximately HK$1,082 million and HK$801 million respectively if the Acquisition has taken place on 30 June 2018.

LISTING RULES IMPLICATION

As one of the applicable percentage ratios (as defined under the Listing Rules) in respect of the Acquisition are more than 25% but less than 100%, the Acquisition constitutes a major transaction for the Company under Chapter 14 of the Listing Rules and is subject to the approval by the Shareholders under the Listing Rules.

EGM

A notice convening the EGM to be held at 11/F., COFCO Tower, 262 Gloucester Road, Causeway Bay, Hong Kong on 11 January 2019 at 10:00 a.m. or any adjournment is set out from pages 151 to 153 of this circular. A form of proxy for use at the EGM is enclosed. Whether or not you are able to attend the EGM in person, you are requested to complete and return the accompanying form of proxy to the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited, Level 22, Hopewell Centre, 183 Queen's Road East, 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. Completion and return of the proxy form shall not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so desire.

To the best of the knowledge and belief of the Directors, having made all reasonable enquiries, no Shareholder has a material interest in the transaction contemplated under the Agreement such that he or it shall abstain from voting at the EGM on an ordinary resolution to approve the Agreement and the transactions contemplated thereunder and the Specific Mandate.

RECOMMENDATION

The Directors consider that the terms of the Agreement are on normal commercial terms and are fair and reasonable so far as the Shareholders are concerned, and that the Acquisition is in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Agreement and the transactions contemplated thereunder.

ADDITIONAL INFORMATION

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

By order of the Board
Earthasia International Holdings Limited
Lau Hing Tat Patrick
Chairman

1. FINANCIAL INFORMATION OF THE GROUP

Financial information of the Group for the year ended 31 December 2015, the year ended 31 December 2016 and the year ended 31 December 2017 are disclosed on pages 48-143 of the annual report of the Company for the year ended 31 December 2015, pages 59-161 of the annual report of the Company for the year ended 31 December 2016, and page 57-151 of the annual report of the Company for the year ended 31 December 2017 respectively, which were published on both the Stock Exchange website (http://www.hkexnews.hk) and the Company's website (http://www.ea-dg.com).

2. INDEBTEDNESS STATEMENT

As at 31 October 2018, the Group had outstanding unsecured and unguaranteed corporate bonds of approximately HK$105 million. These borrowings denominated in HK$ bear interest at rates of 6% and 9% per annum.

As at 31 October 2018, the Group had outstanding unsecured and unguaranteed other borrowings of approximately HK$2.4 million. Among such borrowings, approximately HK$0.2 million denominated in HK$ are interest-free borrowings and approximately HK$2.2 million are interest-bearing borrowings. These borrowings are denominated in RMB and bear interest at rate of 4.75% per annum.

Save as aforesaid and apart from intra-group liabilities and trade payables in the normal course of business, at the close of business on 31 October 2018, the Group did not have any other loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities.

3. WORKING CAPITAL

The Directors are of the opinion that, after taking into account the Acquisition, the present available financial resources and the banking and other facilities presently available, the Group will have sufficient working capital for its business for the next twelve months from the date of this circular in the absence of unforeseeable circumstances.

4. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors confirmed that there had been no material adverse change in the financial or trading position or prospects of the Enlarged Group since 31 December 2017, the date to which the latest published audited financial statements of the Group were made up.

5. FINANCIAL AND TRADING PROSPECT OF THE ENLARGED GROUP

Year 2018 is full of uncertainty — the potential trade war between the US and the PRC; the downward of the stock market in Hong Kong and the PRC; and the depreciation of RMB. All of them inevitably poses risks and uncertainties to the growth and development of the Group's business and investments.

In the first half of 2018, the Group continued to record improvement in billing, collection and new contracts from the landscape architecture segment. During the six months ended 30 June 2018, the number of new contracts was 134 with contract sum of approximately HK$137.1 million, representing increase of approximately 49% and 33% as compared to those during the corresponding period in 2017. The Group's revenue generated from service contracts under the landscape architecture segment also improved by approximately 36% during the six months ended 30 June 2018 as compared that during the corresponding period in 2017.

Despite gradual recovery, the Group still faces fierce price competition in the market, particularly from firms pursuing low-price strategy. To compete in the market, the Group has been pursuing a higher quality of works to attract high-end clients. The Group leverages its Category B of Specific Landscape Engineering Design Qualification (風景園林工程設計專項乙級資質) for both its Shanghai and Qianhai offices to capture the opportunity of government sectors projects. The Group is currently applying for the Category A of Specific Landscape Engineering Design Qualification (風景園林工程設計專項甲級資質) in landscape architecture. In efforts to capture greater market shares, the Group set up office in Changchun, Jilin Province of the PRC. The Group also increased the staff size of its liaison office in Changsha, Hunan Province of the PRC. The Group has been exploring market in Southeast Asia such as Vietnam and is currently pursuing strategic alliance with local developers.

Notwithstanding the recent intensification of US-China trade war, the weakening in the PRC property market and the fall of stock market which would inevitably pose uncertainties to the growth and development of the Group's landscape architecture segment, the Group has reinforced its efforts to capture the opportunity from government sector projects in the landscape architecture segment. As of the Latest Practicable Date, the Group has gone through the first approval process from the Shanghai Urban Construction and Communication Commission in its application of Category A of Specific Landscape Engineering Design Qualification in landscape architecture and is pending for the final approval.

As to catering segment, the Group has commenced its catering business through the completion of two acquisitions in the end of 2017. The acquisitions offer a chance to tap into the consumer sector driven by domestic consumption, which is believed to be a main driver of the PRC's economy. In the first half of 2018, the catering business has been contributing 17.4% of total revenue of the Group. The Group planned to open two new Thai cuisine restaurants in Chengdu, Sichuan Province of the PRC with size of 600 sq.m. and 1,000 sq.m. respectively which are larger than the existing restaurants. The Group also plans to set up "Thai Express" in Shanghai, the PRC, which is targeted to be launched in around early 2019 and will provide traditional Thai cuisine under a fast-food chain concept with delivery services. Thai Express will allow customers to place order through internet ordering system and may integrate other new technologies.

In January 2018, our Group entered into the Original Agreement to proceed with the Acquisition, through which our Group will have an opportunity to invest in the graphene business. Graphene is known as the thinnest materials in the world but 200 times stronger than steel. Graphene is a superb electrical and thermal conductor. The PRC contains second largest amount of graphite resource among other countries, representing around 33% of the graphite in the world. In 2016, the "13th Five-Year-Plan" National Strategic Emerging Industry Plan stated the Chinese government will support the application of graphite to achieve industrial scale through increased funding and the establishment of innovation alliances and specialized industry bases.

The Directors believe the above measures and joint efforts of our management and staff can broaden the revenue streams of the Group and will have overall improvements in 2018. The Directors will continue to explore new business and investment opportunities that may generate additional income to the Group.

The following is the text of a report received from the Company's reporting accountants, Crowe (HK) CPA Limited, for the purpose of inclusion in this circular.

國富浩華（香港）會計師事務所有限公司
Crowe (HK) CPA Limited
香港 銅鑼灣 禮頓道77號 禮頓中心9樓
9/F Leighton Centre,
77 Leighton Road,
Causeway Bay, Hong Kong
電話 Main +852 2894 6888
傳真 Fax +852 2895 3752

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF EARTHASIA INTERNATIONAL HOLDINGS LIMITED

Introduction

We report on the historical financial information of Think High Global Limited (the "**Target Company**") and its subsidiaries (hereinafter collectively referred to as the "**Target Group**"), which comprises the consolidated statements of financial position as at 31 December 2017 and 30 June 2018 of the Target Group and the statements of financial position of the Target Company as at 31 December 2017 and 30 June 2018, and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Target Group for the period from 1 June 2017 (date of incorporation of Target Company) to 31 December 2017 and the six months ended 30 June 2018 (the "**Relevant Periods**") and a summary of significant accounting policies and other explanatory information (together, the "**Historical Financial Information**"). The Historical Financial Information has been set out on pages 37 to 51 form an integral part of this part, which has been prepared for inclusion in the circular of Earthasia International Holdings Limited (the "**Company**") dated 20 December 2018 (the "**Circular**") in connection with the proposed acquisition of 100% equity interest of the Target Company.

Directors' responsibility for the Historical Financial Information

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

Reporting accountants' responsibility

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

Our work involved in performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2(b) to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluation the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the Target Company, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purpose of the accountants' report, a true and fair view of the Target Group's financial position as at 31 December 2017 and 30 June 2018 and the Target Company's financial position as at 31 December 2017 and 30 June 2018, and of the Target Group's financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation and presentation set out in Note 2(b) to the Historical Financial Information.

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

Adjustments

In preparing the Historical Financial Information no adjustments to the Underlying Financial Statements as defined on page 37 have been made.

Dividends

No dividends have been declared by the directors of the Target Company during the Relevant Periods.

Crowe (HK) CPA Limited
Certified Public Accountants
Hong Kong
20 December 2018

Leung Chun Wa
Practising Certificate Number P04963

I. HISTORICAL FINANCIAL INFORMATION

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

The consolidated financial statements of the Target Group for the Relevant Periods, on which the Historical Financial Information is based, were audited by Crowe (HK) CPA Limited in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants.

The Historical Financial Information is presented in Hong Kong dollar ("**HK$**").

A. CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	1 June 2017 (Date of incorporation) to 31 December 2017	1 January 2018 to 30 June 2018
		HK$	*HK$*
Revenue	6	—	—
Administrative expenses		(54,473)	—
Loss before taxation		(54,473)	—
Income tax		—	—
Loss and total comprehensive income for the period		(54,473)	—

B. CONSOLIDATED STATEMENTS OF FINANCE POSITION

	Note	At 31 December 2017	At 30 June 2018
		HK$	*HK$*
Current asset			
Amounts due from shareholders	11	8	8
		8	8
Capital and reserves			
Share capital	12	8	8
Reserves		—	—
		8	8

C. CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital	Capital reserve	Accumulated loss	Total
	HK$	*HK$*	*HK$*	*HK$*
		(Note 12)		
At 1 June 2017 (date of incorporation)				
Issue of share	8	—	—	8
Waiver of debt by a shareholder (note)	—	54,473	—	54,473
Total comprehensive income for the period	—	—	(54,473)	(54,473)
At 31 December 2017 and 1 January 2018	8	54,473	(54,473)	8
Total comprehensive income for the period	—	—	—	—
At 30 June 2018	8	54,473	(54,473)	8

Note:

Based on a deed of debt waiver signed by Wu Wenbei on 30 June 2018, the balance of HK$54,473 due by the Target Company was waived, with effect on 31 December 2017, by Wu Wenbei in his capacity as the shareholder of the Target Company, which has been credited to a capital reserve.

D. CONSOLIDATED STATEMENTS OF CASH FLOWS

	1 June 2017 (Date of incorporation) to 31 December 2017	1 January 2018 to 30 June 2018
	HK$	*HK$*
Operating activities		
Operating loss before changes in working capital	(54,473)	—
Increase in amounts due from shareholders	(8)	—
Net cash used in operating activities	(54,481)	—
Financing activities		
Proceed from issue of share	8	—
Funding advanced from a shareholder	54,473	—
	54,481	—
Increase in cash and cash equivalents	—	—

E. STATEMENTS OF FINANCIAL POSITION

	At 31 December 2017	At 30 June 2018
	HK$	*HK$*
Non-current asset		
Investment in a subsidiary	1	1
Current assets		
Amounts due from shareholders	8	8
Current liability		
Amount due to subsidiary	1	1
Net current assets	7	7
Net assets	8	8
Capital and reserves		
Share capital	8	8
Reserves	—	—
Equity	8	8

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. GENERAL INFORMATION

Think High Global Limited (the "**Target Company**") is a limited liability company incorporated in the British Virgin Islands on 1 June 2017. During the Relevant Period and at the date of this report, the Target Company's immediate holding company is Tycoon Partner Holding Limited, a company incorporated in the British Virgin Islands. The address of its registered office is Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, the British Virgin Islands. The principal activity of the Target Company will be investment holding after completion of the Reorganisation as refer to in Note 14. The principal activities of the subsidiaries are set out in Note 13 to the Historical Financial Information.

The Target Company and its subsidiaries, including黑龍江省牡丹江農墾淚奧石墨烯深加工有限公司(Heilongjiang Mudanjiang Agricultural Tanao Graphene Deep Processing Company Limited ("**Jixi Company**") (together the "**Target Group**") have not yet commenced business since their respective dates of establishment during the Relevant Periods and at the date of this report.

The Historical Financial Information is presented in Hong Kong dollar ("**HK$**"), which is the same as the functional currency of the Target Company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The Historical Financial Information has been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and the disclosure requirements of Hong Kong Companies Ordinance. In addition, the Historical Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

(b) Application of new/revised Hong Kong Financial Reporting Standards ("HKFRSs")

The HKICPA has issued a number of new and revised HKFRSs that became effective during the Relevant Periods. In preparing the Historical Financial Information, the Target Group has early adopted the following new standards, since 1 June 2017 (being the date of incorporation of the Target Company) where early adoption is permitted and has been applied consistently throughout the Relevant Periods. None of these has impact on the accounting policies of the Target Group.

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers.

HKFRS 9 Financial Instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedging accounting and impairment requirements for financial assets.

HKFRS 9 requires an expected loss model, as opposed to an incurred credit loss model under HKAS 39. The expected loss model requires an entity to account for expected credit losses and changes in those expected credit loss at each reporting date to reflect changes in credit risk since initial recognised. The impact of the adoption of HKFRS 9 is not material to the Target Group.

HKFRS 15 Revenue from Contracts with Customers

The core principle of HKFRS 15 is that an entity should recognised revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. HKFRS 15 introduced a five-step approach to revenue recognition.

The principle in HKFRS 15 provides a more structural approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The impact of the adoption of HKFRS 9 is not material to the Target Group.

Early adoption of HKFRS 16 Leases

HKFRS 16 is effective for annual periods beginning on or after 1 January 2019.

The Target Group has elected to early adopted HKFRS 16 from 1 June 2017 (being date of incorporation of the Target Company), as management believes the new accounting standard provides more reliable and relevant information for users. Under the new standard, the right-of-use assets are measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position. Each lease payment is allocated between the principal repayment of lease liability and finance cost. The finance cost is charged to the consolidated statement of profit or loss and other comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the lease liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. The impact of the early adoption of HKFRS 16 is not material to the Target Group.

The Target Group has not early adopted the following new HKFRSs and amendments that have been issued but not yet effective:

HKFRIC - Int 23	Uncertainty Over Income Tax Treatments[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate and Joint Venture[1]

[1] Effective for annual periods beginning on or after a date to be determined

[2] Effective for annual periods beginning on or after 1 January 2019

The management of the Target Group do not expect the adoption of the new standards, amendments and interpretations will have a material impact on the Target Group's financial statements.

(c) Subsidiaries

A subsidiary is an investee over which the Target Company is able to exercise control. The Target Company controls an investee if all three of the following elements are present: (i) power over the investee, (ii) exposure, or rights, to variable returns from the investee, and (iii) the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

In the Target Company's statement of financial position, investments in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Target Company on the basis of dividend received and receivable.

(d) Foreign currency

Transactions entered into by the entities within the Target Group in currencies other than the currency of the primary economic environment in which they operate (the "**functional currency**") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.

(e) Income taxes

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates expected to apply in the period when the liability is settled or the asset is realised based on tax rates that have been enacted or substantively enacted at the end of reporting period.

(f) Financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when the Target Group becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction cost that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Target Group's financial assets represented loans and receivables.

(i) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the Relevant Period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or where appropriate, a shorter period.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any impairment.

(iii) Impairment loss on loans and receivables

Loans and receivables are assessed for indicators of impairment at the end of the reporting period. Loans and receivables are impaired when there is objective evidence that as a result of one or more events that occurred after the initial recognition of the loans and receivables, the estimated future cash flows of the loans and receivables have been impacted.

Objective evidence of impairment could include:

— significant financial difficulty of the debtor;

— a breach of contract, such as default or delinquency in interest or principal payments;

— granting concession to a debtor because of debtor's financial difficulty; and

— it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

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

Financial liabilities and equity instrument issued by the Target Group

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Target Group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below:

(i) Equity instruments

Equity instruments issued by the Target Company are recorded at the proceeds received, net of direct issue costs.

(ii) Financial liabilities at amortised cost

Financial liabilities at amortised cost including other payables, amounts due to group companies and borrowings are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

(iii) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the Relevant Periods. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or where appropriate, a shorter period.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Target Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in other comprehensive income is recognised in profit or loss.

(g) Related parties

(a) A person or a close member of that person's family is related to the Target Group if that person:

(i) has control or joint control over the Target Group;

(ii) has significant influence over the Target Group; or

(iii) is a member of key management personnel of the Target Group or its parent.

(b) An entity is related to the Target Group if any of the following conditions apply:

(i) The entity and the Target Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of the employees of the Target Group or an entity related to the Target Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the Target Group (or of a parent of the Target Group).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Target Group or to the parent of the Target Company.

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

3. CAPITAL RISK MANAGEMENT

The Target Company manages its capital to ensure that the Target Group will be able to continue as a going concern while maximising the return to its shareholders through the optimization of the debt and equity balance. The Target Group's overall strategy remained unchanged during the Relevant Periods.

The capital structure of the Target Company comprised of paid-in capital and reserves. The directors of the Target Company reviews the capital restructure on an annually basis. As part of this review, the directors consider the cost of capital and will balance its overall capital structure through raising new capital as well as the issue of new debt.

4. FINANCIAL INSTRUMENTS

	At 31 December 2017	At 30 June 2018
	HK$	*HK$*
Financial assets		
- Amounts due from shareholders	8	8

5. FINANCIAL RISK MANAGEMENT

The Target Group's major financial instruments include amounts due from shareholders and amount due to a director. Details of the financial instruments are disclosed in the respective notes. The risk associated with these financial instruments and the policies on how to mitigate these risks are set out below.

Currency risk

The Target Group did not have any foreign currency transactions during the Relevant Periods which expose the Target Group to foreign currency risk.

Liquidity risk

Having regard to the continuing financial received from its shareholders, the directors of the Target Company are of the opinion that the Target Group is able to continue as a going concern and to meet its obligations in full as and when they fall due in the foreseeable future.

Interest rate risk

The Target Group had no significant interest rate risk at the end of the reporting period end.

Credit risk

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

Fair value

The directors consider that the carrying amounts of financial assets and liabilities recorded at amortised cost in the Historical Financial Information approximate their fair values.

6. REVENUE

The Target Group did not derive any income during the Relevant Periods.

7. LOSS FOR THE PERIOD

No directors'emolument was paid or payable to any of directors of the Target Company and its subsidiaries during the Relevant Periods.

8. LOSS PER SHARE

No loss per share information is presented as its inclusion is not considered meaningful with regard to the purpose of this report.

9. DIRECTORS'REMUNERATION

No remuneration was paid or payable by the Target Company to its directors for the period from 1 June 2017 (date of incorporation) to 31 December 2017 and six months ended 30 June 2018.

10. DIVIDENDS

The directors of the Target Company do not recommend the payment of a dividend for the Relevant Periods.

11. AMOUNTS DUE FROM SHAREHOLDERS

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

12. SHARE CAPITAL

The Target Company was incorporated on 1 June 2017 with share capital of USD1. At the date of incorporation, the share capital was fully paid up by cash to provide the initial capital for the Target Company.

13. SUBSIDIARIES

As at 30 June 2018, the Target Company has the following subsidiaries:

Subsidiary	Form of business structure	Place of incorporation /operation	Registered/ issued share capital	Proportion of ownership interest		Principal activity
				Direct	Indirect	
Allied Apex Limited	Incorporated	Hong Kong (incorporated on 31 March 2017)	HK$1	100%	—	Investment holding
上海淩奥新材料科技有限公司 ("**Shanghai Company**")	Incorporated	PRC (established on 24 October 2017)	Registered capital HK$1,000,000	—	100%	Investment holding
黑龍江省牡丹江農墾淩奥石墨烯深加工有限公司 ("**Jixi Company**")	Incorporated	PRC (established on 11 January 2018)	Registered capital RMB1,000,000	—	100%	Processing and sales of graphene processed products

All of the above subsidiaries have not yet commenced their businesses since their respective dates of incorporation/establishment. Capital contributions have not been made to both Shanghai Company and Jixi Company.

14. PROPOSED ACQUISITION AND SUBSEQUENT EVENTS

On 31 January 2018, Upworth Capital Limited ("**Upworth**"), a indirectly wholly-owned subsidiary of the Company entered into a sale and purchase agreement, as amended by a supplementary agreement dated 24 October 2018 , with Tycoon Partner Holdings Limited (the "**Vendor**"), Yang Bo, Wu Wenbei and Shen Taoyu (together the "**Guarantors**"), pursuant to which, the Upworth conditionally agreed to acquire and the Vendor agreed to sell the entire equity interest of the Target Company at a consideration of HK$692,000,000 (the "**Acquisition**"), which will be settled by a combination of cash of HK$210,000,000, 48,000,000 Consideration Shares at issue price of HK$2.79 and Promissory Note in the principal amount of HK$348,080,000. The Acquisition has not yet been completed up to the date of this report.

