

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

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

If you have sold or transferred all your shares in the **China Best Group Holding Limited** (the “Company”) you should at once hand this circular together with the accompanying form of proxy to the purchaser or the transferee or to the bank, licensed securities dealer, registered institution in securities or other agent through whom the sales or transfer was effected for transmission to the purchaser or the transferee.

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

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**CHINA BEST**  
**國華集團**  
**CHINA BEST GROUP HOLDING LIMITED**  
**國華集團控股有限公司\***  
*(Incorporated in Bermuda with limited liability)*  
**(Stock Code: 370)**

**(1) VERY SUBSTANTIAL ACQUISITION –  
SUBSCRIPTION OF CB AND PN; AND  
(2) NOTICE OF SPECIAL GENERAL MEETING**

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Capitalised terms used on this cover shall have the same meanings as those defined in this circular, unless the context requires otherwise. A letter from the Board is set out on pages 7 to 28 of this circular. A notice convening the SGM to be held at Room 3405, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong at 11:00 a.m. on Monday, 22 April 2013 or any adjournment thereof is set out on pages SGM-1 to SGM-2 of this circular. A form of proxy for use at the SGM is enclosed with this circular.

Whether or not you are able to attend the SGM in person, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company’s branch share registrar in Hong Kong, Tricor Tengis Limited, at 26/F, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the SGM or any adjournment thereof. Such form of proxy is also published on the websites of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company ([www.cbgroup.com.hk](http://www.cbgroup.com.hk)). Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

## CONTENTS

	<i>Page</i>
<b>Definitions</b> .....	1
<b>Letter from the Board</b> .....	7
<b>Appendix I – Financial Information of the Group</b> .....	I-1
<b>Appendix II – Unaudited Pro Forma Financial Information of the Group</b> .....	II-1
<b>Appendix III – Valuation Method and Basis adopted by the Independent Valuer</b> .....	III-1
<b>Appendix IV – General Information</b> .....	IV-1
<b>Notice of SGM</b> .....	SGM-1

## DEFINITIONS

*In this circular, unless the context otherwise requires, capitalized terms used shall have the following meanings:*

“Acquisition Agreement”	the agreement dated 12 June 2012 (as amended and supplemented by the supplemental letters dated 12 July 2012 and 27 July 2012 and a supplemental agreement dated 26 September 2012) entered into between Guang Cheng as the purchaser and City Bloom as the vendor in relation to the Very Substantial Acquisition
“Announcements”	announcements of the Company dated 5 February 2013 and 22 March 2013 in relation to, among others, the Placing Letter and the Subscription of CB and PN
“associates”	has the meaning ascribed to this term under the Listing Rules
“Board”	Board of Directors
“Bondholder(s)”	holder(s) of the Convertible Bond(s)
“Business Day”	means a day (excluding a Saturday, Sunday or public holidays) on which licensed banks in Hong Kong are generally open for business throughout their normal business hours
“CB Instrument”	the instrument under and pursuant to which the Convertible Bonds shall be created and issued by the Issuer, which sets out the rights and obligations of the Issuer and the Bondholders including Jet-Air
“CB Issue Date”	the date on which the Convertible Bonds are issued by the Issuer to the Placees under the Placing Agreement
“CB Maturity Date”	the date falling upon the expiry of three (3) years from the date on which the Convertible Bonds is first issued or if such date is not a Business Day, the immediate preceding Business Day
“City Bloom”	City Bloom Limited, a company incorporated in the British Virgin Islands with limited liability
“Company”	China Best Group Holding Limited, a company incorporated in Bermuda with limited liability, the issued Shares of which are listed on the Stock Exchange
“Completion of Placing Agreement”	completion of the Placing in accordance with the terms and conditions of the Placing Agreement

## DEFINITIONS

“connected persons”	has the meaning ascribed thereto in the Listing Rules
“Consideration”	the aggregate consideration for the Subscription of CB and PN
“Conversion Price”	the initial conversion price of the Convertible Bonds of HK\$0.31 per Conversion Share
“Conversion Share(s)”	new Issuer’s Shares to be issued by the Issuer upon the exercise of the conversion rights attaching to the Convertible Bonds, based on the initial conversion price of HK\$0.31 per Conversion Share
“Convertible Bonds”	the convertible bonds to be issued by the Issuer pursuant to the Placing Agreement
“Directors”	directors of the Company
“Group”	the Company and its subsidiaries
“Guang Cheng”	Guang Cheng Group Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Issuer
“Guarantor”	Mr. Zhang or such person/company nominated by him, who is an Independent Third Party. Mr. Zhang is currently indirectly holding 70% of the equity interest in City Bloom. Mr. Zhang is also the proposed director of the Issuer upon completion of the Very Substantial Acquisition
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Independent Third Party(ies)”	independent third party (parties) who is (are) independent of and not connected with the Company and its connected persons (as defined in the Listing Rules) and not deemed to be parties acting in concert with each other
“IRR”	a compounded, cumulative internal rate of return, calculated at the designated annual discount rate, which, when applied to any amount, and discounted annually, produces a net present value of such amount equal to zero

## DEFINITIONS

“Issuer”	North Asia Resources Holdings Limited, a company incorporated in Bermuda with limited liability, the issued shares of which are listed on the Stock Exchange and is the issuer of the Convertible Bonds and Promissory Notes
“Issuer Group”	the Issuer and its subsidiaries
“Issuer’s October Announcement”	the announcement of the Issuer dated 8 October 2012 in relation to, among others, the Very Substantial Acquisition, Very Substantial Disposal and the Subscription
“Issuer’s Shares”	ordinary share(s) of HK\$0.01 each in the share capital of the Issuer
“Issuer’s SGM”	a special general meeting of the Issuer to be held to consider and, if appropriate, to approve the Placing Agreement and the transactions contemplated therein
“Jet-Air”	Jet-Air (H.K.) Limited, a company incorporated in Hong Kong with limited liability and a wholly owned subsidiary of the Company
“Last Trading Day”	18 December 2012 (being the date of the Placing Agreement and the last trading day immediately prior to the publish of the announcement of the Issuer dated 18 December 2012 in relation to the Placing)
“Latest Practicable Date”	25 March 2013, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
“Listing Committee”	the listing committee of the Stock Exchange for considering applications for listing and the granting of listing
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	30 June 2013 (or such later date as may be agreed between the Issuer and the Placing Agent), being the long stop date for the fulfilment or waiver (as the case may be) of the conditions as set out in the Placing Agreement or, if such date is not a Business Day, the immediate preceding Business Day

## DEFINITIONS

“Long Stop Date for Subscription”	30 June 2013 (or such later date as may be agreed between Jet-Air and the Placing Agent), being the long stop date for the fulfilment of the conditions as set out in the Placing Letter
“Mortgage(s) on Shares and CB”	the mortgage(s) to be executed by the Guarantor (as the mortgagor) in favour of the Placees (as the mortgagee) over certain number of the Issuer’s Shares and/or convertible bonds issued by the Issuer and held by the Guarantor, the number of the Issuer’s Shares and/or the convertible bonds subject to the Mortgage(s) on Shares and CB shall have a market value which shall be equivalent to 3 times of the Placing Amount (based on the volume average price of the Issuer’s Shares quoted on the Stock Exchange for the last 5 trading days prior to the date of the Placing Agreement)
“Noteholder(s)”	holder(s) of the Promissory Note(s)
“Percentage Ratio(s)”	percentage ratio(s) as set out in Rule 14.07 of the Listing Rules to be applied for determining the classification of a transaction
“Personal Guarantee”	the personal guarantee to be executed by the Guarantor (as the guarantor) in favour of the Placees to guarantee the obligations of the Issuer under the CB Instrument and the PN Instrument
“Placee(s)”	placee(s) (including Jet-Air) who are independent of and not connected with the Issuer and its connected persons and not deemed to be parties acting in concert with each other, procured or to be procured by the Placing Agent to subscribe for or purchase the Convertible Bonds and the Promissory Notes pursuant to the provisions of the Placing Agreement
“Placing”	the placing of the Convertible Bonds and the Promissory Notes by the Placing Agent to the Placees pursuant to the Placing Agreement
“Placing Agent”	KCG Securities Asia Limited, a company incorporated in Hong Kong and a licensed corporation to carry out type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (Asset Management) regulated activities under the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)

## DEFINITIONS

“Placing Agreement”	the placing agreement dated 18 December 2012 (as amended and supplemented by the extension letters dated 31 December 2012 and 18 March 2013) entered into between the Placing Agent and the Issuer in relation to placing of the Convertible Bonds and the Promissory Notes each in the aggregate principal amount of up to US\$30,000,000
“Placing Amount”	the aggregate amount of the Convertible Bonds and the Promissory Notes payable by the Placees to the Issuer
“Placing Letter”	the placing letter dated 31 January 2013 (as amended and supplemented by the extension letter dated 22 March 2013) entered into between the Placing Agent and Jet-Air in relation to the subscription of the Convertible Bonds and the Promissory Notes to be issued by the Issuer each in the aggregate principal amount of US\$7,000,000
“PN Instrument”	the instrument under and pursuant to which the Promissory Note shall be created and issued by the Issuer, which sets out the rights and obligations of the Issuer and the Noteholders including Jet-Air
“PN Issue Date”	the date on which the Promissory Notes are issued by the Issuer to the Placees (including Jet-Air) under the Placing Agreement
“PN Maturity Date”	the date falling upon the expiry of three (3) years from the date on which the Promissory Notes is first issued or if such date is not a Business Day, the immediate preceding Business Day
“PRC”	People’s Republic of China, and for the purpose of this circular, excluding Hong Kong, Taiwan and the Macau Special Administrative Region
“Promissory Notes”	the promissory notes to be issued by the Issuer pursuant to the Placing Agreement
“Share(s)”	ordinary share(s) of HK\$0.05 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the issued Share(s)
“SGM”	a special general meeting of the Company to be held to consider and, if appropriate, to approve the Placing Letter and the transactions contemplated therein

## DEFINITIONS

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription”	the proposed subscription of the Issuer’s Shares by Business Ally Investments Limited, details of which are set out in the Issuer’s October Announcement
“Subscription Agreement”	the conditional subscription agreement dated 6 September 2012 (as amended and supplemented by the extension letters dated 14 December 2012 and 18 March 2013) entered into between Business Ally Investments Limited and the Issuer in relation to the Subscription
“Subscription of CB and PN”	the proposed subscription of Convertible Bonds and Promissory Notes by Jet-Air pursuant to the Placing Letter
“Takeovers Code”	the Code on Takeovers and Mergers and Share Repurchases published by the Securities and Futures Commission
“US\$”	US dollar, the lawful currency of the United States of America
“Very Substantial Acquisition”	the acquisition of the entire issued share capital of Lexing Holdings Limited by Guang Cheng, details of which are set out in the Issuer’s October Announcement
“Very Substantial Disposal”	the disposal of the entire issued share capital of North Asia Resources Group Limited (“NARG”), the entire issued share capital of Good Loyal Group Limited (“GLG”), and all obligations, liabilities and debts owing or incurred by NARG and GLG to the Issuer Group, by the Issuer, details of which are set out in the Issuer’s October Announcement
“%”	per cent.



**CHINA BEST GROUP HOLDING LIMITED**  
**國華集團控股有限公司\***

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 370)**

*Executive Directors:*

Mr. Huang Boqi (*Chairman*)

Mr. Du Chunyu (*Deputy Chairman*)

*Independent Non-Executive Directors:*

Mr. Zhou Mingchi

Ms. Wong Yan Ki, Angel

Mr. Zhang Liang

*Registered office:*

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

*Head office and principal place of  
business in Hong Kong*

Room 3405

Bank of America Tower

12 Harcourt Road

Central, Hong Kong

28 March 2013

*To the Shareholders*

Dear Sir or Madam,

**1) VERY SUBSTANTIAL ACQUISITION –  
SUBSCRIPTION OF CB AND PN: AND  
2) NOTICE OF SPECIAL GENERAL MEETING**

**INTRODUCTION**

Reference is made to the Announcements in relation to, among other things, the Subscription of CB and PN.

The purpose of this circular is to provide you with, among other things, (i) further information regarding the Subscription of CB and PN; and (ii) a notice of SGM.

\* For identification purpose only

## LETTER FROM THE BOARD

On 18 December 2012, the Issuer entered into the Placing Agreement with the Placing Agent pursuant to which the Placing Agent has conditionally agreed to procure, on a best-effort basis, the Placees to subscribe for the Convertible Bonds and the Promissory Notes each up to an aggregate amount of US\$30 million (equivalent to approximately HK\$234 million). The Placees shall subscribe for the same amount of the Convertible Bonds and the Promissory Notes at the same time. Reference is made to the announcement of the Issuer dated 18 December 2012.

On 31 January 2013, after trading hours, Jet-Air, the Company's wholly owned subsidiary, and the Placing Agent entered into the Placing Letter, pursuant to which Jet-Air has conditionally agreed to subscribe for the Convertible Bonds and the Promissory Notes each in an aggregate principal amount of US\$7 million (equivalent to approximately HK\$54.6 million) respectively at their face values, which will be satisfied by cash. The Consideration will be funded by internal resources of the Group.

### THE PLACING LETTER

#### Date

31 January 2013 (as amended and supplemented by the extension letter dated 22 March 2013)

#### Parties

- (1) KCG Securities Asia Limited as the Placing Agent
- (2) Jet-Air as the Placee

#### Aggregate Consideration

- (1) US\$7,000,000 for the Convertible Bonds
- (2) US\$7,000,000 for the Promissory Notes

(each being the aggregate principal amount of the Convertible Bonds and Promissory Notes conditionally agreed to be subscribed by Jet-Air)

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Placing Agent and its ultimate beneficial owners are Independent Third Parties.

## LETTER FROM THE BOARD

### Payment Terms

The Consideration will be payable in the following manner:-

- (i) within 5 Business Days from the date of the Placing Letter, 10% of the Consideration (together with (if any) Stock Exchange trading fee, SFC transaction levy, investor compensation levy and CCASS transaction fee) (“**Deposit**”) shall be deposited to the bank account designated by the Placing Agent; and
- (ii) the remaining balance shall be paid to the bank account designated by the Placing Agent within 3 Business Days after the fulfillment of all conditions of the Placing Letter.

### Conditions precedent of the Subscription of CB and PN

The Subscription of CB and PN is conditional upon:

- (a) the fulfillment (or waived by the Placing Agent (if applicable)) of the conditions of the Placing Agreement;
- (b) the Shareholders or the independent Shareholders (if applicable) having approved at the SGM, the Placing Letter, the transactions contemplated thereunder and the Subscription of CB and PN;
- (c) the board of directors of Jet-Air and the Board having approved the Placing Letter, the transactions contemplated thereunder and the Subscription of CB and PN;
- (d) all necessary consents, authorisations, licences and approvals from the Stock Exchange, the Securities and Futures Commission and other relevant government or regulatory authorities in relation to the Placing Letter, the transactions contemplated thereunder and the Subscription of CB and PN having been obtained; and
- (e) the Deposit having been deposited to the bank account designated by the Placing Agent in accordance with the terms of the Placing Letter.

None of the parties may waive any of the above conditions. If the conditions are not fulfilled on or before the Long Stop Date for Subscription (or such other date as may be agreed between Jet-Air and the Placing Agent in writing), the Placing Letter shall terminate and none of the parties to the Placing Letter shall have any claim against the other for any costs or losses (save for any prior breaches of the Placing Letter) and the Deposit shall be refunded to Jet-Air without interest within 10 Business Days. As at the Latest Practicable Date, save for conditions (c) and (e) having been fulfilled, none of the above conditions have been fulfilled.

## LETTER FROM THE BOARD

### **Completion of the Subscription of CB and PN**

Upon the fulfilment of the above conditions and upon Jet-Air having made the payment of the remaining balance of the Consideration less the Deposit to the bank account designated by the Placing Agent, the Issuer shall issue the Convertible Bonds and Promissory Notes in accordance with the terms and conditions of the Placing Agreement.

### **INFORMATION IN RELATION TO THE PLACING AGREEMENT**

#### **Date**

18 December 2012 (as amended and supplemented by the extension letters dated 31 December 2012 and 18 March 2013)

#### **Parties**

- (1) North Asia Resources Holdings Limited as the Issuer
- (2) KCG Securities Asia Limited as the Placing Agent

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, (i) the Issuer and its substantial shareholders are Independent Third Parties; and (ii) the Placing Agent, the Guarantor and their ultimate beneficial owners are Independent Third Parties.

#### **Conditions Precedent of the Placing Agreement**

The Placing is conditional upon:

- (a) if required, the Listing Committee having approved the issue of the Convertible Bonds and the Promissory Notes either unconditionally or subject to conditions to which neither the Issuer nor the subscriber of the Convertible Bonds or the Promissory Notes shall reasonably object and the satisfaction of such conditions;
- (b) the Listing Committee having granted the listing of, and permission to deal in, the Conversion Shares which may fall to be allotted and issued upon the exercise of the conversion rights attached to the Convertible Bonds;
- (c) the passing by the shareholders of the Issuer who are entitled to vote and not required to be abstained from voting under the Listing Rules and other applicable regulations of resolutions to approve the Placing Agreement and the transactions contemplated thereunder, including the Placing and the issue of the Convertible Bond(s) and the Promissory Notes and the issue and allotment of the Conversion Shares under a specific mandate;
- (d) the Very Substantial Acquisition, the Very Substantial Disposal, the Subscription and the associated transactions, as set out in the Issuer's October Announcement, having been completed;

## LETTER FROM THE BOARD

- (e) the warranties of the Issuer set forth in the Placing Agreement in the opinion of the Placing Agent remaining true and accurate in all material respects, and not misleading in any material respect, as given on the date of the Placing Agreement and at Completion of Placing Agreement;
- (f) the Placing Agent in its opinion being satisfied with its business, technical, legal and financial due diligent investigation with respect to the Issuer Group for the purpose of Completion of Placing Agreement;
- (g) the Placing Agent having received a Hong Kong legal opinion on the Issuer addressing the matters set forth in the Placing Agreement;
- (h) if required, the Bermuda Monetary Authority granting its permission for the issue of the Convertible Bond(s), the Promissory Notes and the issue and allotment of the Conversion Shares;
- (i) the Guarantor having executed and delivered to the Placing Agent or the Placee the Personal Guarantee and the Mortgages on Shares and CB under seal, lodged all relevant documents for registration in relation to the Mortgages on Shares and CB under the laws of Bermuda and Hong Kong and delivered to the Placing Agent or the Placees a legal opinion confirming the due execution of the Mortgages on Shares and CB by the Guarantor issued by lawyers qualified to the practise laws of Bermuda and Hong Kong in relation to the Mortgages on Shares and CB; and
- (j) all necessary consents and approvals to be obtained on the part of each of the Placing Agent and the Issuer in respect of the Placing Agreement and the transactions contemplated thereunder having been obtained.

The Placing Agent may at its absolute discretion at any time waive in writing any of the above conditions in (e), (f), (g) and (i) above and such waiver may be made subject to such reasonable terms and conditions as are determined by the Placing Agent. If the conditions are not fulfilled (or waived by the Placing Agent) on or before the Long Stop Date (or such later date as may be agreed between the Issuer and the Placing Agent in writing), the Placing Agreement shall terminate and none of the parties to the Placing Agreement shall have any claim against the other for any costs or losses (save for any prior breaches of the Placing Agreement).

As at the Latest Practicable Date, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Placing Agent has no intention to waive any of the above conditions in (e), (f), (g) and (i), in particular, condition (i) of the Placing Agreement.

## LETTER FROM THE BOARD

The Placing Agent will exercise its absolute discretion to waive condition (i) of the Placing Agreement only when all Placees including Jet-Air consent in advance to the waiver of execution of the Personal Guarantee and the Mortgages on Shares and CB. The Placing Agent has undertaken to Jet-Air that, unless with the prior written consent of all Placees including Jet-Air, the Placing Agent will not waive, in part or in whole, condition (i) of the Placing Agreement.

### **Completion of Placing Agreement**

Completion of Placing Agreement shall take place on the fifth Business Day following the date on which the conditions of the Placing Agreement are fulfilled or on such other date as the Issuer and the Placing Agent shall agree.