The Acquisition is conditional on, amongst others, the reorganisation of the Target Group (the "**Reorganisation**") having been completed to the satisfaction of the Target Company. Under the Reorganisation, 黑龍江省牡丹江農墾漩奧石墨深加工有限公司 (Heilongjiang Mudanjiang Agriculture Aoyu Graphite Deep Processing Company Limited) ("**Aoyu Company**") will transfer to Jixi Company, an indirect wholly-owned subsidiary of the Target Company, its business undertakings of processing graphite and graphene related products (the "**Graphene Processing Business**"), including all its personnel, trademark, patent rights, right-of-use of leased production line relating to the processing of graphene products and existing but unfinished commercial contracts. The Reorganisation will involve, among others, the followings:

— a termination agreement between 黑龍江奧星科技有限公司 (Heilongjiang Aoxing Energy Technology Company Limited) ("**Aoxing Company**") and Aoyu Company to terminate the patent licencing contract dated 10 April 2013 made between them;

— an assignment of patent by Aoxing Company to Jixi Company to absolutely assign 16 patents owned by Aoyu Company relating to the processing of graphene and related products to Jixi Company;

— a Trademark licence agreement between Aoyu Group Company and Jixi Company to licence the Trademark to be used by Jixi Company as long as the Trademark registration is valid and completion of the necessary registration of such licence with the relevant government authority;

— (i) deeds of novation relating to one procurement contract and three sales contracts amongst Jixi Company, Aoyu Company and the relevant third party supplier(s) and customer(s) of those contracts; and (ii) framework agreements to be executed by the existing customers and suppliers of Aoyu Company and Jixi Company in relation to the procurement and supply of products by Jixi Company;

— the labour contracts of all existing employees of Aoyu Company to be employed by Jixi Company having been duly executed and are subsisting;

— Jixi Company having completed the application for change of construction unit of environmental impact assessment project and obtained the environmental impact approval documents from the relevant environmental protection department;

— a deed of novation amongst Jixi Company, Aoyu Company and國家石墨產品質量監督檢驗中心(National Graphite Product Quality Supervision and Inspection Center*) (the "**National Center**") relating to the cooperation agreement dated 20 March 2017 between Aoyu Company and the National Center;

— a lease agreement between Jixi Company and Aoyu Company relating to the leasing of machinery and factory for a term of 15 years and Jixi Company shall have the right to extend the leasing term every 10 years; and

— Aoyu Company having obtained a letter of consent issued by the 雞西農商銀行恒山支行 (Jixi Rural Commercial Bank Hengshan Branch*) over the transfer of the assets and contractual rights under the Reorganisation.

Upon completion of the Reorganisation as further detailed in the Letter from the Board of the Circular, the Graphene Processing Business of Aoyu Company will be transferred to the Target Group. At the date of this report, the Reorganisation has not yet been completed.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Company subsequent to 30 June 2018.

The following is the text of a report received from the Company's reporting accountants, Crowe (HK) CPA Limited, for the purpose of inclusion in this circular.

國富浩華（香港）會計師事務所有限公司
Crowe (HK) CPA Limited
香港 銅鑼灣 禮頓道77號 禮頓中心9樓
9/F Leighton Centre,
77 Leighton Road,
Causeway Bay, Hong Kong
電話 Main +852 2894 6888
傳真 Fax +852 2895 3752

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF EARTHASIA INTERNATIONAL HOLDINGS LIMITED

Introduction

We report on the historical financial information of the graphite and graphene related products processing business (the "**Graphene Processing Business**") of 黑龍江省牡丹江農墾奧宇石墨深加工有限公司 (Heilongjiang Mudanjiang Agriculture Aoyu Graphite Deep Processing Company Limited) ("**Aoyu Company**"), which comprises the statements of financial position as at 31 December 2015, 2016 and 2017 and 30 June 2018, and the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows of the Graphene Processing Business of Aoyu Company for each of the three years ended 31 December 2015, 2016 and 2017 and for the six months ended 30 June 2018 (the "**Relevant Periods**") and a summary of significant accounting policies and other explanatory information (together, the "**Historical Financial Information**"). The Historical Financial Information set out on pages 55 to 99 forms an integral part of this report, which has been prepared for inclusion in the circular of Earthasia International Holdings Limited (the "**Company**") dated 20 December 2018 (the "**Circular**") in connection with the proposed acquisition of 100% equity interest of Think High Global Limited (the "**Target Company**"), to which the Graphene Processing Business, together with certain related assets, of Aoyu Company will be transferred, as further detailed in the letter from the board of the Circular.

Directors' responsibility for the Historical Financial Information

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

Reporting accountants' responsibility

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

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information, in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the Company, as well as evaluating the overall presentation of the Historical Financial Information. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purpose of the accountants' report, a true and fair view of the financial position of the Graphene Processing Business of Aoyu Company as at 31 December 2015, 2016 and 2017 and 30 June 2018 and of the financial performance and cash flows of the Graphene Processing Business of Aoyu Company for the Relevant Periods in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Graphene Processing Business of Aoyu Company which comprises the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the six months ended 30 June 2018 and other explanatory information (the "**Stub Period Comparative Financial Information**"). The directors of the Company are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying the analytical and other review procedures. A review is substantially

less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purpose of the accountant's report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

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

Adjustments

In preparing the Historical Financial Information no adjustments to the Underlying Financial Statements as defined on page 55 have been made.

Dividends and distributions

Details of dividends and distributions made by the Graphene Processing Business of Aoyu Company during the Relevant Periods are set out in Note 13 to the Historical Financial Information.

Crowe (HK) CPA Limited
Certified Public Accountants
Hong Kong
20 December 2018

Leung Chun Wa
Practising Certificate Number P04963

I. HISTORICAL FINANCIAL INFORMATION

Preparation of Historical Financial Information

Set out below is the Historical Financial Information of the Graphene Processing Business of Aoyu Company which forms an integral part of this accountants' report.

The financial statements of the Graphene Processing Business of Aoyu Company prepared by the directors of Aoyu Company for the Relevant Periods, on which the Historical Financial Information is based, were audited by Crowe (HK) CPA Limited in accordance with Hong Kong Standards on Auditing issued by the HKICPA ("**Underlying Financial Statements**").

The Historical Financial Information is presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

Statements of profit or loss and other comprehensive income of the Graphene Processing Business of Aoyu Company

		Year ended 31 December			Six months ended 30 June	
	Notes	2015	2016	2017	2017	2018
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)	
Revenue	6	113,212	99,913	112,427	52,293	54,103
Cost of sales		(60,900)	(53,287)	(61,929)	(27,859)	(29,296)
Gross profit		52,312	46,626	50,498	24,434	24,807
Other revenue and income	7	4,125	349	1,048	1	652
Selling expenses		(63)	(23)	(966)	(12)	(25)
Administrative expenses		(17,187)	(19,028)	(21,011)	(6,332)	(7,197)
Profit from operations		39,187	27,924	29,569	18,091	18,237
Finance costs	8	(2,324)	(802)	(1,523)	(145)	(1,113)
Profit before taxation	9	36,863	27,122	28,046	17,946	17,124
Income tax	10	(5,529)	(4,068)	(4,207)	(2,692)	(2,569)
Profit and total comprehensive income for the year/period		31,334	23,054	23,839	15,254	14,555

Statements of financial position of the Graphene Processing Business of Aoyu Company

	Notes	As at 31 December 2015	2016	2017	As at 30 June 2018
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets					
Property, plant and equipment	14	114,617	108,490	103,555	100,234
Intangible assets	15	9,871	8,328	6,785	6,013
Land use rights	16	1,431	1,400	1,369	1,354
		125,919	118,218	111,709	107,601
Current assets					
Inventories	17	7,116	37,172	29,998	19,629
Trade receivables	18	18,196	11,934	10,539	18,070
Prepayments and other receivables	19	40	200	4,109	4,868
Tax recoverable	24	4,068	—	—	—
Cash and cash equivalents	20	80	67	169	1,909
		29,500	49,373	44,815	44,476
Current liabilities					
Trade payables	21	2,651	2,740	8,794	4,984
Other payables	22	14,084	13,113	10,177	17,286
Bank loans	23	20,000	10,000	9,000	9,000
Tax payable	24	—	—	4,207	6,776
		36,735	25,853	32,178	38,046
Net current (liabilities)/assets		(7,235)	23,520	12,637	6,430
Total assets less current liabilities		118,684	141,738	124,346	114,031
Non-current liabilities					
Bank loans	23	—	—	21,000	12,000
Net assets		118,684	141,738	103,346	102,031
Equity					
Paid-up capital	26	53,500	53,500	53,500	53,500
Retained profits		65,184	88,238	49,846	48,531
		118,684	141,738	103,346	102,031

Statements of changes in equity of the Graphene Processing Business of Aoyu Company

	Paid-up capital	Retained profits	Total
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2015	53,500	33,850	87,350
Profit and total comprehensive income for the year	—	31,334	31,334
At 31 December 2015 and 1 January 2016	53,500	65,184	118,684
Profit and total comprehensive income for the year	—	23,054	23,054
At 31 December 2016 and 1 January 2017	53,500	88,238	141,738
Deemed distribution (Note 13)	—	(62,231)	(62,231)
Profit and total comprehensive income for the year	—	23,839	23,839
At 31 December 2017 and 1 January 2018	53,500	49,846	103,346
Deemed distribution (Note 13)	—	(15,870)	(15,870)
Profit and total comprehensive income for the period	—	14,555	14,555
At 30 June 2018	53,500	48,531	102,031
At 1 January 2017	53,500	88,238	141,738
Deemed distribution (Note 13)	—	—	—
Profit and total comprehensive income for the period	—	15,254	15,254
At 30 June 2017 (Unaudited)	53,500	103,492	156,992

Statements of cash flows of the Graphene Processing Business of Aoyu Company

	Year ended 31 December			Six months ended 30 June	
	2015	**2016**	**2017**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Operating activities					
Profit before taxation	36,863	27,122	28,046	17,946	17,124
Adjustments for:					
Interest income	(2)	(3)	(6)	(1)	(2)
Finance costs	2,324	802	1,523	145	1,113
Impairment of trade receivables	—	—	41	—	—
Amortisation of intangible assets	1,543	1,543	1,543	772	772
Amortisation of land use rights	31	31	31	15	15
Depreciation	4,030	6,630	6,689	3,311	3,379
Operating profit before changes in working capital	44,789	36,125	37,867	22,188	22,401
(Increase)/decrease in inventories	(2,789)	(30,056)	7,174	(16,370)	10,369
Decrease/(increase) in trade and other receivables	8,300	6,102	(2,555)	(26,253)	(8,290)
(Decrease)/increase in trade and other payables	(3,550)	(882)	3,118	23,323	3,299
Cash generated from operations	46,750	11,289	45,604	2,888	27,779
Interest received	2	3	6	1	2
Cash generated from operating activities	46,752	11,292	45,610	2,889	27,781
Investing activities					
Purchase of property, plant and equipment	(41,437)	(503)	(1,754)	—	(58)
Net cash used in investing activities	(41,437)	(503)	(1,754)	—	(58)
Financing activities					
Proceeds from new bank loans raised	800	10,000	30,000	30,000	—
Repayment of bank loans	(10,800)	(20,000)	(10,000)	(10,000)	(9,000)
Distributions to shareholders	—	—	(62,231)	—	(15,870)
Interest paid	(2,324)	(802)	(1,523)	(145)	(1,113)
Net cash (used in)/generated from financing activities	(12,324)	(10,802)	(43,754)	19,855	(25,983)
(Decrease)/increase in cash and cash equivalents	(7,009)	(13)	102	22,744	1,740
Cash and cash equivalents at beginning of year/period	7,089	80	67	67	169
Cash and cash equivalents at end of year/period	80	67	169	22,811	1,909

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. GENERAL INFORMATION

黑龍江省牡丹江農墾奧宇石墨深加工有限公司 (Heilongjiang Mudanjiang Agriculture Aoyu Graphite Deep Processing Company Limited) ("**Aoyu Company**"), is a company established in the PRC with limited liability. Aoyu Company is principally engaged in, among other things, processing of graphite and graphene related products. Aoyu Company also has other businesses such as trading of natural graphite flakes and manufacturing and sale of refractory bricks.

Think High Global Limited, was incorporated in the British Virgin Islands ("**BVI**") on 1 June 2017 (the "**Target Company**") with registered capital of USD 1, which is an investment holding company and has not carried out on any business since the date of incorporation save for the reorganisation described below. Think High Global Limited and its subsidiaries, including 黑龍江省牡丹江農墾淚奧石墨烯深加工有限公司 (Heilongjiang Mudanjiang Agriculture Tanao Graphene Deep Processing Company Limited ("**Jixi Company**") (together the "**Target Group**") will be mainly engaged in the Graphene Processing Business upon completion of the Reorganisation as referred to in the Letter from the Board of the Circular.

On 31 January 2018, the Company entered into a sale and purchase agreement ("**SPA**") with Tycoon Partner Holdings Limited (the "**Vendor**"), Yang Bo, Wu Wenbei and Shen Taoyu (together the "**Guarantors**") for the acquisition of the entire issued share capital of Think High Global Limited (the "**Target Company**"), a wholly-owned subsidiary of Tycoon Partner Holdings Limited for a total consideration of HK$692,000,000 (the "**Acquisition**"). Pursuant to the SPA, as amended by a supplementary agreement dated 24 October 2018, the completion of the Acquisition is conditional upon, among others, the Reorganisation having been completed to the satisfaction of Upworth Capital Limited, a wholly owned subsidiary of the Company, as follows:

— a termination agreement between 黑龍江奧星科技有限公司 (Heilongjiang Aoxing Energy Technology Company Limited) ("**Aoxing Company**") and Aoyu Company to terminate the patent licencing contract dated 10 April 2013 made between them;

— an assignment of patent by Aoxing Company to Jixi Company to absolutely assign 16 patents owned by Aoyu Company relating to the processing of graphene and related products to Jixi Company;

— a Trademark licence agreement between Aoyu Group Company and Jixi Company to licence the Trademark to be used by Jixi Company as long as the Trademark registration is valid and completion of the necessary registration of such licence with the relevant government authority;

— (i) deeds of novation relating to one procurement contract and three sales contracts amongst Jixi Company, Aoyu Company and the relevant third party supplier(s) and customer(s) of those contracts; and (ii) framework agreements to be executed by the existing customers and suppliers of Aoyu Company and Jixi Company in relation to the procurement and supply of products by Jixi Company;

— the labour contracts of all existing employees of Aoyu Company to be employed by Jixi Company having been duly executed and are subsisting;

— Jixi Company having completed the application for change of construction unit of environmental impact assessment project and obtained the environmental impact approval documents from the relevant environmental protection department;

— a deed of novation amongst Jixi Company, Aoyu Company and 國家石墨產品質量監督檢驗中心 (National Graphite Product Quality Supervision and Inspection Center*) (the "**National Centre**") relating to the cooperation agreement dated 20 March 2017 between Aoyu Company and the National Center;

— a lease agreement between Jixi Company and Aoyu Company relating to the leasing of machinery and factory for a term of 15 years and Jixi Company shall have the right to extend the leasing term every 10 years; and

— a letter of consent issued by the 雞西農商銀行恒山支行 (Jixi Rural Commercial Bank Hengshan Branch*) over the transfer of the assets and contractual rights under the Reorganisation.

Upon completion of the Reorganisation as further detailed in the Letter from the Board of the Circular, the Graphene Processing Business of Aoyu Company will be transferred to the Target Group. At the date of this report, the Reorganisation has not yet been completed.

Since 21 September 2017 and as at the date of this report, the controlling shareholders of Aoyu Company are 楊波 and 劉琳, who have held 49% and 51% of the paid-up registered capital of Aoyu Company, respectively.

The Historical Financial Information of the Graphene Processing Business of Aoyu Company is presented in RMB, which is also the function currency of the Graphene Processing Business of Aoyu Company.

2. BASIS OF PREPARATION

The Historical Financial Information attributable to the Graphene Processing Business of Aoyu Company has been prepared in accordance with Rule 14.67(6)(a)(i) of the Listing rules and solely for the purpose of inclusion in the circular to be issued by the Company in connection with the acquisition of the Target Group to which the Graphene Processing Business of Aoyu Company is to be transferred in accordance with the Reorganisation as referred to the letter from the board of the Circular.

Basis of preparation for the Historical Financial Information of the Graphene Processing Business of Aoyu Company throughout the Relevant Periods:

Unless otherwise specified, the items in the statement of profit or loss and other comprehensive income of the Graphene Processing Business of Aoyu Company reflect revenue, cost of sales, other revenue and income, selling expenses, administrative expenses and finance costs directly in relation to the Graphene Processing Business of Aoyu Company.

Income taxes were determined based on the assumption that the Graphene Processing Business of Aoyu Company was a separate taxable entity from Aoyu Company. This assumption implies that the current income tax of the Graphene Processing Business is calculated separately.

Apart from the Graphene Processing Business, Aoyu Company also has other business in trading of natural graphite flakes and a subsidiary, which was engaged in manufacturing and sales of refractory bricks, which are not to be transferred to Target Group (the "**Excluded Business**") and accordingly, they are carved out for the purpose of this report.

The historical financial information attributable to the Excluded Business of Aoyu Company had not been included in this report, because the Excluded Business of Aoyu Company will not be transferred to and will not be taken up by the Target Group after the Reorganisation.

3. APPLICATION OF HONG KONG REPORTING STANDARDS

For the purpose of preparing and presenting the Historical Financial Information attributable to the Graphene Processing Business of Aoyu Company for the Relevant Periods, the directors of Aoyu Company have consistently applied the accounting policies which conform with HKFRSs, Hong Kong Accounting Standards ("**HKFRSs**"), amendments and interpretations issued by the HKICPA which are effective for the accounting period beginning on 1 January 2018 throughout the Relevant Periods. In addition, HKFRS 15 "Revenue from Contracts with Customers", HKFRS 9 "Financial Instruments" and HKFRS 16 "Leases" and the related amendments have been early adopted from 1 January 2015 and applied consistently throughout the Relevant Periods. Early adoption is permitted for HKFRS 9, HKFRS 15 and HKFRS 16.

HKFRS 9 Financial Instruments and the related amendments

HKFRS 9 Financial Instruments replaces HKAS 39 Financial Instruments: Recognition and Measurement and is effective for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement: impairment; and hedging accounting.

Classification and measurement

Except for certain trade receivables, under HKFRS 9, Aoyu Company initially measures a financial asset at fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Under HKFRS 9, debt financial instruments are subsequently measured at fair value through profit or loss ("**FVPL**"), amortised cost, or fair value through other comprehensive income ("**FVOCI**"). The classification is based on two criteria: Business model of the Graphene Processing Business of Aoyu Company for managing the assets; and whether the instruments' contractual cash flows represent "solely payments of principal and interest" on the principal amount outstanding (the "**SPPI" criterion**").

The accounting for the financial liabilities of the Graphene Processing Business of Aoyu Company remains largely the same as it was under HKFRS 39. Similar to the requirements of HKAS 39, HKFRS 9 requires contingent consideration liabilities to be treated as financial instruments measured at fair value, with the changes in fair value recognised in profit or loss.

Under HKFRS 9, embedded derivatives are no longer separated from a host financial asset. Instead, financial assets are classified based on their contractual terms with the business model of Aoyu Company. The accounting for derivatives embedded in financial liabilities and in non-financial host contracts has not changes from that required by HKAS 39. There are no significant impairments as the Graphene Processing Business of Aoyu Company has no such derivatives embedded in its financial liabilities.

The classification of the financial assets and liabilities of the Graphene Processing Business of Aoyu Company is explained in Note 4.

Impairment of financial assets and liabilities

The adoption of HKFRS 9 has fundamentally changed the Graphene Processing Business of Aoyu Company's accounting for impairment losses for financial assets by replacing HKAS 39's incurred loss approach with a forwarding-looking expected credit loss (ECL) approach.

HKFRS 9 requires the management of Graphene Processing Business of Aoyu Company to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the management of the Graphene Processing Business of Aoyu Company expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

For trade receivables and other receivables, management of the Graphene Processing Business of Aoyu Company has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. Management of the Graphene Processing Business of Aoyu Company has established a provision matrix that is based on their historic credit loss experience, adjusted for forward-looking factors specific to the debtors and the economics environment.

Management of the Graphene Processing Business of Aoyu Company considers a financial asset in default when contractual payments are 360 days past due. However, in certain cases, management of the Graphene Processing Business of Aoyu Company may also consider a financial asset to be in default when internal or external information indicates that the Graphene Processing Business of Aoyu Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Graphene Processing Business of Aoyu Company. Details of the impairment methods of the Graphene Processing Business of Aoyu Company are disclosed in Note 4(e).

Early adoption of HKFRS 9, which is mandatorily effective for accounting periods commencing from 1 January 2018, is permitted and it has been consistently applied throughout the Relevant Periods.

HKFRS 15 Revenue from contracts with customers

Revenue is recognised revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

The Graphene Processing Business of Aoyu Company recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer. Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

— the customer simultaneously receives and consumes the benefits provided by Aoyu Company's performance as the Graphene Processing Business of Aoyu Company performs;

— the Graphene Processing Business of Aoyu Company's performance creates and enhances an asset that the customer controls as Aoyu Company performs; and

— the Graphene Processing Business of Aoyu Company's performance does not create an asset with an alternative use to the Graphene Processing Business of Aoyu Company and the Graphene Processing Business of Aoyu Company has an enforceable right to payment for performance completed to date.