### **Termination and force majeure of the Placing Agreement**

The Placing Agent shall be entitled by notice to the Issuer given prior to 10:00 a.m. on the Business Day preceding the relevant date of Completion of Placing Agreement to terminate the Placing Agreement if:

- (a) there develops, occurs or comes into force:
  - (i) the occurrence of any event, development or change (whether or not local, national or international or forming part of a series of events, developments or changes occurring or continuing before, on and/or after the date thereof) and including an event or change in relation to or a development of an existing state of affairs of a political, military, industrial, financial, economic, fiscal, regulatory or other nature, resulting in a material adverse change in, or which may result in a material adverse change in, political, economic, fiscal, financial, regulatory or stock market conditions and which in the reasonable opinion of the Placing Agent would materially adversely affect the success of the Placing; or
  - (ii) the imposition of any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange occurring due to exceptional financial circumstances or otherwise and which in the reasonable opinion of the Placing Agent, would materially adversely affect the success of the Placing; or
  - (iii) any material adverse change in conditions of local, national or international securities markets occurs which in the reasonable opinion of the Placing Agent would materially and adversely affect the success of the Placing; or

## LETTER FROM THE BOARD

- (iv) any new law or regulation or change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority in Hong Kong or any other jurisdiction relevant to the Issuer Group and if in the reasonable opinion of the Placing Agent any such new law or change may materially and adversely affect the business or financial prospects of the Issuer Group and/or the success of the Placing; or
  - (v) a change or development occurs involving a prospective change of taxation or exchange control (or the implementation of exchange control) in Hong Kong or elsewhere and if in the reasonable opinion of the Placing Agent, any such change or development would materially adversely affect the success of the Placing; or
  - (vi) any new litigation or claim being instigated against any member of the Issuer Group, which has or may have a material adverse effect on the business or financial position of the Issuer Group and which in the reasonable opinion of the Placing Agent would materially and adversely affect the success of the Placing (other than the litigation matter as announced by the Issuer in its announcement dated 27 August 2012 and other ancillary claim(s) in association therewith); or
- (b) any material breach of any of the representations and warranties set out in the Placing Agreement comes to the knowledge of the Placing Agent or any event occurs or any matter arises on or after the date hereof and prior to the Completion of Placing Agreement which if it had occurred or arisen before the date thereof would have rendered any of such representations and warranties untrue or incorrect in any material respect or there has been a material breach by the Issuer of any other provision of the Placing Agreement; or
- (c) there is any adverse change in the financial position of the Issuer which is material in the context of the Placing; or
- (d) there is any adverse change in market conditions occurs which makes it inexpedient or inadvisable to proceed with the placing of the Convertible Bonds and the Promissory Notes or any suspension in the trading of the Issuer's securities on the Stock Exchange for a period of more than thirty (30) consecutive Business Days, excluding any suspension in connection with the clearance of the announcement, the circular or other documents in connection with the placing of the Convertible Bonds and the Promissory Notes.

## LETTER FROM THE BOARD

### Principal Terms of the Convertible Bonds

The following are the principal terms of the Convertible Bonds:

Issuer of the Convertible Bonds:	North Asia Resources Holdings Limited
Aggregate principal amount:	Up to US\$30,000,000, of which US\$7,000,000 to be subscribed by Jet-Air.
Maturity:	36 months from the date of issue of the Convertible Bonds.
Placing Price:	The Convertible Bonds will be issued at 100% of their principal amount.
Redemption:	<i>Redemption of the Convertible Bonds at maturity:</i>

Unless previously redeemed, converted or purchased or cancelled, the Issuer will redeem all outstanding Convertible Bonds on the CB Maturity Date plus any accrued but unpaid interest.

*Early redemption:*

After 12 months from the date of issue of the Convertible Bonds, the Convertible Bonds may be redeemed in whole or in part, subject to the prior written consent of the Bondholder(s), at any time and from time to time prior to the maturity date of the Convertible Bonds. The Issuer shall redeem the amount equal to one hundred per cent (100%) of the principal amount of the Convertible Bonds as agreed with the Bondholder(s), plus an amount that would yield a return of eight per cent per annum (8% p.a.) on the redeemed portion thereon calculated from the CB Issue Date up to (and including) the date the Convertible Bonds are redeemed and which shall include all interests (other than default interest) previously paid to the investors. Each redemption shall be in integral multiples of US\$500,000 at the same time.

## LETTER FROM THE BOARD

Conversion Price: HK\$0.31 per Conversion Share.

The Conversion Shares shall be issued under a specific mandate to be approved by the shareholders of the Issuer at the Issuer's SGM.

The Conversion Price of HK\$0.31 represents:

- (i) the closing price of HK\$0.31 per Issuer's Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a discount of approximately 2.82% to the average closing price of HK\$0.319 per Issuer's Share as quoted on the Stock Exchange for the last five consecutive trading days immediately prior to the date of the Placing Agreement; and
- (iii) a discount of approximately 1.90% to the average of the closing prices of the Shares of HK\$0.316 per Share for the ten consecutive trading days up to and including the Last Trading Day.

The Conversion Price is subject to adjustments upon the occurrence of, among other matters, subdivision or consolidation of the Issuer's Shares, capitalization issues, rights issues and other dilutive events which involve any change in the issued share capital of the Issuer which become effective on or before the date of conversion of the Convertible Bonds such as issue of any convertible securities. Such adjustments shall be certified either (at the option of the Issuer) by the auditors of the Issuer for the time being or by an approved merchant bank in accordance with the terms and conditions of the Convertible Bonds. No adjustment is needed upon the completion of the Very Substantial Acquisition, Very Substantial Disposal and the Subscription.

## LETTER FROM THE BOARD

Conversion Share(s):

Based on the Conversion Price, a maximum of 754,838,709 new shares to be issued by the Issuer upon the exercise of the conversion rights attaching to the Convertible Bonds, of which a maximum of 176,129,032 new shares to be subscribed by Jet-Air.

The Conversion Shares to be subscribed by Jet-Air represents:

- (i) 14.74% of the Issuer's existing share capital at the date of this circular;
- (ii) 9.32% of the Issuer's share capital assuming full conversion of the Convertible Bonds at the Conversion Price by Jet-Air immediately after the completion of the Very Substantial Acquisition, the Very Substantial Disposal, the Subscription and the associated transactions; and
- (iii) 0.65% of the Issuer's share capital immediately after the conversion of all convertible preference shares and Convertible Bonds of the Issuer (assuming completion of the Very Substantial Acquisition, Very Substantial Disposal and the Subscription).

The Company will further comply with the relevant requirements under the Listing Rules upon conversion of the Convertible Bonds.

Interest:

8% per annum on the outstanding aggregate principal amount of the Convertible Bonds, payable semi-annually commencing from the CB Issue Date up to (and including) the CB Maturity Date. All accrued interest shall be payable in the event of redemption or conversion.

## LETTER FROM THE BOARD

Unless previously redeemed, converted or purchased or cancelled, the Issuer shall redeem the outstanding Convertible Bonds on the CB Maturity Date at an amount equal to one hundred per cent (100%) of the principal amount of the Convertible Bonds so redeemed, plus an amount that would yield a return of twelve per cent per annum (12% p.a.) on the outstanding portion thereon calculated from the CB Issue Date up to (and including) the CB Maturity Date and which shall include all interests (other than default interest) previously paid to the investors.

Conversion rights:

The Convertible Bonds are convertible in whole or in part by the Bondholders into Conversion Shares at the Conversion Price at any time during the conversion period (as stated below).

Conversion period:

Provided that the exercise of the conversion rights attached to the Convertible Bonds (i) by the holder thereof and its respective parties acting in concert does not trigger a mandatory offer under Rule 26 of the Takeovers Code on the part of the holder thereof and its parties acting in concert; and (ii) by the holder thereof and its associates will not render Issuer's Shares held in public hands being less than the minimum public float of the Shares required under the Listing Rules (i.e. 25% of the issued share capital of the Issuer), holder(s) of the Convertible Bonds shall have the right to convert, at any time during the period commencing from the date of issue the Convertible Bonds until the fifth Business Day before the maturity date of the Convertible Bonds, the whole or part in integral multiples of US\$500,000 of the outstanding principal amount of the Convertible Bonds.

Ranking of the Conversion Shares:

The Conversion Shares, when allotted and issued, will rank pari passu in all respects with all other Issuer's Shares as at the date of conversion on which a notice is given for the exercise of conversion rights and be entitled to all dividends and other distributions the record date of which falls on a date on or after the notice of the exercise of conversion right is given.

## LETTER FROM THE BOARD

- Voting:** The holder(s) of the Convertible Bonds will not be entitled to receive notice of, attend or vote at any meeting of the Issuer by reason only it/they being the holder(s) of the Convertible Bonds.
- Transferability:** The Convertible Bonds may be transferred other than to connected persons of the Issuer or parties acting in concert with the holder(s) of the Convertible Bonds. Any transfer of the Convertible Bonds shall be in respect of the whole or part only in integral multiples of US\$500,000 of the outstanding principal amount of the Convertible Bonds.
- Listing:** No application will be made for the listing of, or permission to deal in, the Convertible Bonds on the Stock Exchange or any other stock exchange. Application will be made to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.
- Events of default:** The Convertible Bonds will contain events of default provisions which provide that on the occurrence of certain events of default specified in the Convertible Bonds, each of the Bondholders shall be entitled to demand for immediate repayment of the principal amount outstanding under the relevant Convertible Bonds, plus an amount that would yield an IRR of 18% on the outstanding portion thereon calculated from the CB Issue Date up to (and including) the actual date of payment (for the avoidance of doubt all interest previously paid to the Bondholders shall be included for the calculation of the IRR).
- Security:** The Convertible Bonds will be secured by the Mortgages on Shares and CB and the Personal Guarantee.

There is no restriction on sales of the Conversion Shares by the Bondholders.

## LETTER FROM THE BOARD

### Principal Terms of the Promissory Notes

The following are the principal terms of the Promissory Notes:

Issuer of the Promissory Notes:	North Asia Resources Holdings Limited
Aggregate principal amount:	Up to US\$30,000,000, of which US\$7,000,000 to be subscribed by Jet-Air.
Maturity:	36 months from the date of issue of the Promissory Notes.
Placing Price:	The Promissory Notes will be issued at 100% of their principal amount.
Redemption:	<i>Redemption of the Promissory Notes at maturity:</i>

Unless previously redeemed or purchased or cancelled, the Issuer will redeem all outstanding Promissory Notes on the PN Maturity Date plus any accrued but unpaid interest.

*Early redemption:*

After 12 months from the date of issue of the Promissory Notes, subject to the prior written consent of the Noteholder(s), the Promissory Notes may be redeemed in whole or in part at any time and from time to time at the option of the Issuer prior to the maturity date of the Promissory Notes. The Issuer shall redeem the amount equal to one hundred per cent (100%) of the principal amount of the Promissory Notes as agreed with the Noteholder(s), plus an amount that would yield a return of twelve per cent per annum (12% p.a.) on the redeemed portion thereon calculated from the PN Issue Date up to (and including) the date the Promissory Notes is/are redeemed and which shall include all interests (other than default interest) previously paid to the investors. Each redemption shall be in integral multiples of US\$500,000 at the same time.

## LETTER FROM THE BOARD

- Interest:** 12% per annum on the outstanding aggregate principal amount of the Promissory Notes, payable semi-annually commencing from the PN Issue Date up to (and including) the PN Maturity Date. All accrued interest shall be payable in the event of redemption.
- Transferability:** The Promissory Notes may be transferred other than to connected persons of the Issuer or parties acting in concert with the holder(s) of the Promissory Notes. Any transfer of the Promissory Notes shall be in respect of the whole or part only in integral multiples of US\$500,000 of the outstanding principal amount of the Promissory Notes.
- Listing:** No application will be made for the listing of, or permission to deal in, the Promissory Notes on the Stock Exchange or any other stock exchange.
- Events of default:** The Promissory Notes will contain events of default provisions which provide that on the occurrence of certain events of default specified in the Promissory Notes, each of the Noteholders shall be entitled to demand for immediate repayment of the principal amount outstanding under the relevant Promissory Notes, plus an amount that would yield an IRR of 18% on the outstanding portion only thereon calculated from the PN Issue Date up to (and including) the actual date of payment (for the avoidance of doubt all interest previously paid to the Noteholders shall be included for the calculation of the IRR).
- Security:** The Promissory Notes will be secured by the Mortgages on Shares and CB and the Personal Guarantee

## LETTER FROM THE BOARD

### RISK FACTORS

Set out below are the potential risks in connection with the Subscription of CB and PN. Additional risks and uncertainties not presently known to the Directors, or not expressed or implied below, or that the Directors currently deem immaterial, may also adversely affect the Issuer Group's business, operating results and financial condition in a material aspect, which may in turn affect the Issuer's ability to pay interest and principal of the Convertible Bonds and Promissory Notes when due.

#### Credit and default risk

There is a risk that the Issuer may default on its obligation to pay the interest and principal of the Convertible Bonds and the Promissory Notes when due. In the event of any default on the Convertible Bonds and/or the Promissory Notes, the Company is contractually entitled to enforce its security rights over the Personal Guarantee and the Mortgages on Shares and CB. Bondholders and Noteholders including Jet-Air are also entitled to demand for immediate repayment of the principal amount outstanding under the relevant Convertible Bonds and/or the Promissory Notes, plus an amount that would yield an IRR of 18% on the outstanding portion thereon calculated from the CB Issue Date or PN Issue Date (as the case may be) up to (and including) the actual date of payment (for the avoidance of doubt all interest previously paid to the Bondholders and Noteholders including Jet-Air shall be included for the calculation of the IRR).

#### **The Company's interest may be adversely affected if certain conditions of the Placing Agreement are waived by the Placing Agent**

The Convertible Bonds and the Promissory Notes are secured by the Personal Guarantee and the Mortgages on Shares and CB, and the execution and delivery of the Personal Guarantee and the Mortgages on Shares and CB is one of the conditions precedent, i.e. condition (i), for the completion of the Placing Agreement. In the event of any default on the Convertible Bonds and/or the Promissory Notes, the Company is contractually entitled to enforce its security rights over the Personal Guarantee and the Mortgages on Shares and CB.

Pursuant to the Placing Agreement, the Placing Agent may at its absolute discretion waive condition (i) of the Placing Agreement. If the Placing Agent elect to waive condition (i) of the Placing Agreement and proceed to Completion of Placing Agreement in the absence of the due execution of the Personal Guarantee and the Mortgages on Shares and CB, the Convertible Bonds and the Promissory Notes will not be secured by any asset. In such case, the Bondholders and Noteholders including Jet-Air may sustain a loss up to the principal amount of the Convertible Bonds and Promissory Notes if the Issuer defaults on its obligations under the CB instrument and/or the PN instrument.

As at the Latest Practicable Date, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Placing Agent will not and has no intention to waive, in part or in whole, condition (i) of the Placing Agreement.

The Placing Agent will exercise its absolute discretion to waive condition (i) of the Placing Agreement only when all Placees including Jet-Air consent in advance to the waiver of execution of the Personal Guarantee and the Mortgages on Shares and CB. The Placing Agent has undertaken to Jet-Air that, unless with the prior written consent of all Placees including Jet-Air, the Placing Agent will not waive, in part or in whole, condition (i) of the Placing Agreement.

## LETTER FROM THE BOARD

### **The operation of the Issuer Group is subject to the regulatory requirements of the PRC government**

Similar to other industry players in the PRC, the Issuer Group is subject to the full regulations under the relevant PRC national, provincial and local government regulations, policies and measures in relation to the mining operations of its subsidiaries. Such regulations, policies and measures covers (including but not limited to) the following areas:

- (a) granting of the exploration and mining rights;
- (b) granting of relevant production and safety production permits;
- (c) limitation on the production capacity;
- (d) setting up relevant environmental, safety and health standards;
- (e) determination of the relevant transportation price;
- (f) determination of the export quotas;
- (g) implementation of temporary measures on the price; and
- (h) imposition of taxes, levies and fees relevant to the exploration and mining activities.

Any changes in the relevant regulatory requirements may cause significant adverse impact on the liabilities, costs and/or duties of the Issuer Group, which in turn affect the Issuer's ability to pay the interests and the principal of the Convertible Bonds and Promissory Notes when due. In the event that the Issuer Group fails to comply with the relevant laws and regulations or if the production amount exceeds the stipulated threshold set out in the production safety permit, the mining operations of the Issuer Group may be suspended and/or the Issuer Group may be subject to fines and/or punishment imposed by the relevant authorities. Any form of such punishment could materially and adversely affect the business, operations and financial position of the Issuer Group and its ability to pay the interests and principal of the Convertible Bonds and Promissory Notes when due.

There is no guarantee that the relevant PRC authorities will not amend the existing laws and regulations. Furthermore, there is no guarantee that the relevant PRC authorities will not impose any further stringent laws and regulations. Compliance of such laws and regulations may cause substantial capital commitment on the part of the Issuer Group and will cause uncertainty to the business prospect of the Issuer Group which may adversely affect its ability to pay the interests and principal of the Convertible Bonds and Promissory Notes when due.

## LETTER FROM THE BOARD

### Liquidity risk

There will be no public market for the Convertible Bonds and Promissory Notes as no application will be made by the Issuer for the listing of, or permission to deal in, the Convertible Bonds and/or the Promissory Notes on the Stock Exchange or any other stock exchange. Places including Jet-Air may have difficulty in disposing of the Convertible Bonds and Promissory Notes when a need to liquidate their assets arises.

The Directors confirmed that the Group intends to hold the Convertible Bonds and Promissory Notes for long-term strategic purposes.

### FINANCIAL INFORMATION OF THE ISSUER GROUP

The Issuer is an investment holding company and its subsidiaries are principally engaged in the distribution of information technology products, mining operation, trading of iron and alluvial gold and coal trading and logistics. The Issuer Group has been engaged in mining business since 2009.

Set out below is a summary of the key financial information of the Issuer Group for the year ended 31 December 2009, 31 December 2010 and 31 December 2011, and for the six months ended 30 June 2012:

	<b>30</b>	<b>31</b>	<b>31</b>	<b>31</b>
	<b>June</b>	<b>December</b>	<b>December</b>	<b>December</b>
	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
	<i>(Unaudited)</i>	<i>(Audited)</i>	<i>(Audited)</i>	<i>(Audited)</i>
Bank balances and cash	<u>32,998</u>	<u>33,573</u>	<u>259,086</u>	<u>27,049</u>
Current assets	110,281	136,137	316,470	266,525
Current liabilities	<u>(337,871)</u>	<u>(310,517)</u>	<u>(55,082)</u>	<u>(117,320)</u>
<b>Net current assets</b>				
<b>(liabilities)</b>	<u><b>(227,590)</b></u>	<u><b>(174,380)</b></u>	<u><b>261,388</b></u>	<u><b>149,205</b></u>
Total assets	682,724	714,685	1,716,600	4,442,141
Total liabilities	<u>(378,627)</u>	<u>(351,273)</u>	<u>(488,885)</u>	<u>(663,014)</u>
<b>Net asset value</b>	<u><b>304,097</b></u>	<u><b>363,412</b></u>	<u><b>1,227,715</b></u>	<u><b>3,779,127</b></u>

Details of the financial information of the Issuer Group (i) for the six months ended 30 June 2012 has been disclosed on pages 25 to 60 of its 2012 interim report published on 10 September 2012; (ii) for the year ended 31 December 2011 has been disclosed on pages 41 to 136 of its 2011 annual report published on 13 April 2012; (iii) for the year ended

## LETTER FROM THE BOARD

31 December 2010 has been disclosed on pages 46 to 144 of its 2010 annual report published on 12 April 2011; and (iv) for the year ended 31 December 2009 has been disclosed on pages 51 to 140 of its 2009 annual report published on 28 April 2010. All the aforesaid interim/annual report(s) have been published on the website of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the website of the Issuer ([www.northasiaresources.com](http://www.northasiaresources.com)).

### REASONS FOR THE SUBSCRIPTION OF CB AND PN

The Group is principally engaged in manufacture and sales of coal, international air and sea freight forwarding and the provision of logistics services as well as trading of securities.

The Issuer is an investment holding company and its subsidiaries are principally engaged in the distribution of information technology products, mining operation, trading of iron and alluvial gold and coal trading and logistics. The Issuer Group has been engaged in mining business since 2009.

The Directors consider that the Subscription of CB and PN would provide the Company with the flexibility to be benefited from stable and comparatively higher interest income at minimal risks from the Convertible Bonds and the Promissory Notes as well as the upside of the share price performance of the Issuer's Shares through conversion of part or whole of the Convertible Bonds into the Issuer's shares.

As there is no investment with similar characteristics and interest rate available on the market, the Directors did not consider any other alternatives prior to the signing of the Placing Letter.

The unaudited pro forma financial information on the Group which illustrates the financial effect of the Subscription of CB and PN on the profit or loss and the net assets of the Group assuming the completion of Subscription of CB and PN had taken place on 1 January 2012 or 31 December 2012 is set out in Appendix II. The receipt of interest income will increase the revenue and the earnings of the Group. In addition, the Convertible Bonds will be classified as convertible instruments designated as financial assets at fair value through profit or loss, which will be measured at fair value at each reporting date, with change in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise.