The principal operating activity of the Graphene Processing Business of Aoyu Company is the processing graphite materials into graphene related products for sales, and the performance obligation of this principal activity is recognised in accordance with Note 4.

Early adoption of HKFRS 15, which is mandatorily effective for accounting periods commencing from 1 January 2018, is permitted and it has been consistently applied in conjunction with HKFRS 16 since 1 January 2015 throughout the Relevant Periods.

HKFRS 16 Leases

HKFRS 16 has been early adopted from 1 January 2015, as management of the Graphene Processing Business of Aoyu Company believes the new accounting standard provides more reliable and relevant information for users. On adoption of HKFRS 16, the Graphene Processing Business of

Aoyu Company recognised lease liabilities in relation to leases which had previously classified as "operating leases" under HKAS 17 "Leases". These liabilities were measured at the present value of the remaining lease payments, discounted using incremental borrowing rate of the Graphene Processing Business of Aoyu Company.

The associated right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position.

Each lease payment is allocated between the principal repayment of lease liability and finance cost. The finance cost is charged to the statement of profit or loss and other comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the lease liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

The Graphene Processing Business of Aoyu Company presents right-of-use assets that do not meet the definition of investment property in "property, plant and equipment" and lease liabilities in "loans and borrowings" in the statement of financial position. In addition, management of the Graphene Processing Business of Aoyu Company has elected not to apply the new accounting model to short-term leases and leases of low-value assets.

Early adoption of HKFRS 16, which is mandatorily effective for accounting periods commencing from 1 January 2019, is permitted and it has been applied since 1 January 2015, being the same early adoption date as HKFRS 15, and throughout the Relevant Periods.

New and amendments to HKFRSs in issue but not yet effective

The following new and amendments to HKFRSs that have been issued but are not yet effective and have not been early adopted:

Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate and Joint Venture[3]
HKFRS 17	Insurance Contracts[2]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
HKFRIC — Int 23	Uncertainty Over Income Tax Treatments[1]
Annual Improvements 2015 -2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23[1]

[1] Effective for annual periods beginning on or after 1 January 2019

[2] Effective for annual periods beginning on or after 1 January 2021

[3] No mandatory effective date yet determined but available for adoption

The management of the Graphene Processing Business of of Aoyu Company anticipates that the application of the new and amendments to HKFRSs and the new interpretations will have no material impact on the financial statements of the Graphene Processing Business of Aoyu Company.

4. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The Historical Financial Information attributable to the Graphene Processing Business of Aoyu Company has been prepared in accordance with the accounting policies which conform with HKFRSs issued by the HKICPA. In addition, the Historical Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The Historical Financial Information has been prepared under the historical cost convention.

(b) Property, plant and equipment

Property, plant and equipment are stated in statement of financial position at cost less accumulated depreciation and impairment losses (see Note 4(e)(ii)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

Leasehold buildings	1.9% to 3.2%
Plant and machinery	6.3% to 19.0%
Office equipment	19.0%

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(c) Intangible assets

Intangible assets represent registered patents. Registered patents are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 10 years.

(d) Investments other than equity investments

Non-equity investments held by the Graphene Processing Business of Aoyu Company are classified into one of the following measurement categories:

— amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method.

— fair value through other comprehensive income (FVOCI) — recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income (calculated using the effective interest method), and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.

— fair value at profit or loss (FVPL) if the investment does not meet the criteria for being measured at amortised cost or FVOCL (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

(e) Credit loss and impairment of assets

(i) Credit losses on financial assets at amortised costs

The Graphene Processing Business of Aoyu Company recognises a loss allowance for expected credit loss (ECL) on the following items:

— financial assets measured at amortised cost (including cash and cash equivalents, trade and other receivables)

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Graphene Processing Business of Aoyu Company in accordance with the contract and the cash flows of the Graphene Processing Business of Aoyu Company expects to receive).

The expected loss cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

— fixed-rate financial assets, trade and other receivables; effective interest rate determined at initial recognition or an approximation thereof;

— variable-rate financial assets: current effective interest rate.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Graphene Processing Business of Aoyu Company is exposed to credit risk.

In measuring ECLs, the Graphene Processing Business of Aoyu Company takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

— 12 month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

— lifetime ECLs: these are losses that are expected to result from all possible default events over the expect lives of the items to which the ECL model applies.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the historical credit loss experience of the Graphene Processing Business of Aoyu Company, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Graphene Processing Business of Aoyu Company recognised a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Graphene Processing Business of Aoyu Company compares the risk of defaulting occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Graphene Processing Business of Aoyu Company considers that a default event occurs when the borrower is unlikely to pay its credit obligations in full, without recourse by the Graphene Processing Business of Aoyu Company to actions such as realising security (if any is held). The Graphene Processing Business of Aoyu Company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

— failure to make payments of principal or interest on their contractually due dates;

— an actual or expected significant deterioration in a financial instrument's external and internal credit rating (if available);

— an actual or expected significant deterioration in the operating results of the debtor; and

— existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Graphene Processing Business of Aoyu Company.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grounded based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Graphene Processing Business of Aoyu Company recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

At each reporting date, the Graphene Processing Business of Aoyu Company assesses whether a financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

— significant financial difficulties of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the debtor will enter into bankruptcy or other financial reorganisation; or

— the disappearance of an active market for a security because of financial difficulties of the debtor.

Write-off policy

The gross carrying amount of a financial asset is written (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the management of Graphene Processing Business of Aoyu Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(ii) Impairment of other non-financial assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the property, plant and equipment may be impaired or an impairment loss previously recognised no longer exists or may have decreased.

If any such indication exists, the asset's recoverable amount is estimated.

— Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (or group units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable), or value in use,(if determinable).

— Reversals of impairment losses

An impairment loss is reversed if there has been a favorable change in the estimate used to determine the recoverable amount. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(f) Leased assets

An arrangement, comprising a transaction or a series of transaction, is or contains a lease if Aoyu Company determines that the arrangement conveys a right to control the use of identified asset for a period of time in exchange for consideration. Such determination is made on an evaluation of the substance of the arrangement, regardless of whether the arrangements take the legal form of a lease.

Leases are initially recognised as a right-of- use asset and corresponding liability at the date of which the leased asset is available for use by Aoyu Company. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of take leased asset and the lease term on a straight-line basis.

Assets by Aoyu Company and the corresponding liability are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

— fixed payments (including in substance fixed payments), less any lease incentive receivable;

— variable lease payments that are based on an index or a rate; and

— payments of penalties for terminating the lease, if the lease term reflects Aoyu Company, as a leasee, exercising an option to terminate the lease.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or Aoyu Company's incremental borrowing rate. Right-of-use assets are measured at cost comprising the following:

— the amount of the initial measurement of lease liability;

— any lease payments made at or before the commencement date, less any lease incentive received;

— any initial direct costs; and

— restoration costs

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in the statement of profit or loss and other comprehensive income. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise equipment and small items of office furniture.

(g) Inventories

Inventories are assets which are held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services. Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weight average formula and comprises all costs of purchase, costs of conversion and other assets incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as cost in the period in which the related revenue is recognised. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in which the reversal occurs.

(h) Trade and other receivables

A receivable is recognised when the Graphene Processing Business of Aoyu Company has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Graphene Processing Business of Aoyu Company has an unconditional right to receive consideration, the amount is presented as a contract asset. Receivables are stated at amortised cost using the effective interest method for credit losses (see Note 4 (e)(i)).

(i) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the accounting policy for borrowing costs.

(j) Trade and other payables

Trade and other payables are initially recognised at fair value and are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case, they are stated at cost.

(k) Cash and cash equivalents

Cash and cash equivalents comprise cast at bank and in hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the cash management of the Graphene Processing Business of Aoyu Company are also included as a component of cash and cash equivalents for the purpose of the statement of cash flows. Cash and cash equivalents are assessed for ECL in accordance with the policy in Note 4 (e)(i).

(l) Employee benefits

Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Graphene Processing Business of Aoyu Company of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values. Obligation for contributions defined contribution retirement schemes pursuant to the relevant labour rules and regulations in the PRC are recognised as an expense in profit or loss as incurred.

(m) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination) and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either

  — the same taxable entity; or

  — different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(n) Provisions and contingent liabilities

(i) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Graphene Processing Business of Aoyu Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(ii) Onerous contracts

An onerous contract exists when the Graphene Processing Business of Aoyu Company has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract. Provisions for onerous contracts are measured at the present value of the lower of the expected cost of terminating the contract and the net cost of continuing with the contract.

(o) Revenue and other income

Revenue is recognised when control over a product or service is transferred to the customer at the amount of promised consideration to which the Graphene Processing Business of Aoyu Company is expected to be entitled. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

When the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the interest expense method. Where the contract contains a financing component which provides a significant financing benefit to Aoyu Company, revenue recognised under that contract includes the interest expense accrued on the contract liability under the effective interest method. Aoyu Company takes advantage of the practical expedient in paragraph 63 of HKFRS 15 and does not adjust the consideration for any effects of a significant financing component if the period of financing is 12 months or less.

Further details of revenue and other income of the Graphene Processing Business of Aoyu Company recognition policies are as follows:

(i) Sale of goods

Revenue is recognised when the customer obtains control over the graphene products from Aoyu Company. This usually occurs when the customer takes possession and title of the graphene products from Aoyu Company and the customer obtains control of the graphene products as promised in the contract.

(ii) Interest income

Interest income is recognised as it accrues using the effective interest method. For financial assets measured at amortised cost or FVOCI (recycling) that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see Note 4 (e)(i)).

(iii) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that the Graphene Process Business of Aoyu Company will comply with all attaching conditions attaching to them. Grants that compensate the Graphene Processing Business of Aoyu Company for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Graphene Processing Business of Aoyu Company for the cost of an asset are recognised as deferred income and are subsequently recognised in profit or loss over the useful life of the related asset as other income.

(p) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sales are capitalised as part of the cost of that asset. All other borrowing costs are expensed in the period in which they are incurred.

(q) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the Graphene Processing Business of Aoyu Company initially recognises such non-monetary assets or liabilities. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

(r) Related parties

(a) A person or a close member of that person's family, is related to the Graphene Processing Business of Aoyu Company if that person:

(i) has control or joint control over the Graphene Processing Business of Aoyu Company;

(ii) has significant influence over the Graphene Processing Business of Aoyu Company; or

(iii) is a member of key management personnel of the Graphene Processing Business of Aoyu Company or the Graphene Processing Business of Aoyu Company's parent.

(b) An entity is related to the Graphene Processing Business of Aoyu Company if any of the following conditions apply:

(i) The entity and the Graphene Processing Business of Aoyu Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of the employees of the Graphene Processing Business of Aoyu Company or an entity related to the Graphene Processing Business of Aoyu Company.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the Graphene Processing Business of Aoyu Company.

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Graphene Processing Business of Aoyu Company or to the parent of the Graphene Processing Business of Aoyu Company.

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

5. ACCOUNTING ESTIMATES AND JUDGEMENTS

In the process of applying the accounting policies of the Graphene Processing Business of Aoyu Company which are described in Note 4, management has made the following accounting judgements:

(a) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale. These estimates used are based on the current market conditions and the historical experience of selling products of similar nature. It could change significantly as a result of competitor actions in response to change in market conditions. Management reassesses these estimates at the end of each reporting period to ensure inventory is shown at the lower of cost and net realisable value.

(b) Impairment of trade and other receivables

The management of Graphene Processing Business of Aoyu Company makes provision for impairment of trade and other receivables based on the evaluation of collectability and ageing analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each debtor. If the financial conditions of debtors of the Graphene Processing Business of Aoyu Company were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

(c) Income tax

Determining income tax provisions requires management of the Graphene Processing Business of Aoyu Company to make judgements on the future tax treatment of certain transactions. Management of the Graphene Processing Business of Aoyu Company evaluates tax implications of transactions in accordance with prevailing tax regulations and make tax provisions accordingly.

Deferred tax assets are recognised to the extent that it is probable that the future taxable profit will be available against which the deductible temporary differences can be utilised. This requires significant judgement on the tax treatments of certain transactions and also assessment on the probability that adequate future taxable profits will be available for the deferred tax to be recovered.

6. REVENUE

The principal activities of the Graphene Processing Business of Aoyu Company are the processing and sales of graphite and graphene related products. The revenue, expenses, assets, liabilities and capital expenditure are primarily attributable to the processing and sales of graphite and graphene related products which are considered as one operating segment. All of the revenue of the Graphene Processing Business of Aoyu Company is generated in the PRC and all of its assets are located in the PRC. Accordingly, no geographical information is presented.

	Year ended 31 December			Six months ended 30 June	
	2015	**2016**	**2017**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Sales of graphite and graphene related products	113,212	99,913	112,427	52,293	54,103

Information about major customers

Revenue from each major customer which accounted for 10% or more of the total revenue of the Graphene Processing Business of Aoyu Company during the Relevant Periods is set out below:

	Year ended 31 December			Six months ended 30 June	
	2015	**2016**	**2017**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Customer 1	37,530	N/A*	N/A*	N/A*	N/A*
Customer 2	28,718	30,513	25,802	14,735	10,632
Customer 3	14,769	N/A*	N/A*	N/A*	N/A*
Customer 4	12,950	N/A*	N/A*	N/A*	N/A*
Customer 5	N/A*	28,479	33,719	23,581	8,188
Customer 6	N/A*	12,615	N/A*	N/A*	14,201
Customer 7	N/A*	N/A*	14,209	N/A*	N/A*
Customer 8	N/A*	N/A*	N/A*	N/A*	7,944
	93,967	71,607	73,730	38,316	40,965

* The corresponding revenue of the customer is not disclosed as the revenue individually did not account for 10% or more of the total revenue of Graphene Processing Business of Aoyu Company for the Relevant Periods.

7. OTHER REVENUE AND INCOME

	Year ended 31 December			Six months ended 30 June	
	2015	**2016**	**2017**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Government subsidies *(Note)*	4,095	346	1,042	—	650
Bank interest income	2	3	6	1	2
Sundry income	28	—	—	—	—
	4,125	349	1,048	1	652

Note:

Government subsidies received from the local government did not bear any unfulfilled conditions.

8. FINANCE COSTS

	Year ended 31 December			Six months ended 30 June	
	2015	2016	2017	2017	2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Interest on bank borrowings	2,324	802	1,523	145	1,113

9. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	Year ended 31 December			Six months ended 30 June	
	2015	2016	2017	2017	2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Cost of inventories sold *(Note)*	60,900	53,287	61,929	27,859	29,296
Depreciation *(Note 14)*	4,030	6,630	6,689	3,311	3,379
Amortisation of patents *(Note 15)*	1,543	1,543	1,543	772	772
Amortisation of land use rights	31	31	31	15	15
Staff costs:					
- Salaries, wages and other benefits	2,296	2,821	2,611	1,041	1,311
- Contributions to defined retirement plans	562	702	827	371	455

Note:

The staff costs and depreciation included in the cost of inventories sold have been included in their respective total amounts disclose above.

An analysis of cost of inventories sold is as follows:

	Year ended 31 December			Six months ended 30 June	
	2015	2016	2017	2017	2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Direct materials consumed	52,128	40,435	49,212	22,298	21,151
Staff costs	1,758	2,347	2,220	764	967
Depreciation	1,487	3,950	4,371	2,315	2,024
Electricity	2,159	1,550	719	310	222
Other consumable materials	3,368	5,005	5,407	2,172	4,932
	60,900	53,287	61,929	27,859	29,296

10. INCOME TAX

(a) Taxation in the statement of profit or loss and other comprehensive income represents:

	Year ended 31 December			Six months ended 30 June	
	2015	2016	2017	2017	2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Current tax					
- PRC Corporation Income Tax ("**CIT**") for the year/period	5,529	4,068	4,207	2,692	2,569

(b) Reconciliation between income tax expense and accounting profit at applicable tax rates:

	Year ended 31 December			Six months ended 30 June	
	2015	**2016**	**2017**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000 (unaudited)*	*RMB'000*
Profit before taxation	36,863	27,122	28,046	17,946	17,124
Tax at the statutory rate of 25% in the PRC	9,216	6,781	7,012	4,487	4,281
Statutory tax concession (i)	(3,686)	(2,712)	(2,805)	(1,795)	(1,712)
Tax effect on non-deductible expenses	75	93	111	49	60
Tax effect of temporary differences not recognised	865	982	1,056	285	283
Additional deductible allowance for research and development expenses (ii)	(941)	(1,076)	(1,167)	(334)	(343)
	5,529	4,068	4,207	2,692	2,569

Notes:

(i) Under the Law of the PRC on Enterprise Income Tax and the Implementation Regulation of the EIT Law, the standard tax rate for the PRC entities is 25% during the Relevant Periods.

Aoyu Company is qualified as a "High and New Technology Enterprise" in the PRC and was entitled and subject to a preferential tax of 15% for the Relevant Periods. Accordingly, for the purpose of this report, the applicable tax rate of 15% has been applied to calculate the CIT of the Graphene Processing Business of Aoyu Company for the Relevant Periods. However, there is no assurance that the Target Group as newly established entities, to which the Graphene Processing Business of Aoyu Company will be transferred upon completion of the Reorganisation, will be entitled to the preferential tax rate of 15%.

(ii) Under the Enterprise Income Tax Law of the PRC and its relevant regulations, the Graphene Processing Business of Aoyu Company is allowed for 50% additional tax deduction for qualified research and development expenses.

11. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Details of the emoluments of the directors, attributable to the Graphene Processing Business, of Aoyu Company during the Relevant Periods are as follows:

	Year ended 31 December 2015		
	Salaries and allowances	**Pension scheme contributions**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Directors:			
Wang Qinghai	—	—	—
Liu Jinzhu	—	—	—
Chen Geng	—	—	—
Han Yufeng	—	—	—
Wang Liqun	—	—	—
	—	—	—

	Year ended 31 December 2016		
	Salaries and allowances	**Pension scheme contributions**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Directors:			
Wang Qinghai	—	—	—
Liu Jinzhu	—	—	—
Chen Geng	—	—	—
Han Yufeng	—	—	—
Wang Liqun	—	—	—
	—	—	—

	Year ended 31 December 2017		
	Salaries and allowances	**Pension scheme contributions**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Directors:			
Luan Xiaole (appointed on 17 April 2017)	35	1	36
Yang Bo (appointed on 25 October 2017)	—	—	—
Liu Lin (appointed on 25 October 2017)	—	—	—
Wang Qinghai (resigned on 25 October 2017)	—	—	—
Liu Jinzhu (resigned on 25 October 2017)	—	—	—
Chen Geng (resigned on 25 October 2017)	—	—	—
Han Yufeng (resigned on 25 October 2017)	—	—	—
Wang Liqun (resigned on 25 October 2017)	—	—	—
	35	1	36

(Unaudited)	Six months ended 30 June 2017		
	Salaries and allowances	**Pension scheme contributions**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Directors:			
Luan Xiaole (appointed on 17 April 2017)	20	1	21
Wang Qinghai	—	—	—
Liu Jinzhu	—	—	—
Chen Geng	—	—	—
Han Yufeng	—	—	—
Wang Liqun	—	—	—
	20	1	21

	Six months ended 30 June 2018		
	Salaries and allowances	Pension scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*
Directors:			
Luan Xiaole	16	1	17
Yang Bo	—	—	—
Liu Lin	—	—	—
	16	1	17

Notes:

(i) Xu Deying was the legal representative of Aoyu Company from 1 January 2015 to 17 April 2017, and Luan Xiaole was appointed as the legal representative commencing from 17 April 2017.

(ii) During the Relevant Periods, no emolument was paid to any of the directors of Aoyu Company as an inducement to join or upon joining the Graphene Processing Business of Aoyu Company or as compensation for loss of office.

12. INDIVIDUAL WITH HIGHEST EMOLUMENTS

The aggregate of the five individuals with the highest emoluments are as follows:

	Year ended 31 December			Six months ended 30 June	
	2015	2016	2017	2017	2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Salaries and other emoluments	321	339	303	116	99
Pension scheme contributions	2	2	2	—	—
	323	341	305	116	99

The emoluments of the five individuals with the highest emoluments are within the following bands:

	Year ended 31 December			Six months ended 30 June	
	2015	2016	2017	2017	2018
	Number of individuals	*Number of individuals*	*Number of individuals*	*Number of individuals*	*Number of individuals*
Nil — HK$1,000,000	5	5	5	5	5

None of these employees received any inducements or compensation for loss of office, or waived any emoluments during the Relevant Periods.

13. DIVIDENDS AND DISTRIBUTIONS TO SHAREHOLDERS

During the three years ended 31 December 2015, 2016 and 2017 and six months ended 30 June 2018, the Graphene Processing Business of Aoyu Company paid out funds totaling NIL, NIL, RMB62,231,000 and RMB15,870,000, respectively, to the Excluded Business of Aoyu Company (as referred to in Note (2)), that shall not be transferred to the Target Group by the Aoyu Company and accordingly, shall be carved-out from the Graphene Processing Business of Aoyu Company. For the purpose of this report and in accordance with the basis of the presentation of the Historical Financial Information for the Graphene Processing Business of Aoyu Company, as they shall not be returned to the Graphene Processing Business Aoyu Company and accordingly, they have been deemed as distributions made by the Graphene Processing Business Aoyu Company to its shareholders for the relevant reporting period during the Track Record Period.

Apart from the above, no dividend has been declared by the Graphene Processing Business of Aoyu Company during the Relevant Periods.

14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold buildings *RMB'000*	Plant and machinery *RMB'000*	Office equipment *RMB'000*	Total *RMB'000*
Cost				
At 1 January 2015	39,761	48,793	455	89,009
Additions	—	41,437	—	41,437
At 31 December 2015 and 1 January 2016	39,761	90,230	455	130,446
Additions	—	503	—	503
At 31 December 2016 and 1 January 2017	39,761	90,733	455	130,949
Additions	—	1,754	—	1,754
At 31 December 2017 and 1 January 2018	39,761	92,487	455	132,703
Additions	—	58	—	58
At 30 June 2018	39,761	92,545	455	132,761
Accumulated depreciation and impairment				
At 1 January 2015	5,928	5,489	382	11,799
Charge for the year	1,259	2,748	23	4,030
At 31 December 2015 and 1 January 2016	7,187	8,237	405	15,829
Charge for the year	1,259	5,353	18	6,630
At 31 December 2016 and 1 January 2017	8,446	13,590	423	22,459
Charge for the year	1,259	5,422	8	6,689
At 31 December 2017 and 1 January 2018	9,705	19,012	431	29,148
Charge for the period	630	2,749	—	3,379
At 30 June 2018	10,335	21,761	431	32,527
Net carrying amounts				
At 30 June 2018	29,426	70,784	24	100,234
At 31 December 2017	30,056	73,475	24	103,555
At 31 December 2016	31,315	77,143	32	108,490
At 31 December 2015	32,574	81,993	50	114,617

Note:

At 31 December 2017 and 30 June 2018, the leasehold buildings with net carrying amounts of RMB30,056,000 and RMB29,426,000, respectively, were pledged to a bank to secure bank loan facilities granted to the Graphene Processing Business of Aoyu Company (Note 24).

At 31 December 2015 and 2016, none of the leasehold buildings was pledged.

15. INTANGIBLE ASSETS

	Patents
	RMB'000
Cost	
At 31 December 2015, 2016, 2017 and 30 June 2018	15,432
Amortisation	
At 1 January 2015	4,018
Provided for the year	1,543
At 31 December 2015 and 1 January 2016	5,561
Provided for the year	1,543
At 31 December 2016 and 1 January 2017	7,104
Provided for the year	1,543
At 31 December 2017 and 1 January 2018	8,647
Provided for the period	772
At 30 June 2018	9,419
Net carrying amounts	
30 June 2018	6,013
31 December 2017	6,785
31 December 2016	8,328
31 December 2015	9,871

16. LAND USE RIGHTS

	As at 31 December			As at 30 June
	2015	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Beginning of the year/period	1,462	1,431	1,400	1,369
Amortisation	(31)	(31)	(31)	(15)
End of the year/period	1,431	1,400	1,369	1,354

Notes:

The leasehold lands are situated in the PRC and are held under long term leases.

At 31 December 2017 and 30 June 2018, land use rights with net carrying amounts of RMB1,369,000 and RMB1,354,000, respectively, were pledged to a bank to secure bank loans facilities granted to the Graphene Processing Business of Aoyu Company (Note 24).

At 31 December 2016 and 2015, none of the land use rights were pledged.

17. INVENTORIES

	As at 31 December			As at 30 June
	2015	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	5,060	15,869	14,205	12,236
Finished goods	2,056	21,303	15,793	7,393
	7,116	37,172	29,998	19,629

18. TRADE RECEIVABLES

	As at 31 December			As at 30 June
	2015	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables	18,315	12,053	10,699	18,230
Less: allowance for doubtful debts	(119)	(119)	(160)	(160)
	18,196	11,934	10,539	18,070

(a) An aging analysis of the trade receivables as at the end of each of the reporting period, based on the invoice date net of allowance for doubtful debts, is as follows:

	As at 31 December			As at 30 June
	2015	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 month	11,912	3,197	5,141	8,479
1 to 2 months	3,006	1,931	880	4,409
2 to 3 months	600	3,437	635	2,380
Over 3 months	2,678	3,369	3,883	2,802
	18,196	11,934	10,539	18,070

Trade receivables are due within 120 days from the date of billing.

(b) Impairment of trade receivables

The movements in the allowance for doubtful debts are as follows:

	As at 31 December			As at 30 June
	2015	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At the beginning of year/period	119	119	119	160
Impairment loss recognised	—	—	41	—
At the end of year/period	119	119	160	160

(c) Trade receivables that are not impaired

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired are as follows:

	As at 31 December			As at 30 June
	2015	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Neither past due nor impaired	15,518	8,565	6,656	15,268
More than 3 months past due	2,678	3,369	3,883	2,802
	18,196	11,934	10,539	18,070

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired related to a number of independent customers that have a good track record with the Graphene Processing Business of Aoyu Company. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

Upon the application of HKFRS 9 on 1 January 2015, the Graphene Processing Business of Aoyu Company applied simplified approach to provide for ECL prescribed by HKFRS 9. The management of the Graphene Processing Business of Aoyu Company assessed the ECL for trade receivables individually at the end of reporting period. No impairment allowance for trade receivables were provided since the loss given default and exposure at default are low based on historical credit loss experience. The management has also assessed all available forward looking information, including but not limited to expected growth rate of the industry and expected subsequent settlement, and concluded that there has been no significant increase in credit risk.

19. PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December			As at 30 June
	2015	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Deposits paid to suppliers	40	200	4,109	4,868
	40	200	4,109	4,868

In the opinion of the directors of Aoyu Company, no impairment on the deposits to the suppliers is necessary at each reporting period end.

20. CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	As at 31 December			As at 30 June
	2015	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash at banks and in hand	80	67	169	1,909

All cash and cash equivalents are denominated in RMB.

(b) Reconciliation of liabilities arising from financing activities:

	Bank loans				
	As at 31 December			As at 30 June	
	2015	2016	2017	2017	2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
At 1 January	30,000	20,000	10,000	10,000	30,000
Changes from financing cash flows:					
Proceeds of bank loans	800	10,000	30,000	30,000	—
Payments of bank loans	(10,800)	(20,000)	(10,000)	(10,000)	(9,000)
Interest paid	(2,324)	(802)	(1,523)	(145)	(1,113)
Other non-cash changes:					
Interest expenses	2,324	802	1,523	145	1,113
At 31 December/30 June	20,000	10,000	30,000	30,000	21,000

21. TRADE PAYABLES

	As at 31 December			As at 30 June
	2015	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	2,651	2,740	8,794	4,984

Payment terms with suppliers are mainly on credit within 30 days from the time when the goods are received from the suppliers. An ageing analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	As at 31 December			As at 30 June
	2015	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 month	1,023	1,517	6,085	1,905
1 to 2 months	—	607	607	1,040
2 to 3 months	741	32	225	1,038
Over 3 months	887	584	1,877	1,001
	2,651	2,740	8,794	4,984

22. OTHER PAYABLES

	As at 31 December			As at 30 June
	2015	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Advances received from customers *(Note)*	—	302	—	5,436
VAT payable	9,501	8,185	6,627	8,796
Property tax and levies	1,790	1,745	387	—
Accrued salaries	1,957	2,881	3,163	3,054
Other payables	836	—	—	—
	14,084	13,113	10,177	17,286

Notes:

(i) Advances were received from third-party customers when the Graphene Processing Business of Aoyu Company received payments in advance of the delivery of products.

(ii) All of the other payables are expected to be settled within one year or are repayable on demand.

23. BANK LOANS

	As at 31 December			As at 30 June
	2015	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Unsecured and guaranteed				
Bank loans	20,000	10,000	—	—
Secured and unguaranteed				
Bank loans	—	—	30,000	21,000
	20,000	10,000	30,000	21,000
Less: Amounts shown under current liabilities	(20,000)	(10,000)	(9,000)	(9,000)
Amounts shown under non-current liabilities	—	—	21,000	12,000

	As at 31 December			As at 30 June
	2015	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Carrying amount repayable				
- Within 1 year	20,000	10,000	9,000	9,000
- After 1 year but within 2 years	—	—	9,000	12,000
- After 2 years but within 5 years	—	—	12,000	—
	20,000	10,000	30,000	21,000

Notes:

(i) The amount is based on scheduled repayment dates set out in the respective loan agreement.

(ii) Ingenious Ene-Carbon New Materials Group Co., Ltd. ("**Ingenious**"), Wang Liqun was the common director of Ingenious and Aoyu Company, had guaranteed the bank loan of the Graphene Processing business of Aoyu Company up to RMB20,000,000 and RMB10,000,000 as at 31 December 2015 and 2016, respectively.

(iii) The bank loans were secured by charges over certain assets of the Graphene Processing business of Aoyu Company, which are disclosed in Note 24.

(iv) As at 31 December 2015, 2016, 2017 and 30 June 2018, the effective interest rate on the bank loans are 5.81% - 7.84%, 7.28% - 7.84%, 7.28% - 9.04% and 9.04% per annum, respectively.

24. INCOME TAX IN THE STATEMENTS OF FINANCIAL POSITION

(a) Tax (recoverable)/payable in the statements of financial position represents:

	As at 31 December			As at 30 June
	2015	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At the beginning of the year/period	(9,597)	(4,068)	—	4,207
Provision for the year/period	5,529	4,068	4,207	2,569
At the end of the year/period	(4,068)	—	4,207	6,776

(b) Deferred tax assets and liabilities

There were no significant deferred tax assets and liabilities at the end of each of the reporting period.

25. PLEDGE OF ASSETS

At the end of the reporting period, the bank loans were secured by the assets of the Graphene Processing Business of Aoyu Company as follows:

	As at 31 December			As at 30 June
	2015	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Land use rights	—	—	1,369	1,354
Leasehold buildings	—	—	30,056	29,426
	—	—	31,425	30,780

26. PAID-UP CAPITAL

The paid-up registered capital of Aoyu Company was owned by the following shareholders:

	As at 31 December			As at 30 June
	2015	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Registered capital held by:				
Jidong Aoyu Graphite New Materials Co., Ltd.	27,285	27,285	—	—
Chen Geng	25,215	25,215	—	—
Han Yufeng	1,000	1,000	—	—
Yang Bo (since September 2017)	—	—	26,215	26,215
Liu Lin (since September 2017)	—	—	27,285	27,285
	53,500	53,500	53,500	53,500

For the purpose of this report, the capital of the Graphene Processing Business is taken as the paid-up registered capital of Aoyu Company as shown above.

27. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of each of the reporting period are as follows:

	As at 31 December			As at 30 June
	2015	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial assets at amortised cost				
Trade and other receivables	18,236	12,134	14,648	22,938
Cash and bank balances	80	67	169	1,909
Loans and receivables	18,316	12,201	14,817	24,847
Financial liabilities at amortised cost:				
Trade and other payables	16,735	15,853	18,971	22,270
Bank loans	20,000	10,000	30,000	21,000
	36,735	25,853	48,971	43,270

28. FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Exposure to credit, liquidity and interest rate rises arise in the normal course of the Graphene Processing Business of Aoyu Company. The Graphene Processing Business of Aoyu Company's exposure to these risks and the financial risk management policies and practices used by the Graphene Processing Business of Aoyu Company to manage these risks are described below.

(a) Credit risk

The Graphene Processing Business of Aoyu Company's credit risk is primarily attributable to trade and other receivables and deposits with banks. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

Cash and cash equivalents held by the Graphene Processing Business of Aoyu Company are mainly deposited in commercial banks with sound reputation. In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates.

In respect of trade receivables from customers of graphene products, Aoyu Company is not exposed to significant risk arising from sales as advanced payments are required from majority of its customers. The Graphene Processing Business of Aoyu Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Graphene Processing Business of Aoyu Company has significant exposure to individual customers. As at 31 December 2015, 2016 and 2017 and 30 June 2018, 37%, 19%, 36%, and 76% of the total trade receivables were due from the top five customers, respectively.

(b) Liquidity risk

The maturity profile of the financial liabilities of the Graphene Processing Business of Aoyu Company as at the end of each reporting period, based on the contractual undiscounted payments, is as follows:

	As at 31 December 2015					
	Repayable on demand	**Within 1 year**	**More than 1 year but less than 2 years**	**More than 2 years but less than 5 years**	**Total contractual undiscounted cash flow**	**Carrying amount**
	RMB'000	*RMB' 000*	*RMB'000*	*RMB' 000*	*RMB' 000*	*RMB' 000*
Trade and other payables	—	16,735	—	—	16,735	16,735
Bank loans	—	20,192	—	—	20,192	20,000
	—	36,927	—	—	36,927	36,735

	As at 31 December 2016					
	Repayable on demand	Within 1 year	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total contractual undiscounted cash flow	Carrying amount
	RMB'000	*RMB' 000*	*RMB'000*	*RMB' 000*	*RMB' 000*	*RMB'000*
Trade and other payables	—	15,853	—	—	15,853	15,853
Bank loans	—	10,063	—	—	10,063	10,000
	—	25,916	—	—	25,916	25,853

	As at 31 December 2017					
	Repayable on demand	Within 1 year	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total contractual undiscounted cash flow	Carrying amount
	RMB'000	*RMB' 000*	*RMB' 000*	*RMB'000*	*RMB' 000*	*RMB' 000*
Trade and other payables	—	18,971	—	—	18,971	18,971
Bank loans	—	11,213	10,389	12,398	34,000	30,000
	—	30,184	10,389	12,398	52,971	48,971

	As at 30 June 2018					
	Repayable on demand	Within 1 year	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total contractual undiscounted cash flow	Carrying amount
	RMB'000	*RMB' 000*	*RMB' 000*	*RMB'000*	*RMB' 000*	*RMB' 000*
Trade and other payables	—	22,270	—	—	22,270	22,270
Bank loans	—	10,804	12,952	—	23,756	21,000
	—	33,074	12,952	—	46,026	43,270

(d) Interest rate risk

The interest rate risk of the Graphene Processing Business of Aoyu Company arises primarily from bank loans. Borrowings at variable rates expose the Graphene Processing Business Aoyu Company to cash flow interest rate risk.

The interest rates and terms of repayment of borrowings of the Graphene Processing Business of Aoyu Company are disclosed in Note 23 to the Historical Financial Information. The Graphene Processing Business of Aoyu Company does not carry out any hedging activities to manage its interest rate exposure.

As at 31 December 2015, 2016 and 2017 and 30 June 2018, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all variables held constant, would have decreased/increased the Graphene Processing Business of Aoyu Company's profit after tax and retained profits by RMB199,000, RMB100,000, RMB299,000 and RMB190,000 for the years ended 31 December 2015, 2016 and 2017 and the period ended 30 June 2018.

The sensitivity analysis has been determined based on the exposure to interest rates at the end of the reporting period. The analysis is prepared assuming the amounts of interest-bearing borrowings outstanding at the end of each reporting period being outstanding for the whole year. The analysis is performed on the same basis for the Relevant Periods.

(e) Fair value

The carrying amounts of all financial assets and liabilities carried at amortised cost approximate their respective fair values as at 31 December 2015, 2016 and 2017 and 30 June 2018.

29. RELATED PARTY TRANSACTIONS

The principal related parties of the Graphene Processing Business of Aoyu Company are as follows:

Name of related party	Relationship
Beijing Global Yingjie Trading Co., Ltd. ("**Beijing Global**")	Chen Geng, a former shareholder of Aoyu Company up to 12 September 2017, had beneficial interest in Beijing Global
Luobei Aoxing New Material Co., Ltd. ("**Luobei Aoxing**")	Chen Geng, a former shareholder of Aoyu Company up to 12 September 2017, had beneficial interest in Luobei Aoxing
Ingenious Ene-Carbon New Materials Group Co., Ltd. ("**Ingenious**")	Wang Liqun, a former director of Aoyu Company, who was a director of Aoyu Company during the Relevant Periods up to 12 September 2017, is the director of Ingenious

(a) Transactions with related parties

Name of related party	Nature of transaction	Year ended 31 December			Six months ended 30 June	
		2015	2016	2017	2017	2018
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Beijing Global Yingjie Trading Co., Ltd.	Sales	14,769	—	5,142	1,709	—
Luobei Aoxing New Material Co., Ltd.	Purchase of raw materials	29,245	63,531	2,345	—	—

The above transactions were conducted at terms mutually agreed by the respective parties.

(b) Key management personnel remuneration

Remuneration for key management personnel, including those as disclosed in Notes 11 and 12, is as follows:

	Year ended 31 December			Six months ended 30 June	
	2015	**2016**	**2017**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Salaries and other emoluments	766	775	391	216	201
Pension scheme contributions	1	2	1	1	1
	767	777	392	217	202

The above remuneration to key management personnel of the Graphene Processing Business of Aoyu Company is included in "staff costs" (Note 9).

(c) During the years ended 31 December 2015 and 2016, Ingenious provided corporate guarantee for the bank loans of RMB20,000,000 and RMB10,000,000, respectively, to the Graphene Processing Business of Aoyu Company (Note 23). The guarantee was released and there was no guarantee at 31 December 2017 and 30 June 2018. In the opinion of the directors of Aoyu Company, the fair value of the guarantee at 31 December 2015 and 2016 were considered to be negligible as the default of Aoyu Company was remote.

30. ENVIRONMENTAL CONTINGENCIES

At 30 June 2018, the directors of the Aoyu Company are not aware of any material non-compliance of environmental laws and regulatory requirements in the PRC that have a significant impact on the Graphene Processing Business of Aoyu Company.

31. SUBSEQUENT EVENTS

There has been no significant event since the end of the Relevant Periods.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Graphene Processing Business of Aoyu Company have been prepared by the directors of Aoyu Company in respect of any period subsequent to 30 June 2018.

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

Introduction

The following audited pro forma statement of assets and liabilities of the Enlarged Group as at 30 June 2018 (the "**Unaudited Pro Forma Financial Information**") has been prepared by the Directors in accordance with paragraph 4.29 of the Listing Rules for the purpose of illustrating the effect of the financial position of the Enlarged Group as at 30 June 2018 as if the entire equity interest in Think High Global Limited (the "**Target Company**") and its subsidiaries (including Jixi Company) (together, the "**Target Group**") to which Aoyu Company had transferred its business undertakings of processing and sales of graphite and graphene related products, together with the related assets of Aoyu Company under the Reorganisation (the "**Graphene Processing Business**"), as disclosed in note 3 below, had been acquired by the Group (collectively referred to the "**Acquisition**") on 30 June 2018. Details of the Acquisition are set out in the section headed "Letter from the Board") contained in this circular.

The Unaudited Pro Forma Financial Information is prepared based on: the unaudited consolidated statement of financial position of the Group as of 30 June 2018, which has been extracted from the published interim report of the Group for the six months ended 30 June 2018; the audited consolidated statement of financial position of the Target Group and the Graphene Processing Business as at 30 June 2018 as set out in the Accountants' Reports in Appendices IIA and IIB to this circular, respectively, after making certain pro forma adjustments that are (i) directly attributable to the Acquisition; and (ii) factually supportable, as if the Acquisition had been undertaken as at 30 June 2018.

The Unaudited Pro Forma Financial Information is prepared based on a number of assumptions, estimations and uncertainties. Because of its hypothetical nature, it may not give a true picture of the financial position of the Enlarged Group had the Acquisition been completed on 30 June 2018 or at any future dates.

The Unaudited Pro Forma Financial Information should be read in conjunction with the historical financial information of the Group set out in the published interim report of the Group for the six months ended 30 June 2018, the Accountants' reports on the financial information of the Target Group and the Business as set out in Appendices IIA and IIB to this circular respectively and other financial information included elsewhere in this circular.

B. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES

	Unaudited condensed consolidated statement of assets and liabilities of the Group as at 30 June 2018	Audited consolidated statement of assets and liabilities of the Target Group as at 30 June 2018	Pro forma adjustments			Unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group as at 30 June 2018
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 1)	*(Note 2)*	*(Notes 3 & 4)*	*(Note 5)*	*(Note 6)*	
Non-current assets						
Property, plant and equipment	15,002	—				15,002
Goodwill	7,190	—	130,892			138,082
Intangible assets:	46,222	—				46,222
- Patents	—		197,045			197,045
- Trademark	—		237,547			237,547
- Customer relationship	—		182,285			182,285
- Contract backlogs			13,355			13,355
- Right-of-use of leased assets	—		64,856			64,856
- Assembled workforce	—		661			661
Prepayments and deposits	6,066	—				6,066
Investments in joint ventures	198	—				198
Investments in associates	2,877	—				2,877
Equity instruments at fair value through other comprehensive income	2,843	—				2,843
Deferred tax assets	20	—				20
Total non-current assets	80,418	—				907,059
Current assets						
Inventories	1,432	—	12,000			13,432
Contract assets	34,425	—				34,425
Trade and bills receivables	51,064	—				51,064
Prepayments, deposits and other receivables	77,731	—	(50,000)			27,731
Tax recoverable	107	—				107
Call options over non-controlling interest	5,553	—				5,553
Cash and bank balances	97,014	—	(50,000)		(4,362)	42,652
Total current assets	267,326	—				174,964

	Unaudited condensed consolidated statement of assets and liabilities of the Group as at 30 June 2018	Audited consolidated statement of assets and liabilities of the Target Group as at 30 June 2018	Pro forma adjustments			Unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group as at 30 June 2018
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 1)	*(Note 2)*	*(Notes 3 & 4)*	*(Note 5)*	*(Note 6)*	
Current liabilities						
Interest-bearing other borrowing	2,321	—				2,321
Trade payables	8,975	—				8,975
Other payables and accruals	23,066	—	110,000	(110,000)		23,066
Contract liabilities	20,103	—				20,103
Lease liabilities	—	—	4,324			4,324
Tax payable	26,933	—				26,933
Dividend payable	4	—				4
Total current liabilities	81,402	—				85,726
Net current assets	185,924	—				89,238
Total assets less current liabilities	266,342	—				996,297
Non-current liabilities						
Interest-bearing other borrowings	101,055	—		110,000		211,055
Other payables	347	—				347
Promissory note payable	—	—	269,142			269,142
Lease liabilities	—	—	60,532			60,532
Deferred tax liabilities	13,225	—	160,723			173,948
Total non-current liabilities	114,627	—				715,024
Net assets	151,715	—				281,273
Equity						
Share capital	4,343	—	480			4,823
Reserves	128,515	—	133,440		(4,362)	257,593
Equity attributable to owners of the parent	132,858	—				262,416
Non-controlling interests	18,857	—				18,857
	151,715	—				281,273

C. NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

1. The amounts are extracted from the unaudited consolidated statement of financial position of the Group as at 30 June 2018 as set out in the published interim report of the Group for the six months ended 30 June 2018.

2. The amounts are extracted from the audited consolidated statement of financial position of the Target Group as at 30 June 2018 as set out in the Appendix IIA.

   For the purpose of the Unaudited Pro Forma Financial Information of the Enlarged Group, the exchange rate of HK$ against RMB is HK$1.18: RMB1.

3. Pursuant to the sale and purchase agreement dated 31 January 2018 and supplementary agreement dated 24 October 2018 ("**SPA**"), the Group has conditionally agreed to purchase the entire equity interest from Typhoon Partner Holdings Limited (the "**Vendor**") at an aggregate consideration of HK$692,000,000, to be satisfied by a combination of cash of HK$210,000,000, 48,000,000 consideration shares at issue price of HK$2.79 per consideration share and promissory note with principle amount of HK$348,080,000 (subject to a downward adjustment, which is based on the guaranteed profit of HK$35,000,000 of the Target Group for each of the three years ending 31 December 2019, 2020 and 2021 ("**Guaranteed Period**"). Should the audited consolidated profit after tax of the Target Group of any of the Guaranteed Period less than the guaranteed profit by 5%, the consideration will be adjusted downward by way of reducing twice the difference between the audited profit after tax and the guaranteed profit from the principal amount of the promissory note, with the maximum amount of reduction of HK$70,000,000 for each of Guaranteed Period).

   The completion of the Acquisition is conditional upon, among others, the Reorganisation having been completed to the satisfaction of Upworth Capital Limited, a wholly-owned subsidiary of the Company.

   Under the Reorganisation, Aoyu Company shall transfer, to the Target Group, all of its business undertakings of processing and sales of graphite and graphene related products, together with right-of-use of all existing related equipment and production facilities for production of graphene and related products, certain unused materials for uncompleted sales contracts remaining and existing at the completion date of the Acquisition together with the trademark, patents, sales network and customer base, its existing management and employees and existing but unfinished commercial contracts, including the entering of the following deeds and contracts:

   — a termination agreement between黑龍江奧星科技有限公司(Heilongjiang Aoxing Energy Technology Company Limited) ("**Aoxing Company**") and Aoyu Company to terminate the patent licencing contract dated 10 April 2013 made between them;

   — an assignment of patent by Aoxing Company to Jixi Company to absolutely assign 16 patents owned by Aoyu Company relating to the processing of graphene and related products to Jixi Company at no consideration;

— a Trademark licence agreement between Aoyu Group Company and Jixi Company to licence the Trademark to be used by Jixi Company at no consideration as long as the Trademark registration is valid and completion of the necessary registration of such licence with the relevant government authority;

— (i) deeds of novation relating to one procurement contract and three sales contracts amongst Jixi Company, Aoyu Company and the relevant third party supplier(s) and customer(s) of those contracts at no consideration; and (ii) framework agreements to be executed by the existing customers and suppliers of Aoyu Company and Jixi Company in relation to the procurement and supply of products by Jixi Company, at no consideration;

— the labour contracts of all existing management and employees of Aoyu Company to be employed by Jixi Company having been duly executed and are subsisting;

— Jixi Company having completed the application for change of construction unit of environmental impact assessment project and obtained the environmental impact approval documents from the relevant environmental protection department;

— a deed of novation amongst Jixi Company, Aoyu Company and 國家石墨產品質量監督檢驗中心 (National Graphite Product Quality Supervision and Inspection Center*) (the "**National Centre**") relating to the cooperation agreement dated 20 March 2017 between Aoyu Company and the National Center;

— a lease agreement between Jixi Company and Aoyu Company relating to the leasing of machinery and factory for an initial lease term of 15 years at a monthly lease payment of RMB557,000, and Jixi Company shall have the right to extend the leasing term every 10 years at terms to be negotiated and agreed; and

— Aoyu Company having obtained a letter of consent issued by the 雞西農商銀行恒山支行 (Jixi Rural Commercial Bank Hengshan Branch*) over the transfer of the assets and contractual rights under the Reorganisation.

Upon completion of the Reorganisation and immediately before completion of the Acquisition, Aoyu Company will have transferred its Graphene Processing Business to Jixi Company which will have (i) procured raw materials from the suppliers transferred from Aoyu Company; (ii) obtained the necessary patents for processing graphene and related products from Aoyu Company; (iii) obtained the use of the trademark from Aoyu Group Company; (iv) employed all the existing key management and employees of Aoyu Company; (v) possessed right-of-use of equipment and production facilities, for production of graphene related products, that will be rented from Aoyu Company under a long term lease agreement with an initial term of 15 years; and (vi) obtained existing sales network and customer base from Aoyu Company.

4. Upon completion of the Acquisition, the Target Group, through the Reorganisation, will have possessed the necessary elements of a business in accordance with Hong Kong Financial Reporting Standards 3 (revised) "Business Combination" ("**HKFRS 3**"). The identifiable assets and liabilities of the Target Group, that will have been transferred by Aoyu Company under the Reorganisation and immediately before the completion of the Acquisition, will be accounted for in the consolidated financial statements of the Enlarged Group at fair value under the acquisition method of accounting in accordance with HKFRS 3.

For the purpose of the Unaudited Pro Forma Financial Information, the Directors of the Company have determined the fair values of the identifiable assets and liabilities of the Target Group as if the Reorganisation had been completed as at 30 June 2018.

An analysis of the Acquisition of 100% equity interest in the Target Group is set out below:

	HK$'000
Consideration to be satisfied by: (note (a))	
Cash (paid on 31 January 2018) (note (a)(i) below)	50,000
Cash (note (a)(i) below)	160,000
Consideration shares (48,000,000 ordinary shares of the Company at an issue price of HK$2.79 per share) (note (a)(ii) below)	133,920
Fair value of promissory note (note (a)(iii) below)	269,142
Fair value of negative consideration (note (a)(iv) below)	—
	613,062
Net assets of Target Group as at 30 June 2018	—
Fair value of identifiable assets and liabilities transferred to the Target Group under the Reorganisation: (note (b))	
- Right-of-use of leased assets (note (b)(ii) below)	64,856
- Patents (note (b)(i) below)	197,045
- Trademark (note (b)(i) below)	237,547
- Customer relationship (note (b)(i) below)	182,285
- Customer backlogs (note (b)(i) below)	13,355
- Assembled workforce (note (b)(i) below)	661
- Inventories (note (b)(iii) below)	12,000
- Leased liabilities (note (b)(ii) below)	(64,856)
- Deferred tax liabilities arising from fair value adjustment on intangible assets (note (b)(iv) below)	(160,723)
Fair value of identified assets less liabilities	482,170
Goodwill arising from the Acquisition	130,892

(a) Fair value of consideration

(i) Cash consideration

The cash consideration of HK$210 million shall be settled in the following manner:

— HK$50 million was paid on 31 January 2018; and

— HK$160 million shall be settled upon the completion of the Acquisition.

Pursuant to the sale and purchase agreement, the Group has paid HK$50,000,000 as a deposit on 31 January 2018. The remaining cash consideration of HK$160,000,000 will be settled upon completion of the Acquisition. The Group intends to finance the remaining cash consideration by (i) HK$50 million from the Group's cash and banks; and (ii) HK$110 million of the net proceeds from issuing of new bond as detailed in Note 5 below.

(ii) Fair value of consideration shares

48 million of ordinary shares of the Company will be issued at the issue price of HK$2.79 per share as settlement for part of the consideration. As the closing market price of the Company's shares at the completion date of the Acquisition may be substantially different from the issue price of HK$2.79 per share as stipulated in the SPA of the Acquisition and the fair value of 48,000,000 ordinary shares to be issued may be different. The fair value of the 48,000,000 ordinary shares to be issued by the Company will have to be reassessed on the completion date of the Acquisition.

(iii) Fair value of promissory note

The promissory note with principle value of HK$348,080,000 and coupon rate of 2% per annum will be issued by the Company as settlement for part of the consideration. The fair value of the promissory note is estimated to be approximately HK$269 million, which represents the present value of the future cash outflows under the promissory note over 4 years after the issue date, which are discounted using a discount rate of 9%.

(iv) Negative contingent consideration receivable under the profit guarantee

Pursuant to the SPA, the Vendor has irrevocably and unconditionally warranted and guaranteed the audited consolidated net profit after taxation of the Target Group based on the audited report, shall not be less than HK$35,000,000 for each of the three financial years ending 31 December 2019, 2020 and 2021 (the "**Guaranteed Profits**"). The Directors of the Company are of the opinion that the fair value of contingent consideration receivable from the Vendor resulting from the Guaranteed Profits is zero.

(b) Fair value of identifiable assets and liabilities

At the completion date of the Acquisition, the identifiable separate assets and liabilities of the Target Group will consist of trademark, patents, customer relationship, backlogs of uncompleted sales and purchase contracts, assembled workforce and inventories of materials for uncompleted sales contracts, that will have transferred to the Target Group under the Reorganisation, right-of-use of leased assets, lease liabilities and deferred tax liabilities.

The fair value measurement basis for these identifiable assets and lease liabilities are classified under Level 3 of the fair value hierarchy of the Hong Kong Financial Reporting Standard 13 "Fair Value Measurement".

(i) Fair value of identifiably separate intangible assets to be transferred from Aoyu Company to the Target Group at zero cost

The Directors of the Company have determined the fair values of trademark, patents, customer relationship, customer backlogs, assembled workforce, that are identified as separate assets and will have been transferred to the Target Group under the Reorganisation and immediately before the completion of the Acquisition, with reference to the valuation reports prepared by CHFT Advisory and Appraisal Limited ("**CHFT AA**").

The fair value of trademark is determined using the relief from royalty method, which is considered as the present value of the future royalty payments from what the Target Group is relieved during the licence period of the trademark, discounted using a discount rate of 12.5% which is the determined by the weighted average cost of capital and reflects the specific risks of trademark of the Graphene Processing Business, from the market participant's perspective.

The fair values of patents and customer relationship are determined using the multi-period excess earnings method in estimating the present value of the expected benefits of the incremental after-tax cash flows attributable solely to each of patents and customer relationship over their remaining useful lives, discounted using a discount rate of 12.5% which is determined by the weighted average cost of capital and reflects the specific risks of patents and customer relationships of the Graphene Processing Business, from the market participant's perspective.

The fair value of the backlogs are determined with reference to the expected profitability of these uncompleted sales contracts and purchases contracts of the Graphene Processing Business that are expected to exist at the completion date of the Acquisition.

The fair value of assembled workforce, which comprises the key management and existing employees equipped with the knowledge, experience and skillsets for processing graphene and related products, is separately identifiable and is determined on the replacement cost basis.

The Directors confirm that, after having making all reasonable enquiries, the valuation methods, basis and key assumptions applied in the valuation reports prepared by independent valuer for the sole purpose of preparing this Unaudited Pro Forma Financial Information of the Enlarged Group and applying the acquisition accounting in the Acquisition have been made after due and careful enquiry. The Directors of the Company are not aware of any indication of impairment of these intangible assets is required immediately after the completion of the Acquisition after considering the nature, prospects, financial condition and business risks and they will apply consistent accounting policies and assumptions to assess impairment of intangible assets in subsequent reporting periods in accordance with the requirements under HKAS 36 whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

(ii) Present value of right-of-use leased assets and leased liabilities

Immediately before completion date of the Acquisition, the Target Group shall have obtained right-of-use of leased assets for processing graphite and graphene and related products, which will be rented from Aoyu Company at a monthly lease payment of RMB558,000 for an initial lease term of 15 years under a lease agreement which shall have been entered into by the Target Group and Aoyu Company under the Reorganisation and immediately before the completion date of the Acquisition. At the inception of the lease, the fair value of right-of-use leased assets and leased liabilities of approximately HK$64,856,000 (equivalent to approximately RMB55 million) are estimated as the present value of the future monthly lease payments of RMB558,000 during the lease term of 15 years under the lease agreement, discounted using a discount rate of 9% which is estimated by reference to the incremental borrowing rate of the Graphene Processing Business of Aoyu Company. The right-of-use of leased assets will be capitalised as an identifiably separate intangible asset and will be amortised on a straight-line basis over the lease period of 15 years.

(iii) In accordance with the Reorganisation, unused materials of the Graphene Processing Business of Aoyu Company purchased for uncompleted sales contracts remaining at the completion date of the Acquisition shall be transferred to the Target Group at zero cost.

The fair value and the quantity of these unused materials, that will remain at the completion date of the Acquisition and will be transferred by Aoyu Company to the Target Group under the Reorganisation at zero cost, will be reassessed at the completion date of the Acquisition.

(iv) Deferred tax liabilities recognised

The deferred tax liabilities of approximately HK$160,723,000 is determined based on the temporary differences arising from the fair values of identifiable intangible assets, that shall have been transferred by Aoyu Company to the Target Group at zero consideration under the Reorganisation and immediately before the Acquisition, multiplying the Target Group's applicable income tax rate of 25%.

(c) Goodwill

Goodwill represents the expected future profitability of the Target Group as an established existing business entity after the completion of the Reorganisation and upon the completion of the Acquisition.

For the purpose of the Unaudited Pro Forma Financial Information of the Enlarged Group, the goodwill arising from the Acquisition, which represents the amount by which the purchase consideration exceeds the fair value of the identifiable assets and liabilities of the Target Group to be acquired, is computed as if the Reorganisation and the Acquisition had been completed on 30 June 2018. The amount of goodwill is subject to the determination of fair values of the negative contingent consideration in respect of the profit guarantee provided by the Vendor and consideration shares on the completion date and the fair value of identified assets and liabilities of the Target Group to be finalised on the date of completion of the Acquisition.

According to the Group's accounting policies, goodwill arising from the Acquisition will be tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired. For the purpose of impairment testing, goodwill will be allocated to the cash generating units that are expected to benefit from the synergies of the acquisition of the Target Group. Similarly, the identifiable intangible assets acquired by the Group are tested for impairment whether there is an indicator of impairment.

The Directors of the Company have assessed whether there is any impairment in respect of goodwill expected to arise from the Acquisition in accordance with Hong Kong Accounting Standard 36 "Impairment of Assets". The Company has engaged CHFT AA to perform a business valuation for the Graphene Processing Business as a cash-generating unit. Based on the assessment conducted by the Directors of the Company with reference to the business valuation, the Directors of the Company are not aware of any indication that impairment of the Enlarged Group's goodwill is required immediately after the completion of the Acquisition.

Since the fair values of identified assets and liabilities of the Target Group, negative contingent consideration receivable in respect of the profit guarantee provided by the Vendor, consideration shares and the unused materials for the uncompleted sales contracts at the date of completion of the Acquisition may be different from the fair values used in the preparation of this Unaudited Pro Forma Financial Information of the Enlarged Group, the final amount of goodwill to be recognised at the completion date of the Acquisition may be different from amount presented above and the difference may be significant.

5. On 7 December 2018, the Board approved the proposed issue of the unlisted bonds with an aggregate principal amount up to HK$110 million at the interest rate of 6% per annum and with a maturity of two years (the "**6% Bonds**"), the net proceeds of which will be used for financing the payment of part of the Consideration of the Acquisition. On the same date, the Company has entered into a referral agreement with the referral agent for the subscription of the 6% Bonds.

6. The adjustment represents the costs incurred in relation to the Acquisition, which are approximately HK$4,362,000 which shall be charged to profit or loss.

7. There is no intra-group balance or transaction between the Group and the Target Group.

8. No other adjustments have been made to reflect any trading results or other transactions of the Group and the Target Group entered into subsequent to 30 June 2018.

REPORT FROM THE REPORTING ACCOUNTANTS ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from the reporting accountants, Crowe (HK) CPA Limited, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this Circular.

國富浩華（香港）會計師事務所有限公司
Crowe (HK) CPA Limited
香港 銅鑼灣 禮頓道77號 禮頓中心9樓
9/F Leighton Centre,
77 Leighton Road,
Causeway Bay, Hong Kong
電話 Main +852 2894 6888
傳真 Fax +852 2895 3752

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the Directors of Earthasia International Holdings Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Earthasia International Holdings Limited (the "**Company**") and its subsidiaries (together, the "**Group**") by the directors of the Company (the "**Directors**") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of assets and liabilities as at 30 June 2018 and related notes (the "**Unaudited Pro Forma Financial Information**") as set out on pages 100 to 110 of the circular issued by the Company dated 20 December 2018 (the "**Circular**"). The applicable criteria on the basis of which the directors have compiled the Unaudited Pro Forma Financial Information are described in Appendix III to the Circular.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the acquisition of the entire equity interest in Think High Global Limited and its subsidiaries (together, the "**Target Group**") (the "**Acquisition**") on the Group's financial position as at 30 June 2018 as if the Acquisition had taken place on 30 June 2018. As part of this process, information about the Group's financial position as at 30 June 2018 has been extracted by the Directors from the Group's unaudited consolidated financial statements as included in the interim report for the six months ended 30 June 2018, on which no audit or review report has been published.

Directors' Responsibilities for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("**AG 7**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the "Code of Ethics for Professional Accountants" issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements ("**HKSAE**") 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules, and with reference to AG 7 issued by the HKICPA.

For purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of Unaudited Pro Forma Financial Information included in an investment circular is solely to illustrate the impact of a significant event or transaction on the unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 30 June 2018 would have been as presented.

A reasonable assurance engagement to report on whether the Unaudited Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Unaudited Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related unaudited pro forma adjustments give appropriate effect to those criteria; and
- the Unaudited Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the Unaudited Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Unaudited Pro Forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed in pursuant to paragraph 4.29 (1) of the Listing Rules.

Yours faithfully
Crowe (HK) CPA Limited
Certified Public Accountants
Hong Kong, 20 December 2018

Leung Chun Wa
Practising Certificate Number
P04963

MANAGEMENT DISCUSSION AND ANALYSIS OF THE TARGET GROUP

The following is the management discussion and analysis of the Target Group for the period from 1 June 2017 (date of incorporation of Target Company) to 31 December 2017 and the six months ended 30 June 2018. The following financial information is based on the Accountants' Report on the Target Group as set out in Appendix IIA to this circular.

A. BUSINESS REVIEW

The Target Company is a limited liability company incorporated in the British Virgin Islands on 1 June 2017. During the Relevant Period and as at the Latest Practicable Date, the Target Company's immediate holding company is Tycoon Partner Holding Limited, a company incorporated in the British Virgin Islands. The principal activity of the Target Company will be investment holding after completion of the Reorganisation. The principal activities of the subsidiaries are investment holding and processing and sale of graphite and graphene related products. The Target Company and its subsidiaries have not yet commenced business since their respective dates of establishment during the Relevant Periods and as at the Latest Practicable Date.

B. FINANCIAL REVIEW

Financial performance

Details of the financial performance of the Group for the period from 1 June 2017 (date of incorporation of Target Company) to 31 December 2017 and the six months ended 30 June 2018 (the "**Relevant Periods**"), please refer to the Accountants' Report of the Target Group as set out in Appendix IIA to this circular.

Administrative expenses

The administrative expenses of the Target Group decreased from approximately HK$54,000 for the period from 1 June 2017 (date of incorporation of Target Company) to 31 December 2017 to approximately zero for the six months ended 30 June 2018. The administrative expenses mainly company set up cost of the group companies.

Loss for the period

As a result of the above, the Target Group recorded loss for the period from 1 June 2017 (date of incorporation of Target Company) to 31 December 2017 of approximately HK$54,000 and no profits or loss for the six months ended 30 June 2018.

Financial Position

As at 31 December 2017

The current assets of the Target Group for the period from 1 June 2017 (date of incorporation of Target Company) to 31 December 2017 were approximately HK$8. The Target Group's current assets as at 31 December 2017 mainly comprised amount due from shareholders.