The Directors consider that the Issuer's ability to pay the interests due and repay the Convertible Bonds and Promissory Notes largely depends on the financial performance of the Issuer and the existence of any collateral. In assessing whether the credit risk and default risk from the Subscription of CB and PN are acceptable, the Board has taken into account the following factors :

- (i) the interest rates and the default interest rates of the Convertible Bonds and Promissory Notes were higher than the benchmark interest rate for US\$ deposits of comparable terms in the market;

## LETTER FROM THE BOARD

- (ii) the Convertible Bonds and Promissory Notes are secured by the Personal Guarantee and the Mortgages on Shares and CB, and the execution and delivery of the Personal Guarantee and the Mortgages on Shares and CB is one of the conditions precedent, i.e. condition (i), for the completion of the Placing Agreement. In the event of any default on the Convertible Bonds and/or the Promissory Notes, the Company is contractually entitled to enforce its security rights over the Personal Guarantee and the Mortgages on Shares and CB;
- (iii) though the Placing Agent may at its absolute discretion waive condition (i) of the Placing Agreement, as at the Latest Practicable Date and to the best of the Directors' knowledge, information and having made all reasonable enquiries, the Placing Agent will not and has no intention to waive, in part or in whole, condition (i) of the Placing Agreement. The Placing Agent has undertaken to Jet-Air that, unless with the prior written consent of all Placees including Jet-Air, the Placing Agent will not waive, in part or in whole, condition (i) of the Placing Agreement;
- (iv) Reference is made to the Issuer's October Announcement in relation to, among others, the Very Substantial Acquisition. Pursuant to the Acquisition Agreement, Guang Cheng agreed to acquire the entire issued share capital of Lexing Holdings Limited ("Lexing"). Lexing is the indirect beneficial owner of a 49% equity interest in 山西煤炭運銷集團能源投資開發有限公司 (Shanxi Coal Transportation and Sales Group Investment and Development Co., Ltd.\*) ("Shanxi Coal"), which is principally engaged in the operation of certain coal mines through various mine companies in the PRC. These PRC mine companies are principally engaged in the exploration and exploitation of coal products including coking coal in the PRC. Upon completion of the Very Substantial Acquisition, Lexing will become a subsidiary of the Issuer and the financial results of the PRC mine companies operated by Shanxi Coal will be consolidated into the Issuer Group's financial results. The remaining 51% interest in Shanxi Coal is owned as to 10% by Shanxi Energy Industries Group Limited and as to 41% by Shanxi Coal Transportation and Sales Group Co., Ltd. ("Shanxi Coal Transportation"), respectively, which are entities under the supervision of State-owned Assets Supervision and Administration Commission of the State Council of the PRC.

As disclosed in the Issuer's October Announcement, Shanxi Coal was one of the entities delegated by the relevant government authorities in Shanxi Province to undertake the merger and reorganisation of coal mines in Gujiao City in Shanxi Province. During November 2009 to May 2010, Shanxi Coal acquired controlling interest in certain PRC mining companies as part of the merger and reorganisation initiatives. Further, the aggregate estimated in-place resource and the aggregate estimated marketable reserve of the coal mines amounted to 87.87 million tonnes and 43.37 million tonnes respectively.

\* for identification purpose only

## LETTER FROM THE BOARD

Taking into account the substantial amount of measured and indicated resources at the coal mines located in the PRC and operated by Shanxi Coal, the capability of producing coking coal in these coal mines, the sound background of the shareholders of Shanxi Coal, and the future growth opportunity in relation to merger and reorganisation of coal mines in Shanxi, the Board considered the Very Substantial Acquisition can strengthen the ability of the Issuer Group to generate revenue and cash flow to the Issuer Group and its ability to pay interest and principal of the Convertible Bonds and Promissory Notes when due;

- (v) It came to the attention of the Directors that the Issuer Group had net current liabilities of approximately HK\$174,380,000 and HK\$227,590,000 as at 31 December 2011 and 30 June 2012, respectively, which is mainly attributable to the outstanding principal and the accrued interests of the convertible loan notes with principal amount of USD30,000,000 (equivalent to approximately HK\$234,000,000) subscribed by Business Ally Investments Limited (the "Convertible Loan Notes").

As disclosed in the Issuer's 2011 annual report, the consolidated financial statements of the Issuer were prepared by the directors of the Issuer on a going concern basis, the validity of which is dependent on (i) the successful outcome of the Issuer Group's prospective external financial resources providers to bring in viable assets and/or projects to restructure its financial obligations and to solve the Issuer Group's solvency position at any point of time, and (ii) the Issuer Group's ability to have adequate cash flows to maintain its business.

As disclosed in the Issuer's 2012 interim report, the Issuer entered into a conditional acquisition agreement for the purchase of certain coal mines in Shanxi Province (the "Proposed Acquisition"). Accordingly, the directors of the Issuer are of the opinion that it is appropriate to prepare the condensed consolidated interim financial information for the six months ended 30 June 2012 on a going concern basis, the validity of which depends on (i) the successful completion of the Proposed Acquisition as detailed in the Issuer's announcement dated 4 July 2012 which will bring in the viable coal projects; (ii) the successful restructuring of its financial obligations with regards to the Convertible Loan Notes; and (iii) the Issuer Group's ability to have adequate cash flows to maintain its operations.

According to the Issuer's October Announcement in relation to, among others, the Subscription Agreement, a portion of the Convertible Loan Notes of outstanding principal sum of US\$15,000,000 will be set off for settlement of part of the consideration for the Subscription under the Subscription Agreement, which will in turn reduce the Issuer's current liabilities and the potential cash outflow which would otherwise be required for the repayment of the Convertible Loan Notes, as well as strengthen its capital base.

## LETTER FROM THE BOARD

Reference is made to the announcement of the Issuer dated 18 December 2012 in relation to, among others, the Placing Agreement. Assuming the Convertible Bonds and the Promissory Notes both in the aggregate principal amount of US\$30,000,000 (equivalent to approximately HK\$234,000,000) respectively are successfully placed by the Placing Agent, the estimated net proceeds from the Placing will be approximately US\$59,680,000 (equivalent to approximately HK\$465,527,000) in aggregate, which is intended to be used, among others, as general working capital of the Issuer Group upon Completion of the Very Substantial Acquisition.

Taking into account the set off of a portion of the Convertible Loan Notes under the Subscription, the potential cash inflow to the Issuer Group upon the commencement of production of the coal mines located in Shanxi and operated by Shanxi Coal, the cash inflow to the Issuer Group upon the Completion of Placing Agreement and the Issuer's ability to bring in viable coal projects and the successful restructuring of its financial obligations, the Directors consider that the liquidity and financial position of the Issuer Group will be considerably improved; and

- (vi) the Directors will also review the financial performance of the Issuer and the effectiveness of the Personal Guarantee and the Mortgages on Shares and CB regularly to assess its credit risk when the Subscription of CB and PN is completed.

In view of the above, the Directors consider that the Convertible Bonds and Promissory Notes provided a reasonable return on the investment of the Group and the disadvantages and risks associated with the Subscription of CB and PN are manageable and minimal and the potential benefits of the Subscription of CB and PN shall outweigh such disadvantages and risks.

Accordingly, the Directors consider that the Subscription of CB and PN and the terms of the Placing Letter which are determined after arm's length negotiations and on normal commercial terms are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

### LISTING RULE IMPLICATIONS

As one or more of the applicable Percentage Ratios for the Company in relation to the Subscription of CB and PN exceed 100%, the Subscription of CB and PN constitutes a very substantial acquisition of the Company under Chapter 14 of the Listing Rules and is subject to Shareholders' approval at the SGM.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, no Shareholder is required to abstain from voting to approve the Placing Letter and the transactions thereunder at the SGM. The Company will further comply with the relevant requirements under the Listing Rules upon conversion of the Convertible Bonds.

## LETTER FROM THE BOARD

### SGM

A notice convening the SGM to be held at 11:00 a.m. on Monday, 22 April 2013 at Room 3405, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong or any adjournment is set out on pages SGM-1 to SGM-2 of this circular. The SGM will be held for the purpose of considering and, if thought fit, passing the relevant resolution(s) to approve, among other things, the Placing Letter and the transactions contemplated thereunder.

As at the Latest Practicable Date, to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no Director or Shareholder has a material interest in the Subscription of CB and PN and the Placing Letter. Accordingly, no Shareholder is required to abstain from voting of the ordinary resolution in respect of the Placing Letter and the transaction contemplated thereunder, including the Subscription of CB and PN.

A form of proxy for use at the SGM is enclosed. Whether or not you are able to attend the SGM in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and deposit it to the Company's Hong Kong branch share registrar, Tricor Tengis Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as practicable and in any event not later than 48 hours before the time appointed for holding the SGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

### RECOMMENDATION

The Board considers that the terms of the Placing Letter and the transactions contemplated thereunder, including the Subscription of CB and PN are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends that the Shareholders to vote in favor of the ordinary resolutions to be proposed at the SGM to approve the Placing Letter and the transaction contemplated thereunder, including the Subscription of CB and PN.

### ADDITIONAL INFORMATION

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

- \* For the purpose of illustration only, amounts denominated in US\$ have been translated into HK\$ at the rate of US\$1.00 =HK\$7.80.

By Order of the Board  
**China Best Group Holding Limited**  
**Huang Boqi**  
*Chairman*

## FINANCIAL INFORMATION OF THE GROUP

The financial information of the Group (i) for the year ended 31 December 2012 has been disclosed on pages 42 to 136 of the Company's 2012 annual report published on 18 March 2013; (ii) for the year ended 31 December 2011 has been disclosed on pages 43 to 136 of the Company's 2011 annual report published on 13 April 2012; and (iii) for the year ended 31 December 2010 has been disclosed on pages 29 to 88 of the Company's 2010 annual report published on 20 April 2011. The aforesaid annual reports of the Company have been published on the website of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the website of the Company ([www.cbgroup.com.hk](http://www.cbgroup.com.hk)).

### STATEMENT OF INDEBTEDNESS

#### Borrowings

At the close of business on 31 January 2013, being the latest practicable date for the purpose of this indebtedness statement, the Group had an unsecured loan from a non-controlling interest of a subsidiary of approximately HK\$36,460,000.

#### Contingent liabilities

At the close of business on 31 January 2013, the Group provided a financial guarantee of approximately HK\$63,000 to an independent third party for assurance of their customers in the event they default in payment.

#### Commitments

- (a) At the close of business on 31 January 2013, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	<i>HK\$'000</i>
Within one year	1,846
In the second to fifth years inclusive	1,551
	<u>3,397</u>

- (b) At the close of business on 31 January 2013, the Group had capital expenditure in respect of acquisition of property, plant and equipment are as follow:

	<i>HK\$'000</i>
Contracted, but not provided for	10
	<u>10</u>

For the purpose of the above indebtedness statement, foreign currency amounts have been translated into Hong Kong dollars at the approximate exchange rates prevailing at the close of business on 31 January 2013.