As at 30 June 2018

The current assets of the Target Group for the six months ended 30 June 2018 were approximately HK$8. The Target Group's current assets as at 30 June 2018 mainly comprised amount due from shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS OF THE BUSINESS

The following is the management discussion and analysis of the Business for the three years ended 31 December 2017 and the six months ended 30 June 2018. The following financial information is based on the Accountants' Report on the Business as set out in Appendix IIB to this circular.

A. BUSINESS REVIEW

Aoyu Company is principally engaged in, among other things, processing and sale of graphite and graphene related products (i.e. the Business).

An indirect wholly-owned subsidiary, namely, Jixi Company, is undergoing the Reorganisation.

Upon completion of the Reorganisation, the Business will be transferred to the Target Group. As at the Latest Practicable Date, the Reorganisation has not yet been completed.

B. FINANCIAL REVIEW

Financial performance

The Business is processing and sale of graphite and graphene related products. Details of the financial performance of the Business as at 31 December 2015, 2016, and 2017 and 30 June 2018, please refer to the Accountants' Report of the Business as set out in Appendix IIB to this circular.

Revenue

The Business's revenue, expenses, assets, liabilities and capital expenditure are primarily attributable to the processing and sales of graphite and graphene related products which are considered as one operating segment. All of the revenue of the Business of Aoyu Company is generated in the PRC and all of its assets are located in the PRC. Accordingly, no geographical information is presented.

	Year ended 31 December			Six months ended 30 June	
	2015	**2016**	**2017**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Sales of graphite and graphene related products	113,212	99,913	112,427	52,293	54,103

The revenue of the Business decreased by approximately 12% from approximately RMB113 million in 2015 to approximately RMB100 million in 2016, and increased by approximately 12% to approximately RMB112 million in 2017. The decrease in revenue in 2016 was primarily due to one major customer stopped buying from the Business, whom had sales with the Business of approximately RMB37.0 million in 2015.

The revenue of the Business for the six months ended 30 June 2018 was approximately RMB54 million, which increased by approximately 4% as compared with revenue for the six months ended 30 June 2017 of approximately RMB52 million.

Gross profit margin

In 2015, 2016 and 2017, and for the six months ended 30 June 2017 and 2018, the gross profit was RMB52.3 million, RMB46.6 million, RMB50.5 million, RMB24.4 million and RMB 24.8 million, respectively. The overall gross profit margin was 46.2%, 46.7%, 45.0%, 46.7% and 45.9%, respectively, in the same periods.

The gross profit margin for the Business maintained stable approximately 46% in 2015, 47% in 2016 and approximately 45% in 2017.

The gross profit margin for the Business for the six months ended 30 June 2017 was approximately 47%, which maintained stable with the gross profit margin for the six months ended 30 June 2018 of approximately 46%.

Other revenue and income

Other revenue and income consisted of government subsidies, bank interest income and others. In 2015, 2016, and 2017, and for the six months ended 30 June 2017 and 2018, the Business had other revenue and income of RMB4.1 million, RMB0.3 million, RMB1.0 million, RMB Nil and RMB0.6 million, respectively. The increase in other revenue and income in 2015 and 2017, primarily due to government subsidies received of RMB4.1 million and RMB1.0 million, respectively.

Government subsidies mainly represented local government subsidies in the form of cash award, which did not bear any unfulfilled conditions. However, government subsidies in form of cash reward are discretionary and non-recurring in nature.

The other revenue and income of the Business decreased from approximately RMB4 million in 2015 to approximately RMB0.3 million in 2016, and increased to approximately RMB1 million in 2017 mainly due to government subsidies received from the local government did not bear any unfulfilled conditions in 2015.

The other revenue and income increased from approximately zero for the six months ended 30 June 2017 to approximately RMB0.6 million for the six months ended 30 June 2018.

Cost of sales

Cost of sales comprised raw materials cost, packing cost, direct labor cost and manufacturing cost. Cost of sales decreased from RMB60.9 million in 2015 to RMB53.3 million in 2016, and increased from RMB53.3 million in 2016 to RMB61.9 million in 2017, primarily due to one major customer stopped buying from the Business in 2016 and an increase in sales volume that led to increase in raw materials and packing cost in 2017. The cost of sales increased from RMB27.9 million for the six months ended 30 June 2017 to RMB29.3 million in the same period in 2018, primarily due to an increase in raw materials costs.

Selling expenses

Selling expenses primarily consisted of transportation expenses. In 2015, 2016 and 2017, and for the six months ended 30 June 2017 and 2018, selling expenses were RMB0.06 million, RMB0.02 million RMB0.90 million, RMB0.01 million and RMB0.02 million, respectively.

The selling expenses of the Business decreased from approximately RMB0.06 million in 2015 to approximately RMB0.02 million in 2016 and increased to approximately RMB0.9 million in 2017.

The selling expenses of the Business increased from approximately RMB0.01 million for the six months ended 30 June 2017 to approximately RMB0.02 million for the six months ended 30 June 2018.

Administrative expenses

Administrative expenses primarily consisted of salary and employee benefit expenses, research and development expenses, office expenses, travel and communication expenses, depreciation and amortisation and others. In 2015, 2016, 2017 and for the six months ended 30 June 2017 and 2018, administrative expenses of RMB17.2 million, RMB19.0 million, RMB21.0 million, RMB6.3 million and RMB7.2 million, respectively.

The administrative expenses of the Business steady increased from approximately RMB17 million in 2015 to approximately RMB19 million in 2016 and further increased to RMB21 million in 2017.

The administrative expenses of the Business increased from approximately RMB6 million for the six months ended 30 June 2017 to approximately RMB7 million for the six months ended 30 June 2018.

Finance costs

The breakdown of finance costs for the Business for the years ended 31 December 2015, 2016 and 2017 and the six months ended 30 June 2017 and 2018, is set out below:

	Year ended 31 December			Six months ended 30 June	
	2015	**2016**	**2017**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Interest on bank borrowings	2,324	802	1,523	145	1,113

The finance costs for the Business represented the interest expenses in relation to bank borrowings of the Business, which decreased from approximately RMB2 million in 2015 to approximately RMB0.8 million in 2016, mainly due to decrease in bank borrowings and increased to approximately RMB1.5 million in 2017, mainly due to increase in bank borrowings.

The finance costs for the Business for the six months ended 30 June 2018 were approximately RMB1 million, which had increased as compared with the finance costs for the Business for the six months ended 30 June 2017 of approximately RMB0.1 million, mainly due to the increase in the bank borrowings.

Income tax expenses

The income tax expense for the years ended 31 December 2015, 2016 and 2017 and the six months ended 30 June 2018 was approximately RMB5.5 million, RMB4 million, RMB4 million and RMB2.6 million respectively.

Under the Law of the PRC on Enterprise Income Tax and the Implementation Regulation of the EIT Law, the standard tax rate for the PRC entities is 25% during the years ended 31 December 2015, 2016 and 2017 and the six months ended 30 June 2018.

Aoyu Company is qualified as a "High and New Technology Enterprise" in the PRC and was entitled and subject to a preferential tax of 15% for the Relevant Periods. Accordingly, for the purpose of this report, the applicable tax rate of 15% has been applied to calculate the CIT of the Business of Aoyu Company for the Relevant Periods. However, there is no assurance that the Target Group as newly established entities, to which the Business of Aoyu Company will be transferred upon completion of the Reorganisation, will be entitled to the preferential tax rate of 15%.

Under the Enterprise Income Tax Law of the PRC and its relevant regulations, the Business of Aoyu Company is allowed for 50% additional tax deduction for qualified research and development expenses.

Profit for the period

As result of the discussions above, the Business recorded profit for the year ended 31 December 2015 of approximately RMB31 million and profits for the years ended 31 December 2016 and 2017 and for the six months ended 30 June 2018 of approximately RMB23 million, RMB24 million and RMB14.6 million respectively.

Financial Position

As at 31 December 2015

The non-current assets and current assets of the Business as at 31 December 2015 were approximately RMB126 million and RMB29.5 million respectively. The Business's non-current assets as at 31 December 2015 mainly comprised property, plant and equipment, and the Business's current assets as at 31 December 2015 mainly comprised trade receivable.

The non-current liabilities and current liabilities of the Business as at 31 December 2015 were nil and approximately RMB37 million respectively. The Business's current liabilities as at 31 December 2015 mainly comprised other payables and bank loans.

As at 31 December 2016

The non-current assets and current assets of the Business as at 31 December 2016 were approximately RMB118 million and RMB49 million respectively. The Business's non-current assets as at 31 December 2016 mainly comprised property, plant and equipment, and the Business's current assets as at 31 December 2016 mainly comprised inventories and trade receivable.

The non-current liabilities and current liabilities of the Business as at 31 December 2016 were nil and approximately RMB26 million respectively. The Business's current liabilities as at 31 December 2016 mainly comprised other payables and bank loans.

As at 31 December 2017

The non-current assets and current assets of the Business as at 31 December 2017 were approximately RMB112 million and RMB45 million respectively. The Business's non-current assets as at 31 December 2017 mainly comprised property, plant and equipment, and the Business's current assets as at 31 December 2017 mainly comprised inventories and trade receivable.

The non-current liabilities and current liabilities of the Business as at 31 December 2017 were approximately RMB21 million and approximately RMB32 million respectively. The Business's current liabilities as at 31 December 2017 mainly comprised other payables and bank loans.

As at 30 June 2018

The non-current assets and current assets of the Business as at 30 June 2018 were approximately RMB107 million and RMB44 million respectively. The Business's non-current assets as at 30 June 2018 mainly comprised property, plant and equipment, and the Business's current assets as at 30 June 2018 mainly comprised inventories and trade receivable.

The non-current liabilities and current liabilities of the Business as at 30 June 2018 were RMB12 million and approximately RMB38 million respectively. The Business's current liabilities as at 30 June 2018 mainly comprised other payables and bank loans.

Liquidity and financial resources

As at 31 December 2015, the Business had net current liabilities of approximately RMB7 million. As at 31 December 2016 and 2017 and 30 June 2018, the Business had net current assets of approximately RMB23.5 million, RMB12.6 million and RMB6 million respectively. The increase in net current assets as at 31 December 2016 as compared with net current assets as at 31 December 2015 primarily because of the increase in inventories and decrease in bank loans. The decrease in net current assets as at 31 December 2017 as compared with net current assets as at 31 December 2016 primarily because decrease in inventories. The increase in net current assets as at 30 June 2018 as compared with net current assets as at 31 December 2017 primarily reflected the profit for the period.

The Business recorded a net cash outflow of approximately RMB7 million for the year ended 31 December 2015, mainly due to cash outflow from repayment of bank loans. The Business recorded a net cash outflow of approximately RMB0.01 million for the year ended 31 December 2016, mainly due to cash outflow from repayment of bank loans. The Business recorded a net cash inflow of approximately RMB0.1 million for the year ended 31 December 2017, mainly contributed by cash inflow from new bank loans. The Business recorded a net cash outflow of approximately RMB2 million for the six months ended 30 June 2018, mainly contributed by trade and other receivables.

The total bank and other borrowings of the Business as at 31 December 2015, 2016 and 2017 and 30 June 2018 was approximately RMB20 million, RMB10 million, RMB30 million and RMB21 million respectively.

The effective interest rates per annum on the Business's borrowings as at 31 December 2015, 2016 and 2017 and 30 June 2018 are as follows:

	Year ended 31 December			Six months ended 30 June	
	2015	**2016**	**2017**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Fixed rate borrowings	7.88%	7.28%	9.04%	—	9.04%
Variable rate borrowings	—	—	—	—	—

The total equity of the Business as at 31 December 2015, 2016 and 2017 and 30 June 2018 was approximately RMB119 million, RMB142 million, RMB103 million and RMB102 million respectively.

Gearing ratio

The net gearing ratio of the Business, which is equal to net debt (being net bank and other borrowings and net obligations under finance leases) over equity attributable to the holders of the Business as at 31 December 2015, 2016 and 2017 and 30 June 2018 was approximately 17%, 7%, 29% and 21%, respectively.

The gearing ratios reflect the improve in gearing ratios along the years when the revenues were generated from the operations.

Capital commitments

The Business did not have any significant capital commitments as at 31 December 2015, 2016 and 2017 and 30 June 2018.

Operating lease commitments

The Business did not have any significant operating lease commitments as at 31 December 2015, 2016 and 2017 and 30 June 2018.

Contingent liabilities

The Business did not have any significant contingent liabilities as at 31 December 2015, 2016 and 2017 and 30 June 2018.

Financial risk management

For the years ended 31 December 2015, 2016 and 2017 and the six months ended 30 June 2018, the Business was mainly exposed to market risk, interest rate risk, credit risk and liquidity risk. For details of the exposure to such risks and the relevant risk management policies and practices adopted by the Business, please refer to note 27 of the Accountants' Report of the Business as set out in Appendix IIB to this circular.

Significant investments

The Business did not have any significant investment as at 31 December 2015, 2016 and 2017 and 30 June 2018.

Employee and remuneration policies

As at 31 December 2015, 2016 and 2017 and 30 June 2018, the Business had approximately 57, 88, 140 and 125 employees, respectively. The total staff costs of the Business for the year ended 31 December 2015, 2016 and 2017 and the six months ended 30 June 2018 was approximately RMB2 million, RMB3 million, RMB3 million and RMB1 million respectively.

The Business adopts a remuneration policy with equal emphasis on the market competitiveness of the remuneration and fairness among the employees.

Date: 20 December 2018

Earthasia International Holdings Limited.
11/F, COFCO Tower,
262 Gloucester Road,
Causeway Bay,
Hong Kong

Attn.: Board of Directors

Dear Sirs/Madams,

RE: Valuation of 100% Equity Interest of Think High Global Limited.

In accordance with an instruction from Earthasia International Holdings Limited (the "**Instructing Party**"), we hereby provide a valuation on the market value basis of 100% equity interest of Think High Global Limited (the "**Target Company**") as at 31 October 2017 (the "**Valuation Date**").

We confirm that we have made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of equity interest of the Target Company. This valuation is complied with the RICS Valuation — Professional Standards published by the Royal Institution of Chartered Surveyors ("**RICS**") and International Valuation Standards ("**IVS**") published by the International Valuation Standards Council.

1 Purpose of Valuation

The purpose of this report is to express an independent opinion on the market value of the Target Company as at the Valuation Date. This report outlines our latest findings and valuation conclusion, and is prepared solely for the management of the Instructing Party for its public circular purpose only.

2 Scope of Work

In conducting this valuation exercise, our scope of work includes:

- Co-ordinated with the Target Company representatives to obtain the required information and documents for our valuation;
- Gathered the relevant information of the Target Company and its subsidiary, including the legal documents, licenses, financial statements, etc. made available to us;
- Discussed with the management of Instructing Party and the Target Company and its subsidiary to understand the history, business model, operations, customer base, business development plan, etc. of the business enterprises for valuation purpose;
- Carried out researches in the sector concerned and collected relevant market data from reliable sources for analysis;

- Investigated into the information of Target Company and its subsidiary made available to us and considered the basis and assumptions of our conclusion of value;

- Designed an appropriate valuation model to analyze the market data and derived the estimated market value of the Target Company and its subsidiary; and

- Compiled a report on the valuation, which outlines our findings, valuation methodologies and assumptions, and conclusion of value.

When performing our valuation, all relevant information, documents, and other pertinent data concerning the assets, liabilities and contingent liabilities should be provided to us. We relied on such data, records and documents in arriving at our opinion of values and had no reason to doubt the truth and accuracy of the information provided to us by the Instructing Party, the Target Company and its authorized representatives.

3 Background of the Target Company

The Target Company is an investment holding company incorporated in the British Virgin Islands. The Target Company indirectly holds the entire equity interest of the 上海淇奥新材料科技有限公司 ("**WOFE**") through its subsidiary Allied Apex Limited ("**HK Subsidiary**"). The WOFE directly holds the entire equity interest of 黑龍江省牡丹江農墾淇奥石墨烯深加工有限公司 ("**Jixi Company**"). The Target Company, HK Subsidiary, WOFE, and Jixi Company are collectively referred to as Target Group.

On 31 January 2018, the Instructing Party published an announcement, disclosing that the Target Group will undergo a reorganization. Under the reorganization, Jixi Company shall acquire from 黑龍江省牡丹江農墾奥宇石墨深加工有限公司 ("**Aoyu Company**") all of Aoyu Company's business undertakings ("**Business Assets**") of processing and sale of graphite and graphene related products.

The Business Assets includes, but are not limited to, the following:

(a) all Aoyu Company's personnel;

(b) patent rights, and

(c) unfinished commercial contracts.

After reorganization, Jixi Company is the only operating company among the Target Group. In the course of valuation, we arrive at the 100% equity interest value of Target Company mainly through calculating the equity interest value of Jixi Company.

4 General Market Analysis

Graphene was firstly isolated from graphite by researchers from The University of Manchester in 2004. Graphene is known as the thinnest materials in the world but 200 times stronger than steel. Under room temperature, graphene is a superb electrical and thermal conductor. With high level of elasticity and transparency, graphene is widely applied on medical devices, sensors, batteries and transistors etc.

China contains second largest amount of graphite resource among countries, it counts around 33% of the graphite in the world. In 2016, the "13th Five-Year-Plan" National Strategic Emerging Industry Plan stated the Chinese government will support for the application of graphite to achieve industrial scale through increased funding and the establishment of innovation alliances and specialized industry bases. The Ministry of Industry and Information Technology released the "Made in China 2025" in the same year, stated that the government will build up four graphene industry innovation area in China within two years.

According to the CGIA Research, the graphene industry grew rapidly from 2016. Due to September 2017, there are 704 companies registered for running the graphene business and 2,059 companies registered for providing graphene related business in Mainland China. The BCC Research forecasted the global market size of graphene will reach USD195 million in 2018 and exceed USD1.3 billion in 2023.

5 Valuation Methodology

There are three generally accepted valuation approaches in this equity interest valuation. The valuation approaches are sourced from International Valuation Standards 105 — Valuation Approaches and Methods.

- ***Cost Approach***

The cost approach provides an indication of value using the economic principle that a buyer will pay no more for an asset than the cost to obtain an asset of equal utility, whether by purchase or by construction, unless undue time, inconvenience, risk or other factors are involved. The approach provides an indication of value by calculating the current replacement or reproduction cost of an asset and making deductions for physical deterioration and all other relevant forms of obsolescence.

The cost approach should be used as the primary basis for a valuation under the following circumstances:

- ➢ market participants would be able to recreate an asset with substantially the same utility as the subject asset, without regulatory or legal restrictions, and the asset could be recreated quickly enough that a market participant would not be willing to pay a significant premium for the ability to use the subject asset immediately;

- ➢ the asset is not income-generating (directly or indirectly) and the unique nature of the asset makes using an income approach or market approach unfeasible, and

- the basis of value being used is fundamentally based on replacement cost, such as reinstatement value.

- ***Market Approach***

The market approach provides an indication of value by comparing the asset with identical or comparable (that is similar) assets for which price information is available. When reliable, verifiable and relevant market information is available, the market approach is the preferred valuation approach.

The market approach should be used as the primary basis for a valuation under the following circumstances:

- the asset has recently been sold in a transaction appropriate for consideration under the basis of value;

- the asset or substantially similar assets are actively publicly traded; and

- there are frequent or recent observable transactions in substantially similar assets.

- ***Income Approach***

The income approach provides an indication of value by converting future cash flow to a single current value. Under the income approach, the value of an asset is determined by reference to the value of income, cash flow or cost savings generated by the asset.

The income approach should be used as the primary basis for a valuation under the following circumstances:

- the income-producing ability of the asset is the critical element affecting value from a market participant perspective; and

- reliable projections of the amount and timing of future income are available for the subject asset, but there are few, if any, relevant market comparables.

- ***Selection of Assessment Methodology***

We believe the cost approach to be insufficient in capturing the future economic benefits of the Target Company's assets given that the Target Company has a stable stream of income and will likely to continue to grow in the foreseeable future. The income approach was not appropriate because many assumption and justification are involved in the profit forecast. In light of the above, we have selected the market approach as our valuation methodology. Specifically, we have chosen the guideline publicly-traded comparable method and comparable transactions method.

6 Guideline Publicly-traded Comparable Method and Comparable Transactions Method

Guideline Publicly-traded Comparable Method

The guideline publicly-traded method utilises information on publicly-traded comparables that are the same or similar to the subject asset to arrive at an indication of value.

The key steps in the guideline publicly-traded comparable method are to:

- identify the valuation metrics/comparable evidence that are used by participants in the relevant market;
- identify the relevant guideline publicly-traded comparables and calculate the key valuation metrics for those comparables;
- perform a consistent comparative analysis of qualitative and quantitative similarities and differences between the publicly-traded comparables and the subject asset;
- make necessary adjustments, if any, to the valuation metrics to reflect differences between the subject asset and the publicly-traded comparables;
- apply the adjusted valuation metrics to the subject asset, and;
- if multiple valuation metrics were used, weight the indications of value.

Comparable Transactions Method

The comparable transactions method, also known as guideline transactions method, utilizes information on transactions involving assets that are the same or similar to the subject asset to arrive at an indication of value.