**Pledge of assets**

At the close of business on 31 January 2013, the Group did not pledge any significant assets to banks or other financial institutions.

**Disclaimer**

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities and normal trade payables in the ordinary course of business of the Group, the Group did not have loan capital issued and outstanding, or authorised or otherwise created but unissued, any term loans (secured, unsecured, guaranteed or not), bank overdrafts, loans or other similar indebtedness, liabilities under acceptances credits, debentures, mortgages, charges, hire purchase commitments, finance lease commitments, guarantees or other material contingent liabilities at the close of business on 31 January 2013.

**Material changes**

The Directors confirmed that there has been no material change in the indebtedness and contingent liabilities of the Group since 31 January 2013.

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position or prospect of the Group since 31 December 2012, being the date to which the latest published audited financial statements of the Group were made up.

**WORKING CAPITAL OF THE GROUP**

The Directors are of the opinion that, in the absence of unforeseeable circumstances, after taking into account the Group's business prospects, internal resources, available credit facilities and the effect of the Subscription of CB and PN, the Group has sufficient working capital for its requirements for at least twelve months from the date of this circular.

**FINANCIAL AND TRADING PROSPECTS**

The Group is principally engaged in the manufacture and sales of coal, international air and sea freight forwarding and the provision of logistics services as well as trading of securities.

**Coal Business**

The Group had 55% of the equity interest in Gujiao City Hongxiang Coal Industry Co. Ltd. (“Hongxiang”) which is engaged in the manufacture and sales of coals in the PRC. For the year ended 31 December 2012, the turnover of the Group’s coal business amounted to HK\$95.0 million, representing 62.8% of the Group’s total turnover. Hongxiang continues to be the Group’s principal arm in coal sector. After the slowing down in demand for coal in the PRC market last year, the Board expects that the demand for coal will gradually stabilise and maintain a steady growth in 2013. Hongxiang will keep on enhancing its customer and supplier bases, improving its production efficiency as well as its internal control system, in order to boost its contribution in terms of profitability to the Group.

**Freight Forwarding Business**

Although in the second half of 2012 the global economy started heading to a right direction, there was no substantial recovery in the global air and sea freight forwarding industry. For the year ended 31 December 2012, the turnover of the Group’s freight forwarding business amounted to HK\$6.4 million, representing 4.2 % of the Group’s total turnover. The Board remains unenthusiastic about the prospect of freight forwarding business and will take strict control measures over costs and credit risks.

**Securities Investment Business**

For the year ended 31 December 2012, the turnover of the Group’s security investment business amounted to HK\$50.0 million, representing 33.0 % of the Group’s total turnover. The Board will uphold a relatively conservative strategy. The Board’s investment strategy is to mainly focus on investment vehicles of fixed rates or relatively lower risks in order to secure stable returns at minimal risks. As such, the Group has conditionally agreed to subscribe for the convertible bonds and the promissory notes to be issued by the Issuer, each in an aggregate principal amount of US\$7 million (equivalent to approximately HK\$54.6 million). Further details regarding the prospect and the Directors’ view on the Subscription of CB and PN have been set out in the section headed “Reasons for the Subscription of CB and PN” of the Letter from the Board in this circular.

ACCOUNTANTS' REPORT ON THE UNAUDITED PRO FORMA FINANCIAL  
INFORMATION OF THE GROUP

SHINEWING (HK) CPA Limited  
43/F., The Lee Gardens  
33 Hysan Avenue  
Causeway Bay, Hong Kong

28 March 2013

The Board of Directors  
China Best Group Holding Limited  
Room 3405, Bank of America Tower  
12 Harcourt Road, Central  
Hong Kong

Dear Sirs,

We report on the unaudited pro forma financial information of China Best Group Holding Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") in connection with the proposed subscription of convertible bonds and promissory notes (the "Proposed Transactions"), which has been prepared by the directors of the Company (the "Directors"), for illustrative purpose only, to provide information about how the Proposed Transactions might have affected the financial information presented for inclusion in Appendix I to the circular dated 28 March 2013 in connection with the Proposed Transactions. The basis of preparation of the unaudited pro forma financial information is set out on page II-3 of the circular.

**Respective responsibilities of the Directors and reporting accountants**

It is the responsibility solely of the Directors to prepare the unaudited pro forma financial information in accordance with paragraph 29 of Chapter 4 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" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 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.

**Basis of opinion**

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

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma financial information has been properly compiled by the Directors on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The unaudited pro forma financial information is for illustrative purpose only, based on the judgments and assumptions of the Directors, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

- the financial position of the Group as at 31 December 2012 or at any future date; and
- the results of the Group for the year ended 31 December 2012 or any future periods.

**Opinion**

In our opinion:

- (a) the unaudited pro forma financial information has been properly compiled by the Directors on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

**SHINEWING (HK) CPA Limited**

*Certified Public Accountants*

**Ip Yu Chak**

Practising Certificate Number: P04798

Hong Kong

**UNAUDITED PRO FORMA FINANCIAL INFORMATION**

The accompanying unaudited pro forma consolidated statement of financial position and unaudited pro forma consolidated statement of comprehensive income (the “Unaudited Pro Forma Financial Information”) have been prepared to illustrate the effect of the proposed subscription of convertible bonds and promissory notes (the “Proposed Transactions”), which might have affected the financial information of China Best Group Holding Limited (the “Company”) and its subsidiaries (hereafter collectively referred to as the “Group”).

The unaudited pro forma consolidated statement of financial position of the Group has been prepared based on the audited consolidated statement of financial position of the Group as at 31 December 2012, which has been extracted from the published annual report of the Company as of 31 December 2012 dated 5 March 2013 and adjusted in accordance with the pro forma adjustments described in the notes thereto, as if the Proposed Transactions had been completed as at 31 December 2012.

The unaudited pro forma consolidated statement of comprehensive income of the Group has been prepared based on the audited consolidated statement of comprehensive income of the Group for the year ended 31 December 2012, which has been extracted from the published annual report of the Company as of 31 December 2012 dated 5 March 2013 and adjusted in accordance with the pro forma adjustments described in the notes thereto, as if the Proposed Transactions had been completed on 1 January 2012.

The Unaudited Pro Forma Financial Information has been prepared based on a number of assumptions, estimates, uncertainties and currently available information, and is provided for illustrative purposes only. Accordingly, as a result of its hypothetical nature, it may not give a true picture of the financial position, results of operations of the Group had the Proposed Transactions been completed as at 31 December 2012 or 1 January 2012 where applicable or at any future dates.

- \* For the purpose of illustration only, amounts denominated in US\$ have been translated into HK\$ at the rate of US\$1.00 = HK\$7.8.

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL  
POSITION OF THE GROUP

	Audited consolidated statement of financial position of the Group as at 31 December 2012 <i>HK\$'000</i>	Pro Forma Adjustment <i>Note 1</i> <i>HK\$'000</i>	Pro Forma Adjustment <i>Note 2</i> <i>HK\$'000</i>	Unaudited pro forma consolidated statement of financial position of the Group <i>HK\$'000</i>
Non-current assets				
Property, plant and equipment	52,204			52,204
Prepaid lease payment	178			178
Available-for-sale investments	7,500			7,500
Promissory notes receivables	–		54,600	54,600
Convertible bonds designated as financial assets at fair value through profit or loss	–	54,600		54,600
Goodwill	36,729			36,729
	<u>96,611</u>			<u>205,811</u>
Current assets				
Prepaid lease payment	24			24
Inventories	21,439			21,439
Trade and other receivables	69,074			69,074
Held for trading investments	21,272			21,272
Bank balances and cash	236,345	(54,600)	(54,600)	127,145
	<u>348,154</u>			<u>238,954</u>
Investment property classified as held for sale	3,000			3,000
	<u>351,154</u>			<u>241,954</u>

	Audited consolidated statement of financial position of the Group as at 31 December 2012 <i>HK\$'000</i>	Pro Forma Adjustment <i>Note 1</i> <i>HK\$'000</i>	Pro Forma Adjustment <i>Note 2</i> <i>HK\$'000</i>	Unaudited pro forma consolidated statement of financial position of the Group <i>HK\$'000</i>
Current liabilities				
Trade and other payables	36,992			36,992
Loan from a non-controlling interest of a subsidiary	38,637			38,637
Tax liabilities	13,168			13,168
	<u>88,797</u>			<u>88,797</u>
Net current assets	<u>262,357</u>			<u>153,157</u>
Total assets less current liabilities	<u><b>358,968</b></u>			<u><b>358,968</b></u>
Capital and reserves				
Share capital	121,584			121,584
Reserves	222,141			222,141
Equity attributable to owners of the Company	343,725			343,725
Non-controlling interests	13,091			13,091
Total equity	<u>356,816</u>			<u>356,816</u>
Non-current liability				
Deferred tax liabilities	2,152			2,152
	<u><b>358,968</b></u>			<u><b>358,968</b></u>

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF COMPREHENSIVE  
INCOME OF THE GROUP

	Audited consolidated statement of comprehensive income of the Group for the year ended 31 December 2012 <i>HK\$'000</i>	Pro Forma Adjustment <i>Note 3</i> <i>HK\$'000</i>	Pro Forma Adjustment <i>Note 4</i> <i>HK\$'000</i>	Pro Forma Adjustment <i>Note 5</i> <i>HK\$'000</i>	Unaudited pro forma consolidated statement of comprehensive income of the Group <i>HK\$'000</i>
Turnover	<u>151,353</u>				<u>151,353</u>
Revenue	102,941				102,941
Cost of sales	<u>(71,897)</u>				<u>(71,897)</u>
Gross profit	31,044				31,044
Other income	2,854				2,854
Selling and distribution expenses	(729)				(729)
Administrative expenses	(16,063)				(16,063)
Fair value change on investment property	1,080				1,080
Fair value change on convertible bonds designated as financial assets at fair value through profit or loss	–	22,620			22,620
Interest income from promissory notes	–		6,552		6,552
Interest income from convertible bonds designated as financial assets at fair value through profit or loss	–			4,368	4,368
Realised loss on held for trading investments	(4,416)				(4,416)
Fair value change on held for trading investments	(2,233)				(2,233)
Finance costs	<u>(2,376)</u>				<u>(2,376)</u>

	Audited consolidated statement of comprehensive income of the Group for the year ended 31 December 2012  HK\$'000	Pro Forma Adjustment  Note 3 HK\$'000	Pro Forma Adjustment  Note 4 HK\$'000	Pro Forma Adjustment  Note 5 HK\$'000	Unaudited pro forma consolidated statement of comprehensive income of the Group  HK\$'000
Profit before tax	9,161				42,701
Income tax expense	<u>(6,604)</u>				<u>(6,604)</u>
Profit for the year	2,557				36,097
Other comprehensive income:					
Exchange differences arising on translation	<u>684</u>				<u>684</u>
Total comprehensive income for the year	<u><u>3,241</u></u>				<u><u>36,781</u></u>

*Notes:*

On 31 January 2013, Jet-Air (H.K.) Limited ("Jet-Air"), a wholly owned subsidiary of the Company entered into a placing letter with KCG Securities Asia Limited (the "Placing agent"), pursuant to which Jet-Air conditionally agreed to subscribe for the convertible bonds (the "Convertible Bonds") and the promissory notes (the "Promissory Notes") to be issued by North Asia Resources Holdings Limited (the "Issuer") (stock code: 61), a company listed on The Stock Exchange of Hong Kong Limited, each in a principal amount of US\$7,000,000 (equivalent to approximately HK\$54,600,000) respectively at their face values, which will be satisfied by cash (the "Proposed Transactions").

The directors of the Company elect to designate the Convertible Bonds as financial assets at fair value through profit or loss upon initial recognition under HKAS 39 "Financial Instruments: Recognition and Measurement" as it contains an option to convert the Convertible Bonds to new ordinary shares of the Issuer. Subsequent to the initial recognition, the Convertible Bonds will be measured at fair value at the end of each reporting period and the changes in fair value of the Convertible Bonds will be recognised in the statement of comprehensive income.

The Promissory Notes with determinable payments and fixed maturity dates are classified as held to maturity investments under non-current assets as the directors of the Company are of opinion that the Group has the positive intention and ability to hold the Promissory Notes to maturity. Subsequent to the initial recognition, the Promissory Notes will be measured at amortised cost using the effective interest method, less any identified impairment losses.

For the purpose of preparation of the Unaudited Pro Forma Financial Information, the directors of the Company assumed that the fair values of the Convertible Bonds and the Promissory Notes are equal to their face values at the date of completion of the Proposed Transactions. The effective interest rates of the Convertible Bonds and the Promissory Notes are assumed to be equal to their respective interest rates, i.e. 8% and 12% respectively.

1. The pro forma adjustment of HK\$54,600,000 represents the Company will pay the cash consideration of HK\$54,600,000 for the subscription of 3-year 8% Convertible Bonds with face value of US\$7,000,000 (equivalent to approximately HK\$54,600,000) and the interest will be paid by the Issuer semi-annually as if the Proposed Transactions had been completed on 31 December 2012.

The Convertible Bonds can be converted into new ordinary shares of the Issuer at any time from the date of issue of Convertible Bonds to the fifth business day before the maturity date at a conversion price of HK0.31 per share. The Convertible Bonds will be secured by shares of the Issuer and/or convertible bonds issued by the Issuer and owned by Mr. Zhang San Huo and/or such person/company nominated by him (the "Guarantor"). The market value of the secured shares and/or convertible bonds will be equivalent to 3 times of the principal amount of the Convertible Bonds. Mr. Zhang San Huo is the proposed director of the Issuer. The Guarantor will also provide personal guarantee to the Company.

2. The pro forma adjustment of HK\$54,600,000 represents the Company will pay the cash consideration of HK\$54,600,000 for the subscription of 3-year 12% Promissory Notes with face value of US\$7,000,000 (equivalent to approximately HK\$54,600,000) and the interest will be paid by the Issuer semi-annually as if the Proposed Transactions had been completed on 31 December 2012.

The Promissory Notes will be secured by shares of the Issuer and/or convertible bonds issued by the Issuer and owned by the Guarantor. The market value of the secured shares and/or the convertible bonds will be equivalent to 3 times of the principal amount of the Promissory Notes. The Guarantor will also provide personal guarantee to the Company.

3. For the purpose of preparation of unaudited pro forma statement of comprehensive income, the directors of the Company assumed the Proposed Transactions had been completed on 1 January 2012. The calculation of the fair value changes of the Convertible Bonds are set out below:

	<i>HK\$'000</i>
Fair value of Convertible Bonds as at 31 December 2012 ( <i>Note</i> )	77,220
Less: Fair value of Convertible Bonds as at 1 January 2012	54,600
	22,620

*Note:* The fair value has been arrived on a basis of Binomial Tree method carried out by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, independent qualified professional valuers not connected to the Group as if the Proposed Transactions had been completed on 1 January 2012.

Details of method and basis of valuation of CB are set out in Appendix III to this circular.

This adjustment will have continuing income statement effect on the Group, and the actual amount will vary according to fair value in the Convertible Bonds.

The directors of the Company will carry out fair value assessment of the Convertible Bonds with reference to similar independent valuation at the end of each reporting period, which will be prepared under the same principal assumptions and valuation method.

4. The pro forma adjustment of approximately HK\$6,552,000 represents interest income from the Promissory Notes recognised on an effective interest basis as if the Proposed Transactions had been completed on 1 January 2012. This adjustment will have continuing income statement effect on the Group.

5. The pro forma adjustment of approximately HK\$4,368,000 represents interest income from the Convertible Bonds as if the Proposed Transactions had been completed on 1 January 2012. This adjustment will have continuing income statement effect on the Group.
6. The directors of the Company do not assume an impairment on Promissory Notes for the purpose of the Unaudited Pro Forma Financial Information.
7. No adjustments have been made to reflect the transaction costs in connection with the Proposed Transactions as such costs are considered to be immaterial.
8. No other adjustment has been made to reflect any trading results and other transactions of the Group entered into subsequent to 31 December 2012.

## APPENDIX III VALUATION METHOD AND BASIS ADOPTED BY THE INDEPENDENT VALUER

For the purpose of preparation of unaudited pro forma statement of comprehensive income, the Directors assumed that the Subscription of CB and PN had been completed on 1 January 2012. The fair value of the Convertible Bonds as at 31 December 2012 has been arrived on a basis of Binomial Tree method carried out by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent qualified professional valuer, as if the Subscription of CB and PN had been completed on 1 January 2012.

The following is the valuation method and basis adopted by Jones Lang LaSalle Corporate Appraisal and Advisory Limited in connection with the valuation of the Convertible Bonds as at 31 December 2012.

Jones Lang LaSalle Corporate Appraisal and Advisory Limited has considered the following convertible bond pricing models in deriving the fair value of the Convertible Bonds.

### **The Black-Scholes Option Pricing Model**

In a paper published in 1973, "The Pricing of Options and Corporate Liabilities", Fischer Black and Myron Scholes published an option valuation formula that today is known as the Black-Scholes Model. It has become the standard method for pricing European options (options that can be exercised on the maturity date only). The Black-Scholes Model is a mathematical formula used to calculate the theoretical value of a European option (ignoring dividends paid during the life of the option) using the five key determinants: stock price, strike price, volatility, time to expiration, and short-term (risk free) interest rate.

### **The Binomial Model**

The binomial option pricing model (or Binomial Model) is a flexible, intuitive and popular approach to price options. It is based on the simplification that over a single period of a very short duration, the underlying asset can only move from its original price to an upper and lower level with defined probability. By increasing the number of periods, a binomial lattice/ tree can be developed. This binomial tree represents the possible paths that the future price of the underlying asset can take within the periods. The Binomial Model utilizes the binomial lattice of the underlying asset by incorporating in the terms and structures of the option. Since the binomial tree provides the possible future prices for each period in time as well as the respective probability, value of the option of the underlying asset can then be determined for each point in time.

### **Monte Carlo Simulation**

Monte Carlo simulation is a widely used tool for estimating derivative security prices when there is no closed-form solution. It was first introduced by Boyle (1977) to price options. The Monte Carlo method is especially useful when one deals with path dependent asset prices and/or option payoffs. The price of a derivative contract in an arbitrage-free economy can be expressed as a discounted expected value of its random payoffs. Monte Carlo simulation is hence a natural tool for approximating this expectation

<b>APPENDIX III VALUATION METHOD AND BASIS ADOPTED BY THE INDEPENDENT VALUER</b>
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by the sample average. The commonly used Monte Carlo simulation procedure for option pricing can be briefly described as follows: first, simulate sample paths for the underlying asset price; secondly, compute its corresponding option payoff for each sample path; and finally, average the simulated payoffs and discount the averages to determine the Monte Carlo price of an option.

Jones Lang LaSalle Corporate Appraisal and Advisory Limited has compared the appropriateness of the above mentioned methods for the valuation of the Convertible Bonds. A customized Binomial Model has been considered more appropriate for calculating the fair value of the Convertible Bonds as at 31 December 2012.

Valuation using this method is, as described, a three-step process:

1. price tree generation,
2. calculation of Convertible Bonds value at each final node, and
3. sequential calculation of the Convertible Bonds value at each preceding node.

This approach is introduced by Professor John C. Hull in his book "Option, Futures and Other Derivatives" chapter 27.6, fifth edition, which is commonly used to find out the fair value of convertible bonds together with its embedded derivative in one customized binomial tree model.

In the valuation exercise, Jones Lang LaSalle Corporate Appraisal and Advisory Limited has applied the following key parameters to build the binomial tree:-

- Risk free rate of 0.27% with reference to the yield of US Treasury Bonds as at 31 December 2012;
- Volatility of 70.19% with reference to the historical volatility of the Issuer as at 31 December 2012;
- Dividend yield of 0% based on historical dividend yield of the Issuer; and
- Spot price of HKD 0.29 with reference to the share price of the Issuer as at 31 December 2012.

**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 Group. 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.

**DISCLOSURE OF INTERESTS****Directors' interests**

Save as mentioned below, as at the Latest Practicable Date, none of the Directors and chief executive had any interests or short position in the Shares, underlying Shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which (i) 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, if any, which any such Director or the chief executive of the Company was taken or deemed to have under such provisions of the SFO); or which (ii) were required to be entered into the register maintained by the Company, pursuant to section 352 of the SFO; or which (iii) were required to be notified to the Company and the Stock Exchange, pursuant to the Model Code for Securities Transaction by Directors of Listed Companies as set out in Appendix 10 of the Listing Rules:

*Long positions in the Shares:*

<b>Name of Director</b>	<b>Capacity</b>	<b>Interest in Shares</b>	<b>Percentage of the issued share capital of the Company</b>
Huang Boqi	Interest in a controlled corporation	626,161,600 (Note)	25.75%

*Note:* These Shares are held by Fortune Ever Investments Limited ("Fortune Ever"). The entire issued share capital of Fortune Ever is held by Capital Lane Holdings Limited ("Capital Lane"). The entire issued share capital of Capital Lane is held by Mr. Huang Boqi. Therefore, by virtue of the SFO, Mr. Huang Boqi was deemed to be interested in all the Shares held by Fortune Ever.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors is a director or employee of a company which has an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provision of Divisions 2 and 3 of Part XV of the SFO.