The key steps in the comparable transactions method are to:

- identify the units of comparison that are used by participants in the relevant market;
- identify the relevant comparable transactions and calculate the key valuation metrics for those transactions;
- perform a consistent comparative analysis of qualitative and quantitative similarities and differences between the comparable assets and the subject asset;
- make necessary adjustments, if any, to the valuation metrics to reflect differences between the subject asset and the comparable assets;
- apply the adjusted valuation metrics to the subject asset, and;
- if multiple valuation metrics were used, reconcile the indications of value.

We consider that the use of the guideline publicly-traded comparable method and comparable transactions method are appropriate for the valuation of the Target Company, since the methods reflect the going concern of the Target Company and provides direct market reference on the value from a group of comparable companies and transactions in the market. Especially, the P/E Ratio is adopted in these two methods.

P/E Ratio

P/E Ratio is considered appropriate and adopted in this valuation as it is a widely adopted pricing multiple in valuation. It is a ratio for valuing a company that measures its current market value relative to its earnings & business scale. It relates the market value of a company's equity to its earnings, an important driver of shareholder value. The formula is as below:

Market Value per Share / Earnings per Share

In this valuation, trailing PE was applied in the Guideline Publicly-traded Comparable Method and Comparable Transactions Method. Trailing price-to-earnings multiple (the "**Trailing PE**") is derived by dividing the market capitalization of the underlying company by the earnings in the last financial period.

We have also considered other common pricing multiples:

Price-to-Book Ratio

The price-to-book ratio is considered not appropriate for this valuation because book value captures only the tangible assets of a company. A company's intangible assets as well as company-specific competencies and advantages are not captured in the price-to-book ratio.

Price-Sales Ratio

Price-Sales ratio captures the business scale of a company but at the same time ignores the cost structure and hence the profitability of a company. Two companies with similar Price-Sales ratio may have very different earning prospective. Thus Price-Sales Ratio is not selected in this valuation.

7 Financial Information

During our course of valuation, we have obtained the profit and loss statements on the identifiable net income stream of the Business Assets under the reorganization for the year ended 31 December 2016, and the period from January 2017 to October 2017 from the management of the Instructing Party. The profit and loss statements of the Business Assets represent the performance of graphene-processing business of Aoyu Company.

The detail of profit and loss statements on the identifiable net income stream of Business Assets are shown as below table.

Profit and loss Statement of the Business Assets

Business Assets	**Jan 2016 - Dec 2016**	**Jan 2017 - Oct 2017**
Revenue	99,913	94,295
Costs of sales	-53,287	-51,323
Gross profit	**46,626**	**42,972**
Other income	349	3
Selling expenses	-23	-965
Administrative expenses	-19,028	-13,000
Finance costs	-802	-1,064
Profit before income tax	**27,122**	**27,946**
Income tax	-4,068	-4,192
Profit for the period	**23,054**	**23,754**

Unit: RMB'000

Arrangement on Leasing Fixed Assets

Per the Sales and Purchase Agreement ("**SPA**") entered between the purchaser and vendor, there is an arrangement ("**Arrangement**") in relation to the Business Assets to be transferred to the Jixi Company. Instead of being acquired by Jixi Company, the fixed assets ("**Fixed Assets**") of Aoyu Company in relation to the operation of graphene-processing business will be leased by Jixi Company with an estimated annual rental fee at RMB 6.69 million.

Based on the Arrangement, management of the Instructing Party has constructed the hypothetical simulated profit and loss statement of the Jixi Company, assuming that the Jixi Company has already operated graphene-processing business with the Business Assets. We have obtained such hypothetical simulated profit and loss statement for the period from January 2017 to October 2017, as well as from November 2016 to October 2017 (12-month trailing performance as at valuation date), which are shown as below table.

Hypothetical simulated Profit and loss Statement of Jixi Company

Jixi Company	**Jan 2017 - Oct 2017**	**Nov 2016 - Oct 2017**
Revenue	94,295	**112,765**
Costs of sales	-53,040	-64,125
Gross profit	**41,255**	**48,640**
Other income	3	149
Selling expenses	-965	-968
Administrative expenses	-11,340	-19,724
Finance costs	-1,064	-1,207
Profit before income tax	**27,889**	**26,890**
Income tax	-4,192	-4,044
Profit for the period	**23,697**	**22,846**

Unit: RMB'000

8 Guideline Publicly-traded Comparable Method — Multiples and Other Adjustments

Selection of Comparable Companies

We have selected a group of comparable companies listed on stock exchanges to provide a reasonable reference in order to evaluate the industry's multiples used. We adopted the P/E Ratio to arrive at the market value of the equity interest of the Target Company and its subsidiary. Our selection criteria for comparable companies are that the comparable companies should:

- Be engaged/involved in graphene processing or graphene products application business;
- Have its primary operations in China; and
- Information on the peer firms must be extracted from a reliable source.

As the Target Company together with its subsidiaries mainly operates its graphene-processing business in China, we are of the opinion that the most desirable comparable companies should be companies operating in China, as the graphene-processing company carries on many factors including but not limited to political, legal, fiscal and economic conditions in its business. These factors will significantly affect how investors price the company located in different geographical location.

While we thought that the best comparable companies should be those listed in PRC, initially we have also considered and screened out the potential comparable companies which engaged in the graphene industry outside China. The information of those shortlisted companies is set out as below:

Ticker	Company Name	Country
AGM-GB	Applied Graphene Materials Plc	United Kingdom
DCTA-GB	Directa Plus Plc	Italy
GRA-CA	NanoXplore, Inc.	Canada
ERA-CA	Elcora Advanced Materials Corp.	Canada

After overall consideration, we did not adopt the potential comparable companies outside China due to the following primary reasons:

1) Comparing companies across borders involves difference in legal, investor environment, human resources, and tax rate, etc. Pricing multiple for individual companies in the same industry but in different countries may vary widely as they are exposed to different risk and growth opportunity.

2) We observed that all these potential comparable companies haven't recorded profit yet in the latest two fiscal year and the calculated PE ratio is negative.

Though we have excluded these comparables in our valuation because of the geographical location and negative PE ratio, it is worth mentioning that from market perspective, the listed companies with negative PE ratio indicates the potential interest from investors in the emerging graphene industry.

Based on the reasons stated above, we believe that it is more appropriate to adopt companies listed in the PRC as comparable companies.

Description of potential comparable companies outside China:

- Applied Graphene Materials Plc engages in the developing, manufacturing, and processing of graphene materials. Its products include Graphene nanoplatelets, dispersions and application guide. The company products are used in composites and polymers, coatings, oils and lubricants, batteries, inks, impermeable films, packaging materials, and thermal management solutions. Applied Graphene was founded by Karl Stuart Coleman in July 2010 and is headquartered in Cleveland, the United Kingdom.

- Directa Plus Plc manufactures and distributes graphene products. The company's products are used in commercial applications such as smart textiles, elastomers, composite materials and environmental sectors. Directa Plus was founded by Giulio Cesareo in 2005 and is headquartered in Lamazzo, Italy.

- NanoXplore, Inc. engages in the manufacture and supply of graphene powder. Its products include GrapheneBlack, molded plastics, next generation batteries, and customized graphene solutions. The company was founded by Soroush Nazarpour in 2011 and is headquartered in Montreal, Canada.

- Elcora Advanced Materials Corp. which engages in the mining, processing, and refining of graphite. It also researches and produces graphite and graphene applications. The company was founded by Ian Flint and Troy James Grant on June 6, 2011 and is headquartered in Bedford, Canada.

Comparable Companies

As our searches for eligible guideline public companies are exhaustive and only companies that meet both of the above-mentioned criteria which are critical to the operations of the Target Company, are considered, we believe that the adopted companies are representative, fair and reasonable comparisons to the Target Company. Based on the methodology described, the following guideline companies within the exhaustive search list are adopted after the final screening:

Ticker	**Company name**	**P/E**
002631-CN	Der Future Science & Technology Holding Group Co., Ltd	53.3x
600516-CN	FangDa Carbon New Material Co., Ltd	25.2x
601877-CN	Zhejiang Chint Electrics Co., Ltd	24.5x
000413-CN	Dongxu Optoelectronic Technology Co. Ltd	34.5x
002450-CN	Kangde Xin Composite Material Group Co., Ltd	35.1x
000009-CN	China Baoan Group Co., Ltd	84.9x
600503-CN	Deluxe Family Co., Ltd	92.6x
Median		**35.1x**

Source: Factset

We have extracted Trailing PE of the comparable companies from the Factset database as at the Valuation Date. Such Trailing PE is calculated from the share price of the comparable companies as at the Valuation Date and the latest 12-month net profit published by the comparable companies.

Then, we have adopted the median Trailing PE of comparable companies to represent the industry's P/E ratio. Because we observed that the variance of Trailing PE is relatively large, median is less susceptible to extreme values and do not bring substantial deviation from the "center" of data. We finally concluded the median Trailing PE to be **35.1X**.

Description of Comparable Companies

- Der Future Science & Technology Holding Group Co., Limited ("**Der Future**") develops, manufactures, and sells wood flooring. The company is expanding its product offering to smart furniture and developing new graphene material applications. We noticed that the Der Future have recorded revenue in relation to its graphene business at RMB 19,167,836.89 and RMB 6,455,690.78 in 2016 annual report and 2017 semi-annual report. It indicates that Der Future has started the graphene business and thus was selected as comparable company.

- Fangda Carbon New Material Co., Ltd. manufactures and markets graphite electrodes, carbon bricks, carbon paste, and advanced carbon materials.

- Zhejiang Chint Electrics Co., Ltd. engages in electric appliances manufacturing and graphene business. The company invests and owns a 25% stake in Grabat Energy, a Spanish graphene battery company, which mainly focuses on the applications of graphene materials.

- Dongxu Optoelectronic Technology Co Ltd manufactures optoelectronic components. The company designs, produces, and sells glass substrates, electric vacuum glass devices, and other related electronic parts and accessories. The company also engages in graphene business and has successfully developed a series of graphene applications products, such as graphene-based lithium-ion batteries, graphene LED lamp, graphene electric film.

- Kangde Xin Composite Material Group Co., Ltd ("**Kangde Xin**") develops, produces and sells laminating film and laminating equipment. The company also sets up partnership with the University of Cambridge to undertake the research, high-end applications, and industrialization of graphene.

  Kangde Xin announced on August 2014 to spend RMB 100 million to establish a wholly owned subsidiary, which engaged in R&D, production and sales of graphene products.

- China Baoan Group Co., Ltd engages in high technology enterprise industry, biological pharmacy and real estate services. Its main products include graphene heat conductive materials, lithium-ion batteries, silicon oxide anode materials, lithium iron phosphate etc.

- Deluxe Family Co., Ltd engages in the real estate business and invests in graphene project. Its activities include housing and land construction, sale of housing with interior decoration facilities. The company also committed to large-scale production of graphene thin-film materials, development and production of complete sets of graphene equipment and graphene powder materials.

Discussion on the Comparable Companies

The primary reason of selecting the above comparable companies are that they all engage in the graphene industry, which is similar to the Target Company. The comparable companies and the Target Company are exposed to the similar risk factors.

We did notice that some of the comparable companies also has other business segments. We have initially tried to search for comparable companies with sole graphene business within mainland China but noticed that there are insufficient comparable companies in the market. As the graphene business is an emerging business, and the development & application of graphene products are still at an early stage, we noticed that not much listing companies with sole graphene business can be found.

Subsequently, we have loosened our selection criteria and included companies that also has segments other than graphene business. After overall consideration, we are of the opinion that these companies are acceptable as comparable companies to the Target Company.

In our opinion, the indicated value under Guideline Publicly-traded Comparable Method is acceptable but not perfect due to the imperfection of the comparability of those guideline companies. In this valuation, we have also included the Comparable Transactions Method in our valuation in this report. Please refer to the "Section 9 Comparable Transactions Method" for details. We are of the opinion that the indicated value of equity interest under the Guideline Publicly-traded Comparable Method and Comparable Transactions Method are supportive to each other.

Marketability Discount

We have adopted a lack of marketability discount of **20%** in the valuation of the equity interest to compensate for the potential difficulty of selling the equity shares, which are not traded on a stock exchange, compared with those of the peer companies that are traded publicly in stock exchange markets.

The 20% discount is source from 2016 edition of the FMV Restricted Stock Study Companion Guide, which was published by FMV Opinions, Inc., one of the preeminent firms offering a broad range of financial advisory services to private and public companies. The result is concluded based on 736 observed transactions.

Result Analysis

In our valuation, the Trailing PE is applied to determine the equity value result. The 12-month trailing earning of the Jixi Company as at Valuation Date (representing a period from November 2016 to October 2017) was approximately **RMB 22,846,000.** Please refer to the discussion in Section 7 of this report.

The detailed calculation using Trailing PE is shown in below table:

Subject	Valuation Date	Unit	Formula
12-month trailing earning of The Jixi Company	22,846,000	RMB	a
Trailing PE derived from comparable companies	35.1		b
100% Equity value before lack of marketability discount	801,894,600	RMB	c=a*b
Lack of Marketability Discount	20%		d
100% Equity value	641,515,680	RMB	e=c*(1-d)
Exchange Rate	1.18	RMB/HKD	f
100% Equity value	**756,988,502**	HKD	g=e*f
Round	**760,000,000**	HKD	

9 Comparable Transactions Method

Selection of Comparable Transactions

We have selected a group of comparable transaction to provide a reasonable reference in order to evaluate the industry's multiples used. Our selection criteria for comparable transactions are that the underlying companies in the transactions should:

- Be engaged/involved in graphene processing or graphene products application business;
- Relevant Information on the underlying companies in transactions are available and publicly disclosed;
- Sufficient data, including transaction amount, percentage of shareholdings in transaction, and relevant financial data can be obtained from public sources;
- The transaction dates of the comparable transactions are reasonably close to the Valuation Date, which means the market does not change a lot between these two dates. The selection period is around three years; and
- The underlying companies in the comparable transactions have its primary operations in China.

Potential Comparable Transactions and P/E Ratio

Based on the methodology described, after exhaustive searching, we have screened six potential comparable transactions. The information of potential comparable transactions and adopted P/E ratio are set out as below:

Underlying Company	**Circular Date**	**Acquired Equity Interest** *(%)*	**Consideration (100%)** *RMB'000*	**12-month Trailing Earning** *RMB'000*	**P/E** *Ratio*
廈門凱納石墨烯技術股份有限公司 (Knano Company)	7/2013	35%	26,237	Negative	N/A
Source: http://disclosure.szse.cn/finalpage/2013-07-31/62886774.PDF					
深圳市貝特瑞新能源材料股份有限公司 (BTR Company)	9/2014	32.15%	2,251,129	93,256	24.1x
Source: http://disclosure.szse.cn/finalpage/2014-09-11/1200223909.PDF					
上海新池能源科技有限公司 (Xinchi Company)	12/2014	80%	12,656	Negative	N/A
Source: http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2014-12-12/601877_20141213_1.pdf					
北京墨烯控股集團股份有限公司 (Moxi Company)	5/2015	100%	750,000	Negative	N/A
Source: http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2015-05-05/600503_20150506_5.pdf					
上海碳源匯穀新材料科技有限公司 (Tanyuan Company)	3/2016	50.5%	80,000	Negative	N/A
Source: http://disclosure.szse.cn/finalpage/2016-03-09/1202030680.PDF					
廈門烯成石墨烯科技有限公司 (Xicheng Company)	9/2016	53.89%	300,158	8,052	37.3x
Source: http://disclosure.szse.cn/finalpage/2016-09-08/1202685041.PDF					
Average					**30.7x**

In this valuation, we have screened and identified six comparable transactions which satisfied the selection criteria. Two underlying companies (BTR Company, and Xicheng Company) recorded positive profit in relevant trailing period and were adopted to calculate the Trailing PE. The Trailing PE was arrived by dividing the consideration to the trailing earnings of underlying companies. We concluded the average Trailing PE of two selected underlying companies in comparable transactions to be **30.7x**.

As graphene industry is an emerging industry, the listed market players and the disclosed private transactions are not as abundant as other traditional industries. We have conducted exhaustive search through different information sources, including 1) databases (i.e. FactSet, Bloomberg), 2) research

report conducted by different institutes (i.e. Chuancai Securities Research, SWS Research, Huatai Securities Research), 3) circular disclosed by different stock exchanges (i.e. HKEx, Shenzhen Stock Exchange, Shanghai Stock Exchange), and 4) general internet searches. After our exhaustive researching process, we considered 7 comparable companies and 6 comparable transactions applicable in this case, based on the following reasons:

a. The indicated multiples under Guideline Publicly-traded Comparable Method (28.1 P/E ratio after marketability discount), and Comparable Transactions Method (30.7 P/E ratio) are supportive to each other.

b. The selected comparable companies and comparable transactions fulfills the set-out selection criteria. The valuation multiples are calculated in line with the valuation procedure required under the International Valuation Standards.

Also, as graphene industry is still emerging, many market players are at the early stage of its life cycle. The application of graphene technology is not matured yet and their graphene related products require continuous research and development. During the course of selecting comparable transactions, we observed that it is not unusual that some graphene companies haven't recorded profit in the historical period, and the calculated PE ratio is negative.

Though we have excluded the negative PE ratio comparables in our valuation, it is worth mentioning that from market perspective, the successful transaction of target companies with negative PE ratio indicates the potential interest from investors in the graphene industry. We are of the opinion that investors enter such transaction as they value the future of the industry and expect that the profitability of the companies will improve. They are still willing to invest in this industry to capture its future development.

Currently, under the Comparable Transactions Method, we only adopted positive PE ratio of two comparable transactions to calculate the equity value of the Target Company, which arrives at a more conservative conclusion.

Description of Potential Comparable Transactions

- Knano Company mainly develops, produces and sells graphene and related application products. The Knano Company uses a unique mechanical technology to strip and produce graphene products. As at 30 July 2013, Xinjiang Zhongtai Chemical Co., Ltd (002092-CN) announced to acquire 35% of equity interest of Knano Company. Per the financial information disclosed in the circular, Knano Company recorded loss of RMB 1,515,100 in 2012 and loss of RMB 730,600 in the first half of 2013

- BTR Company mainly develops and sells lithium-ion battery cathode made up by graphite and graphene materials, positive electrode materials, and deep-processed graphite products; As at 11/9/2014,China Baoan Group Co., Ltd (000009-CN) announced to acquire 32.145% of equity interest of BTR Company with RMB 723,641,100. After completion, China Baoan Group Co., Ltd will indirectly hold 89.93% of BTR Company. The

consideration is determined by the valuation performed by an independent valuer as at 31 May 2014. Per the financial information disclosed in the circular, the total profit for BTR Company in 2013 is RMB 93,255,900,which was adopted in the calculation of PE ratio of comparable transactions.

From circular, we observed that in the first five months of 2015 and in 2014, the revenue from natural graphite anode materials, revenue from composite graphite anode materials, and revenue from artificial graphite cathode materials (all are main material of graphite cathode) accounted for more than 90% of BTR Company's total revenue. While for Target Company, the major product, spherical graphite, is also the main material of graphite cathode.

We have also assessed the business of subsidiaries and joint ventures of BTR. As disclosed in its website (http://www.btrchina.com/chain/index.html), the businesses of subsidiaries and joint ventures are similar to Target Company. Detailed business information for subsidiaries and joint ventures are set out below:

a) 雞西市貝特瑞石墨產業園有限公司 ("**BTR Graphite Industrial Park Co., Ltd**") mainly engages in manufacture of graphite products, R&D of deeply processed graphite. Annual capacity of deeply processed graphite reaches about 25,000 tons.

b) 雞西長源礦業有限公司 ("**Jixi Chang Yuan Kuang Ye Co., Ltd**") engages in graphite mining and selection, with an annual output of 100,000 tons of high-carbon graphite.

c) 山西貝特瑞新能源科技有限公司 ("**Shanxi BTR New Energy Technology Co., Ltd**") specializes in production of negative electrode materials for lithium ion batteries, as well as purification and sale of graphite product.

d) 深圳市貝特瑞納米科技有限公司 ("**Shenzhen BTR Nanometer Technology Co., Ltd**") mainly engages in the production of nano lithium titanate, carbon nanotube, graphene and its application products. Product catalogue of Target Company also includes carbon nanotube and graphene.

In summary, we are view of that the business of BTR Company is comparable to that of Target Company, so the transaction of China Baoan Group Co., Ltd acquiring BTR Company is appropriate to be adopted.

- Xinchi Company mainly engaged in R&D, production, sales of graphene powders. As at 12 December 2014, Zhejiang Chint Electrics Co., Ltd (601877-CN) announced to acquire 80% of equity interest of Xinchi Company with RMB 10,125,000. Per the financial information disclosed in the circular, Xinchi Company recorded loss of RMB 423,466 in 2013 and loss of RMB 2,208,977 in the first half of 2014.

- Moxi Company mainly engages in production of graphene technology, as well as sales of graphene materials. As at 6 May 2015, the Deluxe Family Co., Ltd. (600503-CN)

announced to acquire 100% equity interest of Moxi Company with RMB 750,000,000. The consideration is determined with reference to the valuation performed by an independent valuer as at 31 December 2014. Per the financial information disclosed in the circular, Moxi Company recorded loss of RMB 340,517 in 2014.