**Substantial Shareholders' interests:**

Save as disclosed below, the Directors and the chief executive of the Company were not aware that there was any person who, as at the Latest Practicable Date, had an interest or short position in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would fall to be disclosed under provisions of Division 2 and 3 of Part XV of the SFO, or who, as at the Latest Practicable Date, was directly and indirectly interested in ten per cent, or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

*Long Position in the Shares*

Name	Capacity	Interest in Shares	Percentage of the issued share capital of the Company
Capital Lane	Interest in a controlled corporation (Note 1)	626,161,600	25.75%
Fortune Ever	Beneficial owner (Note 1)	626,161,600	25.75%
Great Soar Holdings Limited ("Great Soar")	Beneficial owner (Note 2)	321,875,000	13.24%
Yuen Sze Man ("Ms. Yuen")	Interest in a controlled corporation (Note 2)	321,875,000	13.24%

*Notes:*

1. Fortune Ever holding 626,161,600 Shares was wholly owned by Capital Lane, which in turn was wholly owned by Mr. Huang Boqi. By virtue of the SFO, Capital Lane and Mr. Huang were deemed to be interested in all the Shares held by Fortune Ever.
2. Great Soar holding 321,875,000 Shares was wholly owned by Ms. Yuen. By virtue of the SFO, Ms. Yuen was deemed to be interested in all the Shares held by Great Soar.

**DIRECTORS' INTERESTS IN CONTRACTS AND ASSETS**

As at the Latest Practicable Date, none of the Directors had any interest, directly or indirectly, in any assets which have been, since 31 December 2012 (being the date to which the latest published audited financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, none of the Directors was materially interested in any subsisting contract or arrangement which was significant in relation to the business of the Group.

**DIRECTORS' INTERESTS IN COMPETING BUSINESSES**

As at the Latest Practicable Date, to the best knowledge of the Directors, none of the Directors and any of their respective associates had any interest in a business apart from the Group's businesses which competes or may compete, either directly or indirectly, with the business of the Group, or may have any conflicts of interest with the Group pursuant to Rule 8.10 of the Listing Rules.

**LITIGATION**

No member of the Group was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to the Directors to be pending or threatened against any member of the Group as at the Latest Practicable Date.

**DIRECTORS' SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors had entered into any service contracts with the Company, any member of the Group or associated companies of the Company which:

1. are continuous contracts with a notice period of 12 months or more;
2. are fixed term contracts with more than 12 months to run irrespective of the notice period; or
3. are not determinable by any member of the Group within one year without payment of compensation (other than statutory compensation).

**MATERIAL CONTRACTS**

Set out below are the material contracts (not being contracts entered into in the ordinary course of business) entered into by any member of the Group within the two years immediately preceding the Latest Practicable Date:

- (a) the sale and purchase agreement dated 28 March 2011 (the "SPA") entered into between the Company and Great Soar in relation to the sale and purchase of 55% of the issued share capital of Suntech Worldwide Limited at a consideration of HK\$71.5 million;
- (b) the sale and purchase agreement dated 16 September 2011 entered between the Company (as the vendor) and Targo Tech Limited (as the purchaser) for the sale and purchase of the entire issued share capital of Harvest Growth Group Limited at a consideration of approximately HK\$400,000;

- (c) the deed of novation dated 21 September 2011 entered into between the Company, Great Soar and Graceful Mind Group Limited (“Graceful Mind”), a wholly-owned subsidiary of the Company, in relation to the transfer by novation all the rights and liabilities of the Company to Graceful Mind as contemplated under the SPA;
- (d) the share mortgage dated 23 September 2011 (the “Share Mortgage”) executed by Great Soar (as the mortgagor) in favour of Graceful Mind (as the mortgagee) over 321,875,000 Shares (the “Mortgaged Shares”) held by Great Soar;
- (e) the sale and purchase agreement dated 10 December 2012 between Jet-Air (as the vendor) and Starring Development Limited (as the purchaser) in relation to the sale and purchase of Store No. 1, G/F, Tsuen Wan Industrial Centre, No. 220-248 Texaco Road, Tsuen Wan, New Territories, Hong Kong at a consideration of HK\$3,000,000;
- (f) the deed of release dated 21 December 2012 executed Graceful Mind in favour of Great Soar in relation to the release of the Share Mortgage; and
- (g) the Placing Letter.

#### EXPERT AND CONSENT

The following is the names and qualifications of the experts who have given opinion or advice which are contained in this circular:

<b>Name</b>	<b>Qualification</b>
SHINEWING (HK) CPA Limited	Certified Public Accountants
Jones Lang LaSalle Corporate Appraisal and Advisory Limited (“JLLS”)	Independent valuer

SHINEWING (HK) CPA Limited and JLLS have given and have not withdrawn their respective written consents to the issue of this circular with the inclusion of their reports, in whole or in part, and the reference to their names in the form and context in which they appear.

As at the Latest Practicable Date, none of SHINEWING (HK) CPA Limited nor JLLS had any direct or indirect shareholding in any member of the Group nor did they have any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, none of SHINEWING (HK) CPA Limited nor JLLS had any direct or indirect interest in any assets which have been, since 31 December 2012 (the date to which the latest published audited consolidated financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

**GENERAL**

- (a) The registered office of the Company is situated at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.
- (b) The head office and principal place of business in Hong Kong is Room 3405, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong.
- (c) The secretary of the Company is Mr. Chan Cheuk Ho, a fellow member of the HKICPA.
- (d) The principal share registrar and transfer office of the Company is Butterfield Fulcrum Group (Bermuda) Limited, 26 Burnaby Street, Hamilton HM 11, Bermuda.
- (e) The Hong Kong branch share registrar and transfer office of the Company is Tricor Tengis Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.
- (f) This circular is prepared in both English and Chinese. In the event of inconsistency, the English text shall prevail.

**DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection during normal business hours from 9:00 a.m. to 5:30 p.m. on any Business Day from the date of this circular up to and including the date of the SGM at the head office and principal place of business of the Company in Hong Kong at Room 3405, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong:

- (a) the memorandum of association and bye-laws of the Company;
- (b) the annual reports of the Company for each of the three financial years ended 31 December 2010, 2011 and 2012;
- (c) the accountants' report on the unaudited pro-forma financial information of the Group as set out in Appendix II to this circular;
- (d) the valuation report relating to the fair value of Convertible Bonds as at 31 December 2012 prepared by Jones Lang LaSalle Corporate Appraisal and Advisory Limited;
- (e) the written consents given by the experts and referred to under the section headed "Expert and Consent" in this Appendix;
- (f) the material contracts referred to under the section headed "Material Contracts" in this Appendix; and
- (g) this circular.

The logo for China Best Group Holding Limited features the word "CHINA BEST" in a bold, black, sans-serif font. The letter "I" in "CHINA" is stylized with a red swoosh above it. A horizontal line is positioned below the word "CHINA".

國華集團

**CHINA BEST GROUP HOLDING LIMITED**

國華集團控股有限公司\*

*(Incorporated in Bermuda with limited liability)*

(Stock Code: 370)

**NOTICE OF SPECIAL GENERAL MEETING**

**NOTICE IS HEREBY GIVEN** that a special general meeting (“SGM”) of the shareholders of China Best Group Holding Limited (the “Company”) will be held at 11:00 a.m. on Monday, 22 April 2013 at Room 3405, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong for the purpose of considering and, if thought fit, passing with or without modifications, the following resolution of the Company:

**ORDINARY RESOLUTION**

**“THAT:**

- (i) the placing letter (the “Placing Letter”) dated 31 January 2013 (as amended and supplemented from time to time) (a copy of which has been produced to the SGM marked “A” and signed by the Chairman of the SGM for the purpose of identification) entered into between Jet-Air (H.K.) Limited, the Company’s wholly owned subsidiary and KCG Securities Asia Limited in relation to the subscription by Jet-Air of the convertible bonds and the promissory notes to be issued by North Asia Resources Holdings Limited each in an aggregate principal amount of US\$7,000,000 and the transactions contemplated thereunder are hereby approved, ratified and confirmed; and
- (ii) any one or more of the directors of the Company (the “Director(s)”) be and is/are hereby authorised to do all such acts and things and execute all such documents on behalf of the Company which he/they consider(s) necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the terms of the Placing Letter and the transactions contemplated thereunder and all acts by the Director(s) as aforesaid be and is/are hereby approved, ratified and confirmed.”

By Order of the Board  
**China Best Group Holding Limited**  
**Huang Boqi**  
*Chairman*

Hong Kong, 28 March 2013

\* *For identification purpose only*

## NOTICE OF SGM

*Registered office:*  
Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

*Head office and principal place of business:*  
Room 3405  
Bank of America Tower  
12 Harcourt Road  
Central, Hong Kong

*Notes:*

1. A member of the Company entitled to attend and vote at the SGM is entitled to appoint another person at his proxy to attend and vote in his stead. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at the SGM. A proxy need not be a member of the Company but must be present in person at the SGM to represent the member. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.
2. Whether or not you intend to attend the SGM in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the SGM or any adjournment thereof, should he so wish.
3. In order to be valid, the form of proxy must be deposited at the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, together with the power of attorney or authority, not less than 48 hours before the time appointed for holding the SGM or any adjournment thereof.
4. In the case of joint holders of shares, any one of such holders may vote at the SGM, either personally or by proxy, in respect of such share as if he was solely entitled thereto, but if more than one of such joint holders are present at the SGM personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such shares shall alone be entitled to vote in respect thereof.
5. A form of proxy for use in connection with the SGM is enclosed and such form of proxy is also published on the websites of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company ([www.cbgroup.com.hk](http://www.cbgroup.com.hk)) respectively.

As at the date of this announcement, the Board comprises two executive directors, namely Mr. Huang Boqi and Mr. Du Chunyu and three independent non-executive directors, namely Mr. Zhou Mingchi, Ms. Wong Yan Ki, Angel and Mr. Zhang Liang.