- Tanyuan Company focus on large-scale production of graphene. It also develops application of graphene technology. The pilot products include single-layer graphene and graphene batteries. As at 9 March 2016, Dongxu Optoelectronic Technology Co. Ltd (000413-CN) announced to acquire 10% of equity interest of Tanyuan Company with RMB 8,000,000 and increase the capital with RMB 65,454,500. After completion, Dongxu Optoelectronic Technology Co. Ltd will hold 50.5% of Tanyuan Company. Per the financial information disclosed in the circular, Tanyuan Company recorded loss of RMB 1,463,533 in 2015.

- Xicheng Company develops, produces and sells graphene production equipment, as well as promotes the application of graphene-related products. As at 8 September 2016, the Der Future Science & Technology Holding Group Co., Ltd (002631-CN) announced to acquire 53.8915% of equity interest of Xicheng Company with RMB 161,759,800. The consideration is determined by the valuation performed by an independent valuer as at 30 November 2015. Per the financial information disclosed in the circular, the total profit for the Xicheng Company in 2015 is RMB 8,052,000, which was adopted in the calculation of PE ratio of comparable transactions.

Result Analysis

In our valuation, the 12-month trailing earning of the Jixi Company as at Valuation Date (representing a period from November 2016 to October 2017) was approximately **RMB 22,846,000**. Trailing PE of **30.7x** derived from comparable transactions is applied to determine the equity value result.

The detailed calculation is shown in below table:

Subject	**Valuation Date**	**Unit**	**Formula**
12-month trailing earning of Jixi Company	22,846,000	RMB	a
Trailing PE derived from comparable transactions	30.7		b
100% Equity value	701,372,200	RMB	c=a*b
Exchange Rate	1.18	RMB/HKD	d
100% Equity Value	827,619,196	HKD	e=c*d
Round	**830,000,000**	HKD	

Note: As at respective transaction dates, underlying companies are private companies, no lack of marketability discount was applied.

Conclusion

As mentioned in the part of "Discussion on the Comparable Companies" under Section 8 of this Valuation Report, as graphene industry is an emerging industry, under Guideline Publicly-traded Comparable Method, listed companies with sole graphene business are not abundant. Thus, we have loosened selection criteria and selected some guideline companies with graphene businesses as well as other business.

We acknowledge that these companies may not be 100% perfect as they contain other business. Therefore, our value opinion was not solely concluded from the Guideline Publicly-traded Comparable Method. In order to provide a more reliable value, we have also conducted the Comparable Transactions Method to enhance and cross check the value opinion.

It was observed that a higher valuation result was calculated based on the Comparable Transaction Method. The current value opinion was concluded from the average results based on both methods mentioned above. We are of the view that such treatment was also more prudent than solely adopting the result calculated based on Comparable Transaction Method.

After overall consideration, we are of view that adopting both the Guideline Publicly-traded Comparable Method and Comparable Transactions Method are appropriate in this case.

Based on Guideline Publicly-traded Comparable Method and Comparable Transactions Method adopted and the according valuation results discussed in Section 8 and Section 9 in this valuation report, we concluded that the market value of 100% equity interest of Target Company is **HKD 795,000,000**.

The detailed calculation are set out in table below:

Valuation Method	**Valuation Result**	**Weight**
Guideline Publicly-traded Comparable Method	760,000,000	50%
Comparable Transactions Method	830,000,000	50%
Conclusion	**795,000,000**	

Unit: HKD

10 Premise of Valuation and Basis of Valuation

Our valuation is based on market value basis and market value is defined as "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

10.1 Source of Information

Our investigation covers the discussion with the Target Company and the Instructing Party's representatives, the collection of information including the details of the Target Company and its subsidiary.

We assume that the data obtained in the course of the valuation, along with the opinions and representations provided to us by the Target Company were prepared in reasonably care.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Target Company. We have also sought confirmation from the Target Company that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to arrive an informed view, and we have no reason to suspect that any material information has been withheld.

10.2 Assumptions and Factors Considered

The assumptions considered in this valuation included, but were not limited to, the following:

- The reorganization of the Target Group will be completed;
- Target Company is expected to smoothly run the existing graphene-processing business transferred from Aoyu Company; and
- Target Company will retain the existing suppliers and customers transferred from Aoyu Company.

The factors considered in this valuation included, but were not limited to, the following:

- The demand and supply of graphene products in the region;
- The economic condition and the industry outlook in general; and
- The financial and business risks of the Target Company including the continuity of income and the projected future results.

11 Conclusion

The conclusion of value is based on the accepted valuation procedures and practices. The accepted valuation procedures and practices rely on the use of assumptions and the consideration of uncertainties.

While the assumptions and consideration of such matters are considered to be reasonable, they are inherently subject to significant business, economic uncertainties and contingencies, many of which are beyond the control of the Instructing Party and/or CHFT Advisory And Appraisal Limited ("**CHFTAA**").

Based on the valuation methodology adopted, we are of the opinion that:

The market value of the 100% equity interest of Think High Global Limited, as at 31 October 2017, was in the sum of **HKD 795,000,000 (HONG KONG DOLLARS SEVEN HUNDRED AND NINETY-FIVE MILLION).**

We hereby certify that we have neither present nor prospective interests in the Instructing Party, the Target Company or the value(s) reported. This report is prepared independently. Neither CHFTAA nor any authors of this report hold any interest in the Instructing Party, the Target Company or its related parties. The fee for providing this report is based on our normal professional rates. Payment of fees is not contingent upon the conclusions drawn in this report.

Yours faithfully,
For and on behalf of
CHFT Advisory And Appraisal Limited.

Stella Law, MRICS
Executive Director

Note: Ms. Stella Law is a member of Royal Institution of Chartered Surveyors. She has over 12 years' experience in providing the business valuation services in Hong Kong, the PRC and the Asian region.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. SHARE CAPITAL

The authorised and issued Share capital of the Company (a) as at the Latest Practicable Date; and (b) upon the allotment and issue of the Consideration Shares are as follows:

Authorised		*HK$*
780,000,000	Shares of HK$0.01 each	7,800,000.00

Issued and fully paid		*HK$*
434,290,000	Shares in issue as at the Latest Practicable Date	4,342,900.00
48,000,000	Consideration Shares to be issued and allotted	480,000.00
482,290,000	Shares of HK$0.01 each	4,822,900.00

3. DISCLOSURE OF INTERESTS

(a) Interests of Directors and chief executive of the Company

As at the Latest Practicable Date, the interests or short positions of the Directors or 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 any such Director or chief executive was taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange were as follows:

(i) Long positions in the Shares and underlying Shares

Name of Director	Capacity	Number of Shares				Number of underlying Shares held under the Share Option Scheme	Total	Approximate % of shareholding
		Personal interest	Family interest	Corporate interest	Other interest			
Chan Yick Yan Andross	Beneficial owner, interest of controlled corporation	4,204,000	—	94,006,887[1]	—	—	98,210,887	22.61%
Lau Hing Tat Patrick	Beneficial owner, interest of spouse, interest of controlled corporation	5,008,000	1,980,000	46,003,444[2]	—	—	52,991,444	12.20%
Tian Ming	Beneficial owner	3,930,000	—	—	—	—	3,930,000	0.90%
Ma Lida	Beneficial owner	1,000,000	—	—	—	—	1,000,000	0.23%

Notes:

1. Such interests are held by CYY Holdings Limited, a company incorporated in the British Virgin Islands, of which Mr. Chan Yick Yan Andross is interested in the entire issued share capital.

2. Such interests are held by LSBJ Holdings Limited, a company incorporated in the British Virgin Islands, of which Mr. Lau Hing Tat Patrick is interested in the entire issued share capital.

(ii) Long positions in the issued share capital of associated corporations of the Company

Name of director	Name of associated corporation	Nature of interest	Number of shares and class of shares held	Approximate % of shareholding
Chan Yick Yan Andross	Earthasia Worldwide Holdings Limited	Personal	99 (ordinary shares)	9.90%

Save as disclosed above, as at the Latest Practicable Date, none of the Directors, the chief executive of the Company nor their associates, had any other interests or short positions in the Shares, underlying Shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which (a) 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 any such Director or chief executive of the Company is taken or deemed to have under such provisions of the SFO); or which (b) were required to be entered into the register maintained by the Company, pursuant to Section 352 of the SFO; or which (c) were required to be notified to the Company or the Stock Exchange, pursuant to the Model Code for Securities Transaction by Directors of Listed Companies contained in the Listing Rules.

(b) Substantial Shareholders and persons having 5% or more shareholding

As at the Latest Practicable Date, the register of substantial shareholders maintained under Section 336 of the SFO shown that the Company has been notified of the following interests, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the Directors and the chief executive of the Company.

Name of shareholder	Capacity/nature of interest	Number of Shares	Approximate % of shareholding
CYY Holdings Limited[1]	Beneficial owner	94,006,887	21.65%
PBLA Limited[2]	Beneficial owner	75,223,669	17.32%
Pubang Landscape Architecture (HK) Company Limited[2]	Interest in a controlled corporation	75,223,669	17.32%
Pubang Landscape Architecture Company Limited[2]	Interest in a controlled corporation	75,223,669	17.32%
Gao Xin	Beneficial owner	47,996,000	11.05%
LSBJ Holdings Limited[3]	Beneficial owner	46,003,444	10.59%

Notes:

1. CYY Holdings Limited is 100% beneficially owned by Mr. Chan Yick Yan Andross. Accordingly, Mr. Chan Yick Yan Andross is deemed to be interested in the shares of the Company held by CYY Holdings Limited under the SFO.

2. PBLA Limited is 100% beneficially owned by Pubang Landscape Architecture (HK) Company Limited, which is in turn 100% beneficially owned by Pubang Landscape Architecture Company Limited. Accordingly, each of Pubang Landscape Architecture (HK) Company Limited and Pubang Landscape Architecture Company Limited is deemed to be interested in the Shares held by PBLA Limited under the SFO.

3. LSBJ Holdings Limited is 100% beneficially owned by Mr. Lau Hing Tat Patrick. Accordingly, Mr. Lau Hing Tat Patrick is deemed to be interested in the shares of the Company held by LSBJ Holdings Limited under the SFO.

Save as disclosed above, as at the Latest Practicable Date, the Directors and chief executive of the Company were not aware of any person (other than a Director or chief executive of the Company) who had any other interests or short positions in the Shares or underlying Shares and debentures of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

4. SERVICE CONTRACTS

As at Latest Practicable Date:-

(a) Mr. Lau Hing Tat Patrick, Mr. Chan Yick Yan Andross and Mr. Tian Ming, being executive Directors, have entered into service contracts with the Company for a term of three years;

(b) Mr. Yang Liu and Mr. Qiu Bin, being executive Directors, have entered into service contracts with the Company for a term of one year;

(c) Mr. Ma Lida, being non-executive Director, has entered into service contract with the Company for a term of three years; and

(d) Ms. Tam Ip Fong Sin, Mr. Wong Wang Tai and Mr. Wang Yuncai, being independent non-executive Directors, have entered into service contracts with the Company for a term of one year,

the appointments of the abovementioned Directors are all subject to the rotation requirements under the articles of association of the Company.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had any existing service contract or proposed service contract with any member of the Enlarged Group which will not expire or is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

5. DIRECTORS' INTERESTES IN ASSETS AND CONTRACTS

As at the Latest Practicable Date:

(a) none of the Directors was materially interested, directly or indirectly, in any contract or arrangement subsisting which was significant in relation to the business of the Enlarged Group; and

(b) none of the Directors nor their respective associates had any direct or indirect interests in any assets which had been acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to, any member of the Enlarged Group since 31 December 2017, being the date to which the latest published audited consolidated financial statements of the Group were made up.

6. COMPETING INTEREST

Mr. Ma Lida, our non-executive Director nominated by Pubang Landscape Architecture Co., Ltd., is required to declare his conflict of interests and barred from participation or voting on issue if there is any potential conflict of interest between the Group and Pubang Landscape Architecture Co., Ltd..

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and their respective associates had any interest in a business which competes or may compete with the businesses of the Group (as would be required to be disclosed under Rule 8.10 of the Listing Rules if each of them was a controlling shareholder of the Company).

7. LITIGATION

So far as the Company is aware, as at the Latest Practicable Date, no member of the Enlarged Group was engaged in any litigation or arbitration of material importance and there is no litigation or claim of material importance known to the Directors pending or threatened by or against any member of the Group.

8. MATERIAL CONTRACTS

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

(a) renewal loan agreement dated 24 January 2017 entered into between the Company as lender and Earthasia Worldwide Holdings Limited as borrower to renew the revolving loan facility of up to HK$14,000,000 for a term of 1 year;

(b) sale and purchase agreement dated 6 February 2017 entered into between Yummy Holdings Limited, a wholly-owned subsidiary of the Company as purchaser and Ng Kok Hey and Chan Suk Fun as vendors for the acquisition of the 51% of the issued share capital of Thai Gallery (HK) Limited ("**Thai Gallery Acquisition Agreement**");

(c) renewed cooperation agreement dated 14 March 2017 entered into between Earthasia (Shanghai) Company Limited, an indirect wholly-owned subsidiary of the Company and Pubang Landscape Architecture Company Limited to renew the cooperation agreement dated 30 July 2014 made by them relating to subcontract arrangements for landscape projects;

(d) share transfer agreement dated 27 March 2017 entered into between Earthasia Design (Shanghai) Company Limited, an indirect wholly-owned subsidiary of the Company as vendor and Yingying (Shanghai) Investment Management Centre as purchaser for the disposal of 45% equity interests of Shanghai Teddy Friends Investment Management Limited ("**Teddy Friends Disposal Agreement**");

(e) sale and purchase agreement dated 29 March 2017 entered into among Shanghai Jingzhu Investment Management Company Limited, a wholly-owned subsidiary of the Company as purchaser, Shen Jun, Yang Yongfong, Huang Canze and Zhang Xiang as vendors, Fengyetang (Suzhou) Hotel Management Company Limited as warrantors, Wei Jian and Suzhou Qidi Technology Park Development Company Limited for the acquisition of the 51% of the equity interest of Suzhou Industrial Park Wenlvge Hotel Management Company Limited ("**Wenlvge Acquisition Agreement**");

(f) the MOU;

(g) termination agreement dated 11 August 2017 entered into between Earthasia Design (Shanghai) Company Limited and Yingying (Shanghai) Investment Management Centre to terminate the Teddy Friends Disposal Agreement;

(h) supplemental agreement dated 25 August 2017 entered into between Yummy Holdings Limited and Ng Kok Hey and Chan Suk Fun to amend the terms of the Thai Gallery Acquisition Agreement;

(i) supplemental agreement dated 1 December 2017 entered into among Shanghai Jingzhu Investment Management Company Limited, Shen Jun, Yang Yongfong, Huang Canze, Zhang Xiang, Fengyetang (Suzhou) Hotel Management Company Limited, Wei Jian and Suzhou Qidi Technology Park Development Company Limited to amend the terms of the Wenlvge Acquisition Agreement;

(j) second renewal loan agreement dated 8 December 2017 entered into between the Company as lender and Earthasia Worldwide Holdings Limited to renew the revolving loan facility for a term of 1 year and to increase the loan facility to up to HK$50,000,000;

(k) second supplemental agreement dated 12 December 2017 entered into between Yummy Holdings Limited and Ng Kok Hey and Chan Suk Fun to further amend the terms of Thai Gallery Acquisition Agreement;

(l) supplemental memorandum of understanding dated 27 December 2017 signed between the Company and the vender to amend the terms of the MOU;

(m) the Original Agreement; and

(n) the Supplemental Agreement.

9. QUALIFICATIONS AND CONSENT OF EXPERTS

The following is the qualification of the expert who has given its opinion or advice which are contained in this circular:

Name	Qualification
Crowe (HK) CPA Limited	Certified Public Accountants
CHFT Advisory and Appraisal Limited	Independent Professional Valuer

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letters, reports and/or opinion, as the case may be, and references to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, each of the above experts did not have any shareholding in any member of the Group or the 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, each of the above experts did not have, directly or indirectly, any interest in any assets which had since 31 December 2017 (being the date to which the latest published consolidated audited financial statements of the Group were made up) been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

10. MISCELLANEOUS

(i) The company secretary of the Company is Mr. Kwok Ka Hei. He has been a member of the Hong Kong Institute of Certified Public Accountants since July 2009 and a Financial Risk Manager of Global Association of Risk Professionals since April 2008.

(ii) The registered office of the Company is at Clifton House, 75 Fort Street, PO Box 1350, Grand Cayman, KY1-1108, Cayman Islands. The head office and principal place of business of the Company in Hong Kong is at 11/F, COFCO Tower, 262 Gloucester Road, Causeway Bay, Hong Kong.

(iii) The Hong Kong branch share registrar and transfer office of the Company is Tricor Investor Services Limited located at Level 22, Hopewell Center, 183 Queen's Road East, Wanchai, Hong Kong.

(iv) The English text of this circular shall prevail over the Chinese text in the event of inconsistency.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at 11/F, COFCO Tower, 262 Gloucester Road, Causeway Bay, 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 2015, 31 December 2016 and 31 December 2017;

(c) the accountants report of the Target Company as set out in Appendix IIA to this circular;

(d) the accountants report of the Business as set out in Appendix IIB to this circular;

(e) the report on the unaudited pro forma of the Enlarged Group as set out in Appendix III to this circular;

(f) the valuation report of the Target Group as set out in Appendix V to this circular;

(g) the written consents referred to in the paragraph under the heading "Qualifications and Consents of Experts" in this appendix;

(h) the service contracts referred to in the paragraph under the heading "Service Contracts" in this appendix; and

(i) the material contracts referred to in the paragraph under the heading "Material Contracts" in this appendix;

(j) the Agreement;

(k) all the agreements/contract as referred to in this circular; and

(l) this circular.

Earthasia International Holdings Limited
泛亞環境國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 6128)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**EGM**") of Earthasia International Holdings Limited (the "**Company**") will be held at 10:00 a.m. on 11 January 2019 at 11/F., COFCO Tower, 262 Gloucester Road, Causeway Bay, Hong Kong for the following purpose of considering and, if thought fit, passing of the following ordinary resolution of the Company (capitalised terms used in this notice shall have the same meanings as defined in the circular dated 20 December 2018 despatched to the shareholders of the Company):

ORDINARY RESOLUTION

1. "**THAT**

(a) the Agreement and all the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;

(b) the board of Directors of the Company be and is hereby granted with the Specific Mandate to allot and issue 48,000,000 Consideration Shares at the Issue Price of HK$2.79 per Consideration Share in accordance with the terms and conditions of the Agreement;

(c) the issue of the Promissory Note by the Company in accordance with the terms of the Agreement be and is hereby approved; and

(d) any one Director be and is hereby authorised to do such acts and deeds in his/her sole and absolute discretion and opinion deemed expedient and appropriate to implement and effect the Agreement and the transactions contemplated thereunder."

By order of the board
Earthasia International Holdings Limited
Lau Hing Tat Patrick
Chairman

Hong Kong, 20 December 2018

Registered office:
Clifton House
75 Fort Street
P.O. Box 1350
Grand Cayman
KY1-1108
Cayman Islands

Headquarter, head office and principal place of business in Hong Kong:
11/F, COFCO Tower
262 Gloucester Road
Causeway Bay
Hong Kong

Notes:

1. Any member of the Company entitled to attend and vote at the EGM is entitled to appoint one or more proxies to attend and, on a poll, vote in his stead. A proxy need not be a member of the Company.

2. In order to be valid, a form of proxy, together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy thereof, must be deposited at the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time for holding the EGM.

3. The board of directors of the Company has fixed 4:30 p.m. on Monday, 7 January 2019 as the record time and date for ascertaining Shareholders' entitlement to attend and vote at the meeting. All transfers of shares accompanied by the relevant share certificates must be lodged with the branch share registrar of the Company in Hong Kong, Tricor Investor Services Limited at the address set out at Note (2) above not later than 4:30 p.m. on Monday, 7 January 2019.

4. Completion and return of the proxy form shall not precluded you from attending and voting in person at the EGM or any adjournment thereof (as the case may be) should you so wish and in such event, the instrument appointing a proxy shall be deemed to be revoked.

5. In case of joint shareholdings, the vote of the senior joint shareholder who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint shareholder(s) and for this purpose seniority will be determined by the order in which the names stand in the register of members of the Company in respect of the joint shareholding.

6. The form of proxy shall be in writing under the hand of the appointer or his/her attorney duly authorized in writing or, if the appointer is a corporation, either under its seal or under the hand of an officer, attorney or other person authorized to sign the same.

7. A form of proxy for use at the EGM is attached herewith.

8. Any voting at the EGM shall be taken by poll.

9. If typhoon signal no. 8 or above, or a "black" rainstorm warning is in effect any time after 8:30 a.m. on the date of the EGM, the meeting will be postponed. The Company will publish an announcement on the website of the Company at www.ea-dg.com and on the HKExnews website of the Stock Exchange at www.hkexnews.hk to notify Shareholders of the date, time and venue of the rescheduled meeting.

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

Executive Directors:
Mr. Lau Hing Tat Patrick
Mr. Chan Yick Yan Andross
Mr. Tian Ming
Mr. Yang Liu
Mr. Qiu Bin

Non-executive Director:
Mr. Ma Lida

Independent Non-executive Directors:
Ms. Tam Ip Fong Sin
Mr. Wong Wang Tai
Mr. Wang Yuncai